



Northampton Borough Council

# INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE (DRAFT)

June 2019

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# SUMMARY OF 2018/19 WORK

## Internal Audit 2018/19

This report details the work undertaken by internal audit for Northampton Borough Council and provides an overview of the effectiveness of the controls in place for the full year. The following reports have been or will be issued for this financial year:

- Audit 1. Senior Management Restructure
- Audit 2. Member Officer Relationship
- Audit 3. Corporate Fraud (Cancelled)
- Audit 4. Temporary Accommodation
- Audit 5. Housing Rents
- Audit 6. Major Capital Projects
- Audit 7. People
- Audit 8. Building Control
- Audit 9. Cash Handling
- Audit 10. Procurement
- Audit 11. Digital Strategy

We have detailed the opinions of each report and key findings on pages 5 to eleven. Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

## Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to the Full Council, through the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period. The basis for forming my opinion is as follows:

Overall, we are able to provide limited assurance that there is a sound system of internal control, designed to meet the Council's objectives and that controls are being applied consistently. In forming our view we have taken into account that:

- We issued 4 limited or part limited opinions out of 10 audits conducted. These spanned key areas such as procurement, member officer relationships and people. The number of high and medium findings have increased in 2018-19 compared to previous years in addition to the overall number of findings. This is in part due to the Council's approach in directing us to known risk areas and our risk based audit plan.
- The Council have undergone strategic change in 2018-19 with the formal announcement of Unitary Status, changes in senior staff and to governance meetings. Whilst improvement has been made in the management of governance and risk these largely took place in the second half of the 2018-19 year. Therefore the direction of travel is positive however these arrangements were not in place during the whole year and need time to embed.
- We conducted a follow-up of recommendations process for actions due July 2019 or earlier. This found that out of 50 recommendations due, 80% were deemed incomplete including all

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high recommendations due. This is a very low completion rates and supports our view of a limited opinion over the governance, risk and control environment at the Council.

We do acknowledge improvements made when reaching our Opinion. This includes a more robust level of scrutiny, such as the recent loan request of £1.5m to Northampton Rugby Football Club Ltd. On balance however we feel when assessing the whole year that a Limited Opinion is appropriate. If the Council continues its positive direction of travel then we would expect an improved internal audit opinion next year.

# REVIEW OF 2018/19 WORK

Further details on the findings and recommendations are contained in our progress reports or are available to Audit Committee Members on request.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings
	H	M	L	Design	Operational Effectiveness	
Audit 1. Senior Management Restructure	0	4	0	Moderate	Moderate	Findings: <ul style="list-style-type: none"> <li>Re-instatement of an action log</li> <li>To set terms of reference for CMB</li> <li>Deputies to be substituted for CMB members unable to attend</li> <li>Job descriptions for senior staff to be updated</li> </ul>
Audit 2. Member Officer Relationship	0	12	4	Moderate	Limited	Findings: <ul style="list-style-type: none"> <li>Member and Officer roles should be more clearly defined</li> <li>The Member/Officer protocol to make clear the process for complaints</li> <li>Clearer communication by Group Leaders on the Member/Officer protocol around influencing officer decisions.</li> </ul>
Audit 3. Corporate Fraud	-	-	-	Cancelled	Cancelled	N/A
Audit 4. Temporary Accommodation	1	3	1	Moderate	Moderate	Findings: <ul style="list-style-type: none"> <li>Appropriate letters and notices to be issued in a timely manner for TA arrears.</li> <li>Retain evidence of training for staff dealing with vulnerable applicants</li> <li>Homelessness strategy to be devised and communicated</li> <li>Procedures for TA are to be adhered to with random checks carried out on case paperwork</li> </ul>
Audit 5. Housing Rents	2	0	1	Moderate	Moderate	Findings: <ul style="list-style-type: none"> <li>Implementation of the recovery process of former tenant rent arrears</li> <li>There was consistent non-compliance with the recovery process of former tenant rent arrears. There was an excessive number of stages for different scenarios that led to inadequate following of protocol and a high number of overdue debts.</li> </ul>

						<p>We were not given access by NPH to review their controls and our testing was therefore restricted to operations conducted by the Council and LGSS regarding the management of the HRA, so we are unable to provide assurance on the following risk areas:</p> <ul style="list-style-type: none"> <li>• NPH policies and procedure notes</li> <li>• Accuracy and effectiveness of charging, billing and collecting rent arrears</li> <li>• Accuracy and completeness of manual adjustments to rent accounts</li> <li>• Adequacy of management monitoring and scrutiny of performance information.</li> </ul>
Audit 6. Major Capital Projects	1	2	1	Moderate	Moderate	<p>Findings:</p> <ul style="list-style-type: none"> <li>• Project paperwork and agreements to be signed for all projects</li> <li>• A project risk register was not updated since April 2018</li> <li>• Highlight reports were not produced monthly and CMB reports lacked detail.</li> </ul>
Audit 7. People	3	2	2	Limited	Limited	<p>Findings:</p> <ul style="list-style-type: none"> <li>• Appraisal process and completion of documents to be strengthened (high)</li> <li>• Absence data reporting to be more robust for management scrutiny (high)</li> <li>• Introduce succession planning for each service area</li> <li>• Exit survey process to be reviewed, updated and implemented</li> </ul>
Audit 8. Building control	0	2	4	Moderate	Moderate	<p>Findings:</p> <ul style="list-style-type: none"> <li>• Planned and undertaken training was not recorded</li> <li>• Varying levels of detail on site visits recorded on the system</li> </ul>
Audit 9. Cash Handling	1	2	3	Moderate	Limited	<p>Findings:</p> <ul style="list-style-type: none"> <li>• Reconciliations on car park takings identified a discrepancy between the system and amounts banked. This is being further investigated by the internal control officers at NBC (high)</li> <li>• Security risk around cash handling from museums to the Recovery Team by the same officer.</li> <li>• Lack of compliance by credit card holders in respect of the Card Acceptance Agreement signed upon receipt of the card</li> </ul>
Audit 10. Procurement	1	3	2	Moderate	Limited	<p>Findings:</p> <ul style="list-style-type: none"> <li>• Invitation to tender, specifications or contract were not located for one supplier</li> </ul>

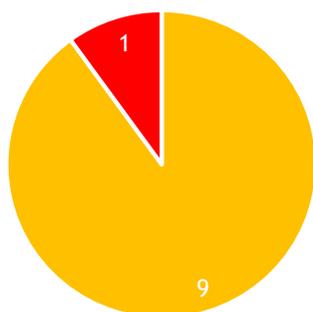
						<p>(high)</p> <ul style="list-style-type: none"> <li>Exemptions for procurements were not approved adequately in line with the Contract Procedure Rules</li> <li>Contracts not found for some suppliers</li> <li>Inconsistencies between guidance documents and the Contract Procedure Rules.</li> </ul>
Audit 11. Digital Strategy	0	2	1	Moderate	Moderate	<p>Findings:</p> <ul style="list-style-type: none"> <li>Scrutiny of the website project was weak</li> <li>There was no definitive roadmap</li> </ul>

# SUMMARY OF FINDINGS

The Charts show a table summary of our findings for 2018-19; it also shows the summary based on the previous Internal Auditors work. In 2017-18 PwC undertook 4 reviews whereas BDO undertook 10 reviews in 2018-19. Therefore the table shows the full finding numbers BDO raised and also a like-for-like comparison if you apportioned our findings to a factor of four-tenths to provide a comparison. Based on this comparison a direction of travel is shown which indicates that high and medium findings have increased and the overall number of findings have increased too. Whilst we appreciate that different Internal Auditors use different approaches and have different styles, it does represent a general trend and this alongside our knowledge of the local government sector conclude that the number of recommendations raised in 2018-19 are more reflective of an overall Limited Opinion.

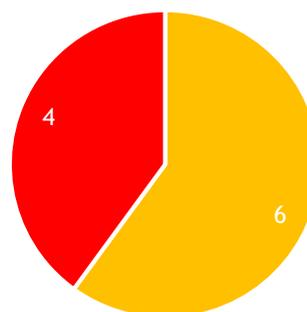
	PwC		BDO	BDO like-for-like	Direction of travel
	2016-17	2017-18	2018-19	2018-19	
Critical	0	0	n/a	n/a	-
High	2	0	9	3.6 (+3.6)	↓
Medium	8	5	32	12.8 (+7.8)	↓
Low	10	13	19	7.6 (-5.4)	↑
Total	20	18	60	24 (+6.0)	↓

BDO Design Opinions 2018-19



■ Substantial ■ Moderate ■ Limited

BDO Effectiveness Opinions 2018-19



■ Substantial ■ Moderate ■ Limited

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## ADDED VALUE



### USE OF SPECIALISTS

Utilised specialists in member office relationships review which involved a BDO staff member who has Member experience and specialises in local government. We also conducted a one-off review outside of the Plan reviewing a Northampton Partnership Homes (NPH) Business Plan which involved a specialist too



### RESPONSIVENESS

The entire audit plan was completed from December 2018 to April 2019. This shows a responsive service and urgent requests to undertake reviews such as that of NPH were fulfilled within one week



### BENCHMARKING AND BEST PRACTICE

We have provided benchmarking in reports where applicable such as Digital Strategy comparing the Council position to other local authorities. We have also shared and engaged the Council in the creation of the BDO State of Northamptonshire Private Sector report



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# BACKGROUND TO ANNUAL OPINION

## Introduction

Our role as internal auditors to Northampton Borough Council is to provide an opinion to the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit Committee, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

Note that BDO were appointed in September 2018 and our Internal Audit Plan was approved in November 2018. We reviewed the work of our predecessor however no Internal Audit work was conducted during April 2018 to November 2018. The whole 2018-19 work was completed through December 2018 to April 2019. We have gained assurance of the period April 2018 to March 2019 by ensuring our samples and testing approach covered the whole period.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

## Scope and Approach

### Audit Approach

We have reviewed the control policies and procedures employed by Northampton Borough Council to manage risks in business areas identified by management set out in the 2018-19 Internal Audit Annual Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with Northampton Borough Council management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage

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- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
  - Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

### **Reporting Mechanisms and Practices**

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

### **Management actions on our recommendations**

Management were responsive to Internal Audit during fieldwork and were largely responsive in the closing meetings of reviews where agreements were reached on findings and recommendations. However, responses to agree reports to final were at times slow i.e. instances of two months between report being issued for review and being finalised.

### **Recommendations follow-up**

We conducted a follow-up of recommendations process for actions due July 2019 or earlier. This found that out of 50 recommendations due, 80% were deemed incomplete including all high recommendations due. This is a very low completion rates and supports our view of a limited opinion over the governance, risk and control environment at the Council. It should be noted that due to the appointment of Internal Audit in September 2018 the Audit Plan was completed in half the year. This meant reports were largely issued in March and April 2019 and therefore there was a tight period of time between the end of the report and conducting follow-up.

### **Relationship with external audit**

All our final reports are available to the external auditors through the Audit Committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

However it should be noted the Council's external audit team for 2018-19 are departing and being replaced. The new external audit team have not yet engaged with the Council in terms of fieldwork and therefore we have not communicated with them thus far.

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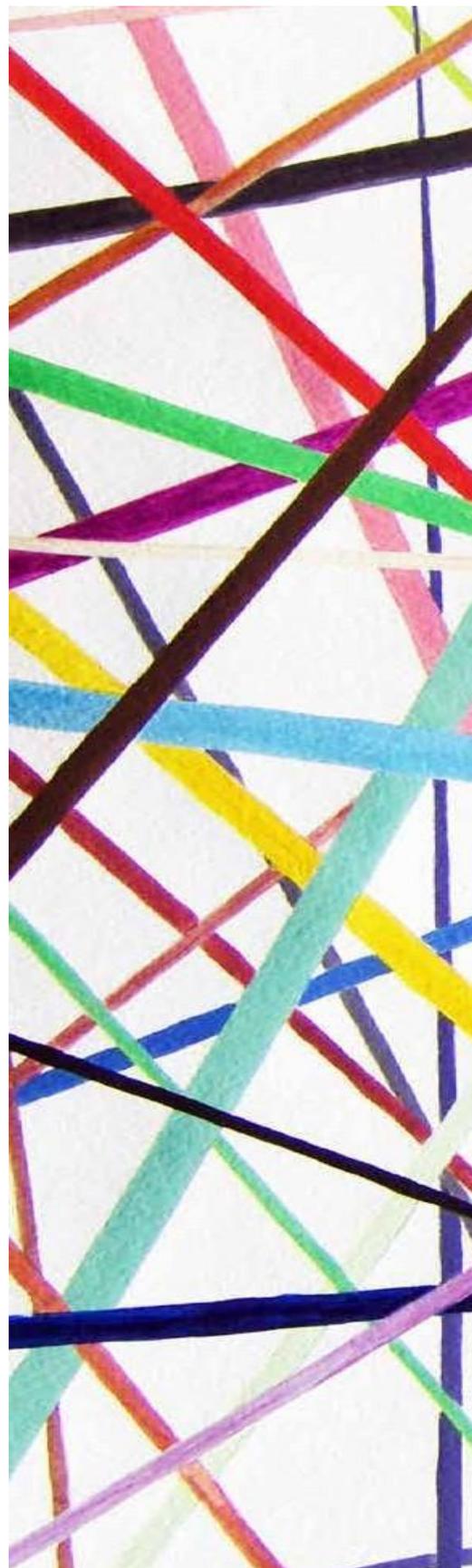
## Report by BDO LLP to Northampton Borough Council [the Council]

As the internal auditors of the Council we are required to provide the Audit Committee, and the Section 151 Officer with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides the Council with limited assurance. We conclude that there are weaknesses in the internal control system for the areas reviewed in 2018-19. The statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance confirms that, based on the evidence of the audits conducted, there are weaknesses in the framework of control but the control framework improved during the second half of the year.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2018-19
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to the Council
- Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work



# KEY PERFORMANCE INDICATORS

Quality Assurance	KPI	RAG Rating
Quality of work	Feedback on particular reviews around member officer relationship, procurement, senior management restructure and people have been very positive. At our quarterly catch-up with the Council feedback on staff deployed was highly complementary with no issues noted	●
Responsiveness of the service	We have responded to deadlines and targets and requests for urgent work well particularly around additional work on procurement and cash handling and additional work assessing the NPH Business Case which was conducted outside of the Plan	●
Completion of audit plan	We have completed the Plan in full	●
Follow-up of recommendations	We completed the follow-up of recommendations commencing in June 2019 and completing it in the same month - even though this commenced later due to agreeing that Internal Audit would undertake this, it was completed timely	●

We will be during the upcoming year obtaining feedback on each review and feeding this back to the Council.



# APPENDIX 1

## OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
<b>Substantial</b> 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b> 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b> 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b> 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.



FOR MORE INFORMATION:

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