

LGSS Internal Audit Update – March 2020

1. Purpose

- 1.1 This report provides the Audit Committee with an update on work undertaken since the last report was considered in July 2019. In addition to progress with the 2019-20 Plan, it also outlines the planned LGSS internal audit coverage that will be undertaken on behalf of the Northampton Borough Council during 2020-21.

2. Background

- 2.1 Many financial activities transferred from Northampton Borough Council to LGSS during 2013-14 financial year. It was agreed with the S151 Officer and the Councils previous internal auditors that where LGSS have the responsibility to undertake the functions, LGSS Internal Audit would complete the assurance work, whilst the Councils internal auditors would continue to audit those aspects which remain in the direct control of the council.

3. 2019-20 Plan Update

- 3.1 The status and outcome of our audit work in 2019-20 is attached in the table below. The assurance levels are based upon the definitions in Appendix one.

Audit	Status	Control Environment Assurance	Compliance Assurance	Organisational Impact
Housing Benefits (18/19)	Final	Good	Good	Minor
Agresso IT Review (18/19)	Draft*	Satisfactory	Satisfactory	Minor
Northgate IT Review	Planning			
Academy IT Review	Planning			
Fixed Assets	Final	Good	Satisfactory	Minor
General Ledger	Fieldwork			
Treasury Management	Fieldwork			
Q1 Balance Sheet Review	Complete	n/a	n/a	n/a
Q2 Balance Sheet Review	Complete	n/a	n/a	n/a
Q3 Balance Sheet Review	Fieldwork			
Q4 Balance Sheet Review				

**This audit was still at draft report stage at the time of writing this report but the emerging opinions / are included.*

In terms of update:

- 3.2 Housing Benefits - The level of assurance reflect our finding that overall we have found there are robust processes in place covering activities considered within the scope of this review, based around a framework of staff being trained and kept up to date on changes in legislation; a comprehensive suite of procedural guides and accuracy checks undertaken by the Quality Assurance Team. A small number of controls weaknesses highlighted were included in the report to Committee in July 2019 and are considered in section four of the report as part of our follow up process.
- 3.3 Fixed Assets – This area was the subject of an audit in 2018 although the review was limited by the fact that as LGSS Finance were focused on completing work linked to the 2016-17 annual accounts and as a result no activity relating to fixed assets for 2017-18 had been added to the RAM Asset Register at the time of the audit. As a consequence, the audit was unable to test current year activity and could not provide an assurance level in respect of compliance.

Whilst this review has found that all activity relating to the financial years 2017-18 and 2018-19 have now been completed, some tasks were not undertaken on a timely basis, in line with expected working practices. Furthermore, key tasks (i.e. processing of depreciation charges, reconciliations) have not been completed during 2019-20. The level of assurance also reflects the following key findings:

- Whilst some guidance does exist to support the administration of fixed assets, this is not viewed as sufficient in terms of detail and does not provide clarity on roles and responsibilities in this area.
- No mechanism is in place to respond to officer's who fail to submit returns as part of the annual verification of vehicles, plant and equipment assets.

A copy of the agreed action plan for this audit is attached at Appendix two.

- 3.4 Agresso IT Review - Following consultation on the findings of audit work completed as at the end of May 2019, with the Chief Finance Officer and the Governance and Risk Manager, the original agreed scope of the review of the Agresso system was extended. Key client staff absences and their diary commitments has resulted in unplanned delays in completion of the audit. This report is currently at a draft stage.
- 3.5 Balance Sheet Review – Following on from work in 2018-19, a quarterly review of the balance sheet takes place which is focused on reviewing:
- Reconciliations of the four council bank accounts.
 - Control account reconciliations covering accounts payable, accounts receivable, payroll, rents, council tax and business rates.

Whilst a formal audit report will be issued after the quarter four review has been completed, updates are provided to management after each quarterly review. The quarter two review highlighted that reconciliations are being completed on a timely basis and are subject to independent review. The only issue identified is that no progress has been made in resolving historical unreconciled transactions, although the balance of these transactions is only £19k.

4. Follow Up of Audit Recommendations

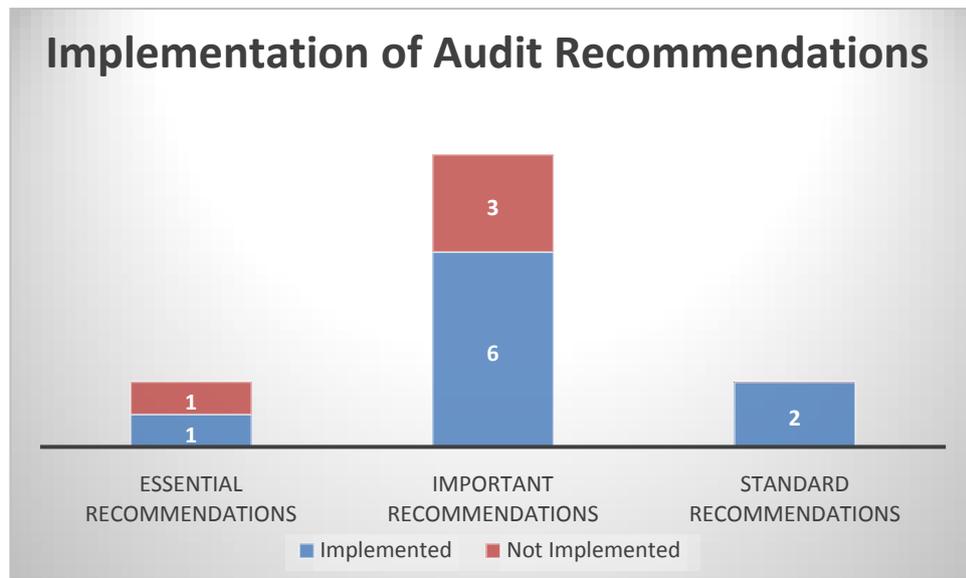
4.1 Follow up work has been undertaken on the following audits:

- 1) Accounts Payable – Focused on one remaining outstanding action

- 2) Housing Benefits
- 3) Fixed Assets Review*
- 4) Balance Sheet Review*

**These audits are not the reviews mentioned elsewhere in the report but relate to audits prior to 2019-20.*

4.2 13 actions were followed up and the results of follow up work are detailed below.



Overall, progress has been made in addressing audit recommendations with 69% of actions implemented. In respect of the four actions not implemented, these are split across the four audit reviews. A revised follow up date has been agreed and assurance that these recommendations have been implemented will be included in future update reports to the Audit Committee.

5. 2020-21 Plan

5.1 Based on discussions with the Chief Finance Officer and the Governance and Risk Manager, the following reviews will be undertaken during 2020-21:

- Accounts Payable
- Quarterly Balance Sheet Review
- Council Tax
- Business Rates

Update on this work will be reported to the Audit Committee during 2020-21.

Duncan Wilkinson
Chief Internal Auditor, LGSS

Appendix One: How Internal Control is reviewed

Each Internal Audit review has three key elements. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.

However, controls are not always complied with, which will in itself increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This enables Internal Audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Finally, where there are significant control environment weaknesses or where key controls are not being complied with, further substantive testing is undertaken to ascertain the impact these control weaknesses are likely to have on the organisations' control environment as a whole.

To ensure consistency in reporting, the following definitions of audit assurance are used:

Control Environment Assurance	
Level	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Satisfactory	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance	
Level	Definition
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.

No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.
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Organisational Impact	
Level	Definition
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

When assessing findings in the Management Action Plan, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found. For ease of reference, we have used the following system to prioritise our recommendations, as follows:

ESSENTIAL (E)	Important (I)	Standard (S)
Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/reputational loss. The improvement is critical to the system of internal control and action should be implemented as quickly as possible.	Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/reputational loss. The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.	The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently. Management should implement promptly or formally agree to accept the risks.

Appendix Two: Fixed Assets Review Action Plan

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1.	<p><u>Procedures</u> Whilst some guidance does exist to support the administration of fixed assets (e.g. how to use the RAM System and key tasks defined in the financial accounts timetable), this is not viewed as sufficient in terms of detail and does not provide clarity on roles and responsibilities in this area.</p> <p><u>Risk</u> Lack of clarity around roles and responsibilities for fixed assets at the Council.</p>	<p>Important To enhance current guidance to ensure detailed guidance is in place to support the administration of fixed assets. This should include defining roles and responsibilities between LGSS Finance and Council services.</p>	<p>Group Accountant – Closedown May 2020</p>
2.	<p><u>Annual verification of vehicles, plant and equipment assets</u> An annual verification exercise was undertaken in both 2017-18 and 2018-19 to verify vehicles, plant and equipment assets. A review of records for these exercises identified that 25% (10 out of 40) of returns has not been received.</p> <p><u>Risk</u> RAM is not an accurate record of assets held by the Council with potential risk of inaccurate information in the accounts.</p>	<p>Important A process will be put in place to ensure those returns not received are escalated for management to address. Such issues will be raised with the Strategic Finance Business Partner in the first instance.</p>	<p>Group Accountant – Closedown May 2020</p>
3.	<p><u>Reconciliation between RAM and the general ledger</u> A corrective journal to the value of £2,399 which was required as a result of the 2018-19 reconciliation had not been processed at the time of the audit.</p> <p><u>Risk</u> RAM / General Ledger are not accurate with potential risk of inaccurate information in the accounts</p>	<p>Standard The journal will be processed as part of the changes to the final statement of accounts for 2018-19.</p>	<p>Group Accountant – Closedown May 2020</p>