

# *Internal Audit Annual Report 2013/2014*

Northampton Borough  
Council

July 2014

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## **Distribution List**

Audit Committee

Francis Fernandes, Monitoring Officer

Glenn Hammons, Section 151 Officer

This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council under our engagement letter dated 8<sup>th</sup> July 2013.

# 1. *Executive summary*

## *Background*

This report outlines the work we have carried out during the year and includes the Head of Internal Audit's annual opinion on the adequacy and effectiveness of Northampton Borough Council's framework 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 should look to gain assurance, including from the Local Government Shared Service (LGSS). 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 from 1 April 2013 to 31 March 2014. The specific time period covered by our work for each individual audit is recorded in Section 3.

## *Scope*

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitation of internal audit (covering both the control environment and the assurance over controls) described below and set out in Appendix 1. The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.

Our findings are based upon and limited to the results of the internal audit work performed as set out in the Internal Audit Risk Assessment and Plan approved by the Audit Committee on 20 May 2013. All changes have been outlined in our update reports taken to the Audit Committee during the year.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

The Public Sector Internal Audit Standards require the annual report to include the results of the Internal Audit function's quality assurance and improvement programme. Please refer to Appendix 4 for this information.

## *Transition to the Local Government Shared Service*

The 2013/2014 internal audit plan was approved by the Audit Committee before the Council's back office functions were outsourced to the Local Government Shared Service (LGSS). The 2013/14 internal audit plan was reassessed in light of this organisational change and revisions were agreed with the Council's Monitoring Officer and Section 151 Officer and reported to the Audit Committee in our Internal Audit Update Reports.

A number of areas identified for internal audit review in the original annual audit plan transitioned either in full, or in part, to the LGSS. We engaged in an exercise to map out the processes and controls that remain within the Council and those that operate within the LGSS. For those processes, which remain within the Council, we reviewed and reported on the adequacy and/or effectiveness of governance, risk management, and internal control. Processes that have transitioned fall under the remit of the LGSS internal audit plan and were outside the scope of our internal audit plan.

<i>Auditable Unit</i>	<i>Internal audit scope</i>
Debtors Creditors IBS Creditors Fixed Assets Cash	Some controls remain in Northampton Borough Council. These have been assessed and included in the scope of our annual opinion.
General Ledger Payroll Housing Benefits Finance - Agresso IT General Computer Controls Procurement	Key controls fall entirely outside the scope of Northampton Borough Council.

We have summarised the results of internal audit work performed by the LGSS in Appendix 3, however we have not validated this work and it does not form part of our opinion.

## *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 Internal Audit Risk Assessment and Plan and Individual Assignment Reports.

We have completed the program of internal audit work for the year ended 31 March 2014 with the exception of the reviews noted in Section 3 for which draft reports have been issued but management comment is outstanding.

Our work identified 1 high, 9 medium and 25 low risk rated findings. However, during the course of our work, we have become aware of other issues that we believe could have, or have had an impact upon Northampton Borough Council's system of internal control. These matters were raised by management rather than as a direct result of our agreed programme of work. Taken together, 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 control.

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

- **HR – Absence monitoring** - The key weakness identified in this report relates to the lack of adherence to the absence management policy which leaves the Council open to the risk of ongoing high levels of staff absence and the related cost.
- **Housing – Review of Empty Homes Programme** - An additional piece of work was undertaken in the year at the request of management which identified a number of control weaknesses and a failure to consistently apply the established financial processes.

A summary of the key findings are described in further detail on pages 3 to 6.

## *Acknowledgement*

We would like to take this opportunity to thank Northampton Borough Council's staff, 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:

<i>Description</i>	<i>Detail</i>
<p><b>Overview</b></p> <p>We completed 21 internal audit reviews (including value enhancement reviews). This resulted in the identification of 0 critical, 1 high, 9 medium and 25 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p>	<p>Our audit plan was scoped to address the Authority's key risks and strategic objectives. We mapped each review to these areas in our 2013/14 Internal Audit plan.</p> <p>We have completed our internal audit plan in line with the set timescales, subject to the amendments agreed by management.</p>
<p><b>Internal Control Issues</b></p> <p>During the course of our work we identified a number of weaknesses that we consider should be reported in your Annual Governance Statement.</p>	<p>The following high risk area has been identified in 2013/14:</p> <p><b>Absence monitoring:</b></p> <ul style="list-style-type: none"> <li>• The key weakness identified in this report relates to the lack of compliance with procedures set out in the Absence Policy.</li> </ul> <p>During our specialist review of the <b>Empty Homes Programme</b>, we also noted a number of control weaknesses and a failure to apply the established financial processes. This has been reported to management separately.</p>
<p><b>Good practice</b></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 in 2013/14:</p> <ul style="list-style-type: none"> <li>• Treasury management</li> <li>• Budgetary control</li> <li>• Debt recovery</li> <li>• Collection Fund</li> <li>• Asset management</li> <li>• Housing Allocations</li> <li>• Fixed assets</li> <li>• Creditors</li> <li>• Debtors</li> <li>• ICT – Bring your own devices</li> </ul>

# ***3. Internal Audit work conducted***

## ***Introduction***

Our internal audit work was conducted in accordance with our letter of engagement dated 8 July 2013, Public Sector Internal Audit Standards, and the Risk Assessment and 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*

<i>Audit unit</i>	<i>Report status</i>	<i>Period covered</i>	<i>Report classification</i>	<i>Number of findings</i>			
				<i>Critical</i>	<i>High</i>	<i>Medium</i>	<i>Low</i>
Treasury Management	Final	April - June	Low Risk	0	0	0	2
Budgetary control	Final	April – October	Low Risk	0	0	0	4
Debt Recovery	Final	April – July	Low Risk	0	0	0	0
Collection Fund	Final	April – July	Low Risk	0	0	1	1
Asset Management	Final	April – July	Low Risk	0	0	0	3
Debtors	Draft	April - February	Low Risk	0	0	0	2
Creditors	Final	April - February	Low Risk	0	0	0	1
IBS Creditors	Final	April- November	Medium Risk	0	0	1	4
Fixed assets	Draft	April - February	Low Risk	0	0	1	3
Absence Monitoring	Final	April - January	High Risk	0	1	2	2
Housing allocations	Final	April - February	Low Risk	0	0	1	1
Environmental Services – Performance Monitoring	Final	April - January	Medium Risk	0	0	2	2
ICT – Bring your own devices	Final	April - May	Low Risk	0	0	1	0
			<b>Total</b>	<b>0</b>	<b>1</b>	<b>9</b>	<b>25</b>






In addition we have carried out the following value enhancement reviews where no overall risk rating has been provided:

- Planning Application System Specifications Review (Phase 1): System Specification
- Alive @ Delapre
- Empty Homes Programme
- Car Park Income Review and Route Map for Improvement
- LGSS Contract Management
- Housing Rents : Data analytics
- Bus Interchange Project Post Implementation Review
- Review of Risk Management Activity

### *Implications for next year's plan*

The 2014/15 Internal Audit Risk Assessment and Plan will be developed to ensure there is appropriate work performed to consider the controls and processes in place in relation to Northampton Borough Council's operations. Consideration will be given to the arrangements in place with the LGSS to ensure those financial processes and controls operating within the LGSS on behalf for the Council are appropriately included in the LGSS internal audit plan.

### *Direction of control travel*

Finding rating	Trend between current and prior year	Number of findings		
		2013/14	2012/13	2011/12
Critical		0	0	0
High		1	1	4
Medium		9	15	30
Low		25	48	38
<b>Total</b>		35	64	72

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. Due to the transition of Finance, HR and IT to the LGSS, the number of value protection reviews has reduced in the current year and fewer findings reported.

### *Implications for management*

Management should look to concentrate on higher risk areas and those with deteriorating performance to ensure that controls in these areas are improved. Actions may include raising awareness, training, increasing compliance checks or improved escalation processes.



## Comparison of planned and actual activity

<i>Audit Unit</i>	<i>Audit Type</i>	<i>Budgeted days</i>	<i>Actual days</i>	<i>Comment</i>
<i>Cross-cutting</i>				
Risk Management	Value enhancement	8	8	Draft report issued
Governance	Value enhancement	10	5	Governance questionnaire based on CIPFA Delivering Good Governance Framework. Remaining days to be delivered in Q1 2014/15.
Business Continuity	Value protection	10	1	Days reallocated to contract assurance work. Audit to be considered in 2014/15 plan.
Corporate Fraud	Value protection	8	-	Days reallocated to contract assurance work. Audit to be considered in 2014/15 plan.
Procurement	Value protection	10	-	Transitioned to LGSS
Treasury Management	Value protection	5	5	Final report issued
Budgetary Control	Value protection	8	8	Final report issued
Insurance claims	Value protection	8	-	Defer to 2014/15
General Ledger	Value protection	7	1	Transitioned to LGSS
Debtors	Value protection	7	7	Draft report issued
Creditors	Value protection	6	6	Final report issued
Payroll	Value protection	6	1	Transitioned to LGSS
Cash	Value protection	6	4	Key controls and processes relating to bank reconciliations have transitioned to LGSS. NBC retains some petty cash, cash floats and cash receipting processes. These will be assessed as part of directorate reviews in 2014/15.
Creditors (IBS)	Value protection	7	7	Final report issued
Fixed Assets	Value protection	8	8	Draft report issued
Expenses	Value protection	5	-	Defer to 2014/15 and consider as part of directorate reviews.
Housing Benefits	Value protection	8	-	Transitioned to LGSS
Debt Recovery	Value protection	5	5	Final report issued
Collection Fund	Value protection	7	7	Final report issued
Housing Rents	Value protection	8	8	Draft report issued
<b>Total</b>		<b>147</b>	<b>81</b>	
<i>Departmental</i>				
Human Resources – Absence monitoring	Value protection	8	8	Final report issued
Finance – IT GCC review	Value protection	10	-	Transitioned to LGSS
Landlord Services – Travis Perkins	Value protection	15	7	Days transferred to the IBS creditors review. Final report issued.

Strategic Housing – Housing allocations	Value protection	8	8	Final report issued
Planning - System Specifications Review	Value enhancement	8	8	Final report issued
ICT Operations – Bring your own devices	Value protection	14	14	Final report issued
Environmental Services – Performance Monitoring	Value protection	15	15	Final report issued
Regeneration and Development – Bus interchange project	Value enhancement	15	15	Draft report issued
Asset management	Value protection	7	7	Final report issued
Town Centre Management – Car park income review	Value enhancement	10	10	Draft report issued
Culture and Leisure – Delapre Park concerts	Value enhancement	8	8	Final report issued
Housing - Empty Homes Programme	Specialist	-	38	Final report issued
Post LGSS reviews	Value protection	30	8	Additional scoping work on Core Financial Systems to map out areas of risk and control that remain within NBC and those that have transferred to LGSS and subsequently develop the internal audit approach for those areas.
LGSS contract management	Specialist	-	22	Draft report issued
Environmental Services contract management	Specialist	-	2	Review deferred to 2014/15 at the request of management.
<b>Total</b>		<b>148</b>	<b>170</b>	
<i>Other</i>				
Project management	n/a	20	35	Additional meetings and planning as a result of organisational change.
<b>Total internal audit</b>		<b>315</b>	<b>286</b>	
Review of HR issues	Specialist	-	26	Internal audit days re-allocated to a management review of HR using specialist forensic resource. The findings have been separately reported to management.
<b>Total</b>		<b>20</b>	<b>61</b>	
		<b>315</b>	<b>312</b>	

### *Adjustments to the original agreed audit plan*

The following adjustments were made to the audit plan originally agreed by the Audit Committee. These have been reported as part of the Progress Reports to the Audit Committee during the year.

Review	Days	Comments
<b>Removed from 2013/14 plan</b>		
Business Continuity	-9	Processes and controls have been evolving during the period post transition to LGSS. These reviews will be considered in 2014/15 when the policies and procedures, roles and
Corporate Fraud	-8	

		responsibilities are defined and embedded.
Governance	-5	“Good governance” questionnaire will be distributed and results reported in Q1 2014/15.
Landlord Services – Travis Perkins	-15	The scope of the IBS creditors review was extended to assess the operating effectiveness of the new controls in relation to Travis Perkins
Insurance claims	-8	Timing not considered appropriate. To be included in the 14/15 audit plan.
Expenses	-5	Financial processing has transitioned to LGSS. Scope of review to be considered as part of Directorate reviews in the 2014/15 audit plan.
Cash	-2	Key controls and processes relating to bank reconciliations have transitioned to LGSS. NBC retains some petty cash, cash floats and cash receipting processes. These will be assessed as part of directorate reviews in 2014/15.
General ledger	-6	The process has transitioned to LGSS and is outside the scope of this internal audit plan.
Payroll	-5	
Housing benefits	-8	
Finance IT review	-10	
Procurement	-10	
Post LGSS reviews	-22	Days reallocated to contract assurance review.
<b>Total</b>	<b>-113</b>	
<b>Included in the 2013/14 plan</b>		
IBS Creditors	+ 7	Scope of the review extended to consider the new controls in relation to the Travis Perkins service agreement
Empty Homes Programme	+38	Response to management request to undertake some fact finding work in relation to the Empty Homes Programme.
LGSS Contract Assurance	+22	We reviewed the LGSS contract and existing contract governance arrangements to identify best practice contract management procedures to be applied in the monitoring of services delivered by LGSS under the shared service function contract.
Environmental Services Contract Management	+2	Scope of work agreed however at the request of management the review has been deferred to 2014/15.
Specialist review of HR issues	+26	Response to management request to review some specific issues identified in HR.
Project management	+15	Additional meetings and planning as a result of organisational change.
<b>Total</b>	<b>+110</b>	
<b>Overall net position</b>	<b>-3</b>	

## ***4. Follow up work conducted***

Within the Risk Assessment and Plan days were assigned within each review for following up recommendations raised during previous periods in order to assess whether agreed actions had been implemented by management.

We considered prior year recommendations as part of all the reviews undertaken within the 2013/14 Internal Audit Risk Assessment and Plan. We have considered the progress made and reported this where relevant in each individual report issued throughout the year. There are no matters that we wish to specifically draw out here.

During the year we developed a web-based audit recommendation tracking system (“TrAction”). All recommendations relating to 2012/13 internal audit reports have been uploaded. The majority of these relate to areas that have moved to the Shared Service and should be considered by the LGSS internal audit team as part of their on-going internal audit programme.

Recommendations arising as a result of 2013/14 reviews will be tracked and reported as part of the 2014/15 internal audit plan.

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# *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 the Audit Committee, subject to the limitations outlined below.

### ***Opinion***

The opinion is based solely on the work undertaken as part of the agreed Risk Assessment and Plan, which provided for 21 internal audit reviews (including value enhancement reviews) in 312 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 period 1 April 2013 to 31 March 2014. 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

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



# Appendix 3: LGSS report findings

A number of areas identified for internal audit review in the original annual audit plan transitioned either in full, or in part, to the LGSS. We engaged in an exercise to map out the processes and controls that remain within the Council and those that operate within the LGSS. For those processes, which remain within the Council, we reviewed and reported on the adequacy and/or effectiveness of governance, risk management, and internal control. Processes that have transitioned fall under the remit of the LGSS internal audit plan and were outside the scope of our internal audit plan.

The LGSS Internal Audit function has undertaken reviews in the areas detailed below and has provided a separate report of their findings (*LGSS Internal Audit: Assurance Opinions on Key Financial Systems 2013/14*).

A summary of LGSS internal audit work is provided below. This does not form part of our opinion.

<b>Audit unit</b>	<b>Report status</b>
Accounts Receivable	Substantial
Accounts Payable	Substantial
General Ledger	Substantial
Payroll	Substantial
Bank Reconciliation	Substantial
Fixed Assets	Substantial

# ***Appendix 4: Quality assurance***

## ***Quality in all we do***

Our service meets the standard requirements set out by professional institutions. Our Internal audit approach fully complies with the Public Sector Internal Audit Standards. We self assess ourselves against the standard on an annual basis and report the results to the Audit Committee.

Any fraud investigations you would ask to assist on are conducted with regard to the relevant legislation (including, but not limited to, the Human Rights Act 1998, Data Protection Act 1998 and the Regulation of Investigatory Powers Act 2000), with particular reference to safeguarding the interests of informants and whistle-blowers (under the Public Interest Disclosure Act 1998).

In addition to external standards, we commit to be compliant with all independence and ethical requirements. It is important that in order to be effective we remain suitably independent of management and the each of the Partners, such that you can be comfortable that our opinions and findings are truly objective, and that we avoid any conflict of interest with regards to non-audit work or working with another client.

Our Internal audit Charter outlines our responsibilities in relation to independence.





In the event that, pursuant to a request which Northampton Borough Council has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. Northampton Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, Northampton Borough Council discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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