

Internal Audit Annual Report 2011/2012

Northampton Borough
Council

May 2012

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Distribution List

Corporate Management Team

Audit Committee

This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council.

1. Executive summary

Background

The CIPFA Audit Code of Practice requires that the Head of Internal Audit provides a written report to the Audit Committee, timed to inform the organisation's Annual Governance Statement. This report presents our view on the adequacy and effectiveness of Northampton Borough Council's system of governance, risk management and control.

Whilst this report is a key element of the framework designed to inform the Annual Governance Statement, there are also a number of other important sources to which the Audit Committee and statutory officers should look to gain assurance. This report does not supplant the Audit Committee's responsibility for forming their own view on governance, risk management and control.

This report covers the period to the year ended 31st March 2012.

Scope

Our findings are based on the results of the internal audit work performed as set out in the 2011/12 Internal Audit Plan and subsequent amendments approved by the Audit Committee. All changes have been outlined in our update reports taken to Audit Committee during the year.

Our opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix 1.

Our internal audit was performed in accordance with CIPFA's Audit Code of Practice. CIPFA's Audit Code of Practice is not designed or intended to conform to the International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board. As a consequence our work was not designed to comply with the International Standards on Assurance Engagements. Our work was designed to comply with CIPFA's Audit Code of Practice which must be followed for local government.

Opinion

Our opinion is based solely on our assessment of whether the controls in place support the achievement of management's objectives as set out in our 2011/12 Internal Audit Plan.

We have completed the program of internal audit work for the year ended 31 March. Our work identified 4 high, 30 medium and 38 low rated findings.

During the course of our work, we have also become aware of other issues that we believe could have, or have had an impact upon Northampton Borough Council's system of internal control. Based on the work we have completed, we believe that there is some risk that management's objectives may not be fully achieved. Improvements are required in those areas to enhance the adequacy and / or effectiveness of governance, risk management and internal control.

These areas relate to contract governance arrangements specifically for the following contracts:

- Leisure Trust
- Decent Homes
- Environmental Services

For these reviews we identified that more work is required to ensure that contracts are robustly set up, managed and monitored

Other key factors that contributed to our opinion are summarised as follows:

Procurement review identified 2 high risk recommendations, although our follow up review indicated that only 1 high risk point remained outstanding and work had been completed to help mitigate this risk.

Voided review identified 1 high risk recommendations

Performance indicators review identified 1 risk recommendation.

Please refer to Section 2, Summary of Findings for details.

We are pleased to note that the majority of functions audited in 2012/13 were low risk and that no functions audited in the previous year had worse control than in 2011/12. Four of the five core financial systems were rated as low risk. The direction of control graphic on page 11 clearly demonstrates the overall improvements in control at the Council.

A summary of the key findings are described in further detail on page 4 to 7

Acknowledgement

We would like to take this opportunity to thank all Directors, Heads of Service and members of the Audit Committee for their co-operation and assistance provided during the year.

2. Summary of findings

Our annual internal audit report is timed to inform the organisation's Annual Governance Statement.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

Description	Detail
<p>Overview</p> <p>We completed 31 internal audit reviews (including value enhancement reviews). This resulted in the identification of 0 critical, 4 high, 30 medium and 38 low risk findings to improve weaknesses in the design of controls or operating effectiveness.</p>	<ul style="list-style-type: none"> • Our audit plan was scoped to address the Council's key risks and strategic objectives. We mapped each review to these areas in our 2011/12 Internal Audit plan • We have completed our internal audit plan in line with the set timescales. We have delivered training on fraud awareness in year. • Our plan included 10 "value enhancement" reviews: <ul style="list-style-type: none"> ○ HRA Business Plan Assumptions ○ Environmental Services Contract Review ○ Leisure Trust Contract Review ○ Decent Homes Contract Review Governance survey ○ Anti-fraud awareness training ○ Audit Committee effectiveness training ○ Anti-fraud health check ○ IT benchmarking review ○ Progression related pay
<p>Internal Control Issues</p> <p>During the course of our work we identified 4 high risk issues which have been outlined in the next cell. Given the materiality of these systems (Procurement, Voids and Performance Indicators) to the Council, you should consider inclusion of these areas in your Annual Governance Statement.</p>	<p>The following high risk areas have been raised in 2011/12:</p> <p>Procurement</p> <p>The procurement review (11_12 NBC Procurement 01) was conducted following a management request for internal audit assistance. The procurement function became the responsibility of the finance function from the 1st April 2011 following a restructure. The procurement audit was designed to assess the design and operation of controls within procurement and provide recommendations to help management improve these controls where necessary.</p> <p>We identified two high risk findings:</p> <p>Signed copies of contracts selected for testing could not be located by the services responsible for managing the contracts.</p> <p>Sample testing of procurement transactions pointed to a number of issues with cases tested; for example members of staff ordering goods often did not obtain the minimum required number of quotations, or comply fully with tender</p>

Description	Detail
	<p>processes prior to purchasing goods or services. This leads to increased risks of poor value for money and inappropriate or unauthorised transactions.</p> <p>A follow up of the Procurement recommendations raised was conducted at the request of Management in March 2012. In total we identified 17 actions related to the 3 findings in the original report of which 11 were implemented, 5 were outstanding and 1 was no longer relevant. Of the 5 recommendation outstanding, 1 was high risk, 2 medium risk and 2 low risk.</p> <p>The open high risk issue relates to the compliance with the tender processes and training the relevant staff. A training package has now been produced by developing a lesson already developed by Milton Keynes Council.</p> <p>This is yet to be rolled out in the Authority and therefore staff have not yet completed the training or signed the declaration that they understand the procurement requirements and will adhere to them.</p> <p>However this risk has been mitigated to some extent through the delivery of high level procurement training at the Managers meeting, targeting everyone from team leader and above.</p> <p>The procurement team also routinely attend senior management team meetings to pick up any control issues and to reinforce the process</p> <p>Voids</p> <p>The void properties review (11_12 NBC Voids 02) focussed on controls in place over the management of void council houses. The review focussed on void operational management, void management information and cost control. We identified one high finding, that management information on voids is undermined because data on the Integrated Business Solutions (IBS) housing system is wrong in a number of cases and unlettable periods have been calculated incorrectly. This makes the Council's performance look better than it actually is. The root cause is that IBS is not updated fully when properties become lettable following unlettable periods, such as when major works have occurred.</p> <p>Performance Indicators</p> <p>The Council sets housing performance indicators to assess their performance against a number of qualitative and quantitative targets. This review looked to understand and comment on the quality of data collated by the Council for measurement of performance.</p> <p>The following work was been performed for each indicator:</p> <ul style="list-style-type: none"> • Review of procedure notes and definition records; • Assessment of the method of collection against key data quality assertions (completeness, accuracy, source, validity, collection method and timing);

Description	Detail
	<ul style="list-style-type: none"> • For HMCORE and HMOTH indicators, the compilation method was reviewed against relevant HouseMark guidance to ensure compliance; and • Validation of a sample of data. A sample of 10 transactions was be selected from 2011/12 Q1 and Q2submissions. Validation was only be performed on those indicators where no issues have been noted with the compilation method <p>The performance indicators report (11_12 NBC Performance Indicators 12) identified one high risk finding:</p> <p>For indicator HI 16 Average number of days taken to resolve ASB cases, The start and end dates days for cases used to calculate this indicator should be supported by evidence to verify the case has been opened/closed (e.g. telephone notes or letters issued). In 4/10 cases tested, the dates used to calculate the days did not agree to supporting documentation. It has been established this is because officers are not always certain of the correct trigger for the start date (i.e. the initial contact or when the case was brought to the attention of the Council) In a further 5 cases, there was no evidence retained to support the dates. This is because no paper file was opened when the initial complaint was received.</p>
<p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation's governance, risk management and internal control, which relate to consistency of control design and follow up of prior year recommendations.</p>	<p>Our reviews identified the following common areas of weakness that should be considered by management:</p> <ul style="list-style-type: none"> • Our review of a number of the Council's contracts identified that more work is required to ensure that contracts are robustly set up, managed and monitored. We identified concerns around the governance arrangements for the following contracts: <ul style="list-style-type: none"> • Leisure Trust • Decent Homes • Environmental Services <p>A number of recommendations were identified within these three reviews. The Council should learn lessons from these contracts in order to ensure that in future significant contracts are set up and managed appropriately.</p>
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p>The following reviews were classified as low risk for 2011/12:</p> <ul style="list-style-type: none"> • Risk Management and Business Continuity • Treasury Management • Budgetary Control • General Ledger (part of core financial systems review) • Debtors(part of core financial systems review) • Creditors (Agresso) (part of core financial

<i>Description</i>	<i>Detail</i>
	<ul style="list-style-type: none"><i>systems review)</i>• <i>Fixed Assets</i>• <i>Cash and Banking(part of core financial systems review)</i>• <i>Expenses</i>• <i>Housing Benefits</i>• <i>Housing Rents</i>• <i>Debt Recovery</i>• <i>Human Resources – Induction Training</i>• <i>Planning applications</i>• <i>Regeneration and Development – Development governance</i>

3. Internal Audit work conducted













Introduction




Our internal audit work was conducted in accordance with our letter of engagement, CIPFA's Audit Code of Practice and the 2011/12 Internal Audit Plan.

The table below sets out the results of our internal audit work and implications for next year's plan. The direction of travel is also analysed so management can consider whether they should take action to reverse a trend or address stagnation.

We also include a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning.

Results of individual assignments

Audit unit	Report status	Direction of Travel	Report classification	Number of findings			
				Critical	High	Medium	Low
Cross Cutting							
Risk Management and Business Continuity	Final		Low Risk	0	0	2	0
Procurement <i>*Please see note below table</i>	Final	No review performed in prior year	High Risk	0	2	1	0
Treasury Management	Final	No review performed in prior year	Low Risk	0	0	0	2
Budgetary Control	Draft		Low Risk	0	0	2	0
General Ledger (part of core financial systems review)	Final		Low Risk	0	0	0	0
Debtors Ledger (part of core financial systems review)	Final		Low Risk	0	0	0	3
Creditors (Agresso) Ledger (part of core financial systems review)	Final		Low Risk	0	0	1	0
Payroll Ledger (part of core financial systems review)	Final			0	0	3	2
Cash and Banking Ledger (part of core financial systems review)	Final		Low Risk	0	0	1	1
Creditors (IBS)	Final		Medium Risk	0	0	3	2
Fixed Assets	Draft		Low Risk	0	0	1	2
Expenses	Final		Low Risk	0	0	1	2
Housing Benefits	Draft		Low Risk	0	0	0	1
Housing rents	Final		Low Risk	0	0	0	0

<i>Audit unit</i>	<i>Report status</i>		<i>Report classification</i>	<i>Number of findings</i>			
Debt Recovery	Final		Low Risk	0	0	0	3
Partnership Arrangements	Draft		Medium Risk	0	0	3	5
Departmental							
Human Resources – Induction Training	Draft	No review performed in prior year	Low Risk	0	0	0	3
Human Resources - Recruitment	Final	No review performed in prior year	Medium Risk	0	0	2	
Strategic Housing - Voids	Final	No review performed in prior year	High Risk	0	1	2	4
Planning applications	Draft		Low Risk	0	0	0	5
Regeneration and Development – Development governance	Final	No review performed in prior year	Low Risk	0	0	0	0
Housing Performance Indicators	Final	No review performed in prior year	N/A no overall rating provided	0	1	8	3
			Total	0	4	30	38






**Procurement*

A follow up of the Procurement recommendations raised was conducted at the request of Management. In total there were 17 actions of which 11 were implemented, 5 were outstanding and 1 was no longer relevant. Of the 5 recommendation outstanding, 1 was high risk, 2 medium risk and 2 low risk.

In addition we have carried out the following reviews where no risk rating has been provided.

- HRA Business Plan Assumptions
- Environmental Services Contract Review
- Leisure Trust Contract Review
- Decent Homes Contract Review
- Anti-fraud health check
- Car park review
- IT benchmarking review
- Progression related pay

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings	
		2011/12	2010/11
Critical		0	0
High		4	5
Medium		30	62
Low		4	38
Total		72	130

It should be noted that the mix and focus of our internal audit plans have differed between years and therefore these results may not be directly comparable.

Adjustments to the original agreed audit plan:

The following adjustments were made to the audit plan agreed at the Audit Committee in March 2012. These have been reported to the Audit Committee during the year.

Review	Additional Days	Reduced days	Comments
Removed from the plan			
Asset Management		-8	Removed from plan - timing for the review is not appropriate at the moment (due to significant changes which have occurred in the Department)
Community Assets		-5	Included in 2012/13 audit plan Community asset programme delayed hence audit input required later Included in 2012/13 audit plan

Planning - change of scope		-8	<p>Locally set planning fees has been removed as there has yet to be a government decision on this</p> <p>WNDC Development governance removed as CLG are performing a review of this.</p> <p>Instead of the two reviews set out in the plan, a review of the control design and operation of the new planning process (set up for applications previously dealt with by WNDC) will be performed in February (plan updated for this)</p> <p>This had a net effect of reducing the planned days by 8.</p>
Added to the plan			
Debt recovery 2010/11	1		Number of extra meetings and report versions required to finalise this report
Grosvenor Car Parking	3		Specific review of cash collection requested by the Director of Finance and Head of Finance
Performance Indicators	15		Additional audit work requested by Housing department to help validate performance indicators
Total	19	-21	
Grand Total		-2	Net effect of reducing the original agreed planned days by 2.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have prepared the Internal Audit Annual Report and undertaken the agreed programme of work as agreed with management and Audit Committee subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed 2011/12 Internal Audit Plan, which provided for 299 days. The work addressed the control objectives agreed for each individual internal audit assignments as set out in our individual assignment reports.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control:

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods:

Our assessment of controls relating to Northampton Borough Council is for the year ended 31st March 2012. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.





We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Findings rating</i>	<i>Points</i>
<i>Critical</i>	40 points per finding
<i>High</i>	10 points per finding
<i>Medium</i>	3 points per finding
<i>Low</i>	1 point per finding

<i>Report classification</i>		<i>Points</i>
	Critical risk	40 points and over
	High risk	16– 39 points
	Medium risk	7– 15 points
	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance (quantify if possible); or • Critical monetary or financial statement impact (quantify if possible = materiality); or • Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance (quantify if possible); or • Significant monetary or financial statement impact (quantify if possible); or • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • Significant impact on the reputation or brand of the organisation (quantify if possible).
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance (quantify if possible); or • Moderate monetary or financial statement impact (quantify if possible); or • Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or • Moderate impact on the reputation or brand of the organisation (quantify if possible).
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance (quantify if possible); or • Minor monetary or financial statement impact (quantify if possible); or • Minor breach in laws and regulations with limited consequences (quantify if possible); or • Minor impact on the reputation of the organisation (quantify if possible).
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



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