

**INTERNAL AUDIT ANNUAL REPORT AND ANNUAL
STATEMENT OF ASSURANCE**

Northampton Borough Council

2019/20

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SUMMARY OF 2019/20 WORK

Internal Audit 2019/20

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

- Planning and Section 106
- Enterprise Zone (Economic Growth)
- Contract Management
- Asset Management
- Disabled Facilities Grant
- Health and Safety
- Cyber Security
- GDPR Compliance

A review of Safeguarding had been planned for late 2019 which had then been moved to March 2020 at the request of the Council due to resource constraints, however, due to the disruption caused by Covid-19 we were unable to undertake this review during 2019/20. This review has been anticipated to be rescheduled to July 2020.

We have detailed the opinions of each report and key findings on pages four to seven. Our internal audit work for the 12 month period from 1 April 2019 to 31 March 2020 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 of Moderate 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:

- We issued a Limited report on Asset Management and Disabled Facilities Grants and six Moderate or Substantial/Moderate reports during the year. This included key areas including Health and Safety, Cyber Security and GDPR Compliance. The number of recommendations have decreased by from 60 in 2018/19 to 25 in 2019/20, albeit there were three fewer reviews completed during the year. This reflects the improvement from the Limited Opinion issued in 2018/19.
- There has been a significant improvement in the implementation of 2018/19 and 2019/20 recommendations during our follow ups. In the prior year we reported weaknesses in the implementation of recommendations, with only 20% implementation and there was a widespread

lack of engagement with the internal audit process i.e. responding to internal audit report recommendations. In 2019/20, this engagement has improved and agreements to reports are more prompt but there remain instances where there are still delays. In the year, the implementation of 2018/19 recommendations increased from 20% at the end of 2018/19 to 82% at June 2020 and completion of 2019/20 recommendations was 76% in our follow ups during the year.

Overall, we are pleased to note the improvement in our audit results, which support an overall moderate assurance opinion. However, we note that there has been some issues in the year around the cohesiveness and stability of the Council's management team. This has had no direct impact on the audits we have performed but it will be important to address these as the Council moves towards unitary status.

We have held discussions with the Council's external auditors, EY, and whilst we are not able to provide any information about their work on the Council's financial statements we have identified that there are several challenges facing the Council next year. Managing Covid-19 and the additional work created by preparations for Unitary is a further challenge and so a moderate opinion may prove to be more challenging to achieve in 2020/21. Please see page 15 of this report which sets out the scope of our opinion in more detail.

REVIEW OF 2019/20 WORK

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Planning & Section 106		1	2	Substantial	Moderate	<p><u>Overall Conclusions</u></p> <p>Governance structures were in place for effective identification, processing and monitoring of planning applications supporting timely completion of applications despite a comparably small Development Management team. There was inadequate document retention evidencing Section 106 fund spending but the new Civica system should result in this improving in future.</p> <p><u>Findings:</u></p> <ul style="list-style-type: none"> • Documentation of spending of Section 106 funds should be retained on the Civica system and older agreements should be reviewed so that the Council can ascertain how much evidence they can provide on how the money was spent • Overtime hours should be analysed and presented to Departmental Managers meeting (DMT) and support the planning team to assess the adequacy of resources available to the team • The Outturn Report should be produced in a timely manner detailing performance against the KPIs.
Enterprise Zone		3		Moderate	Moderate	<p><u>Overall Conclusions</u></p> <p>Governance structures were clear and regular meetings at various levels provided strong monitoring of ongoing project developments. However, there was some non-compliance with risk registers which could increase the risk that the objectives of the NWEZ are not achieved and there are opportunities to improve scrutiny of performance.</p>

					<p>Findings:</p> <ul style="list-style-type: none"> Update the Northampton Waterside Enterprise Zone (NWEZ) to include a numerical-based rating and apply responsible officers to mitigating controls, plus adding a control around the impact of local government reform Implement risk registers for NWEZ projects managed by the Council Promote in-depth discussions about performance against the KPIs Develop a functioning website for the NWEZ and update all Board meeting minutes on it and/or the Council's website. 	
Contract Management	1	1	Substantial	Moderate	<p><u>Overall Conclusions</u></p> <p>Whilst the 2019/20 PDA with LGSS had not been signed there was strong performance monitoring in place for both the LGSS and Veolia contracts with clear scrutiny from contract managers where performance was not adequate. Furthermore, payments to both contractors were accurate and complete, although two payments to Veolia were made one day later than the contractual payment terms.</p> <p>Findings:</p> <ul style="list-style-type: none"> The Partnership Delegated Agreement (PDA) for the year 2018/19 had not been signed, and has not since been signed Invoices should be paid within a 30-day period in accordance with the Veolia contract. 	
Asset Management	3	3	1	Limited	Limited	<p><u>Overall Conclusions</u></p> <p>Progress has been made in 2019-20 with the engagement of the Corporate Asset Manager and Corporate Property Manager with the stabilisation of the teams and introduction of a number of reporting initiatives as indicated in the background above. However, there are still significant issues around data integrity, tenancy rent reviews not taking place, missing or outdated valuations and procurement for maintenance work on assets not having been fully complete.</p> <p>Findings:</p> <ul style="list-style-type: none"> Reconciliations between Agresso, the Tenancy Schedule and the RAM fixed assets module Ensure the Tenancy Schedule is up to date with the latest tenancy information and rent review memorandum's are in place

					<ul style="list-style-type: none"> Dissemination of asset management policies for the Unitary Authority once they have been agreed Property valuation evidence should be retained in a central folder and it should be ensured that they are complete Collaboration with the procurement team could improve procurement practices Ensure all maintenance work requests are transferred through the Help Desk Clarification around the use of interim Asset Management staff KPIs are agreed and presented to management.
Disabled Facilities Grant	3	2	Moderate	Limited	<p><u>Overall Conclusions</u></p> <p>There is a reasonably sound control design via the Private Sector Adaptations Policy which is being updated, however, there was consistent non-compliance with these guidelines. Consistent failures to undertake and retain evidence for property inspections, tendering of suppliers and financial assessments were not undertaken prior to approval of property works.</p> <p>Findings:</p> <ul style="list-style-type: none"> All grant funded adaptations works should be inspected and Certificate of Completion of Adaptation Works Checks between the purchase orders and the original contractor quote, then invoices should be checked against the purchase orders prior to payment Financial Assessments and Needs forms should be completed and monthly spot-checks should be conducted to ensure these are done Client Agreement forms should be signed prior to any adaptation work being completed Adequate numbers of quotes for each phase of work were not obtained We sampled a case where the total works exceeded the maximum £30k cost for works therefore preliminary and ancillary charges should be considered to ensure that they stay within the budget Claw-back payments were not included in the Private Sector Adaptations Policy however will be in the updated policy. Furthermore, the policy should be given a policy owner and version control date.
Health & Safety	1	2	Moderate	Moderate	<p><u>Overall Conclusions</u></p>

			<p>There is access to e-learning modules available to staff covering a broad range of topics including 'Stress Awareness' and 'Display Screen Equipment'. However, there were several occasions on non-completion of these. The Council regularly use contractors to provide a range of supporting services, and put on events with third-party organisers. After reviewing related documentation for examples of both of these, it was clear that work had been awarded without due consideration being given to health and safety. This includes a lack of risk assessments. However, there was a robust set of policies in place supporting responsibilities and duties in relation to health and safety.</p> <p>Findings:</p> <ul style="list-style-type: none"> • Implement a sign off process and a risk assessment pro-forma for health and safety at events in the borough • Develop a health and safety checklist to evaluate contractors against in a tender process • Embed health and safety topics in the corporate induction and require new starters to complete an e-learning module on health and safety.
Corporate Plan Progress	Cancelled	Cancelled	N/A
Safeguarding	Not Started	Not Started	Anticipated to commence in August 2020 - delayed due to officer availability
Cyber Security	3	1	<p>Moderate</p> <p>Moderate</p> <p><u>Overall Conclusions</u></p> <p>Groups and structures are in place to monitor IT infrastructure and training is maintained. Additionally, Council laptops are protected by McAfee antivirus programs and servers are protected by Trend. However, there were weaknesses around IT risk assessments and the stress testing for major incident response to verify its effectiveness.</p> <p>Findings:</p> <ul style="list-style-type: none"> • Align the IT risk register with the IT risks on the corporate risk register • Develop a scheduled plan for major incident response testing, including comprehensive cyber security testing • Assess resource and time requirements for enabling authentication control for all wired access points to the corporate network • Agree a mechanism to identify and address non-completion of cyber

						training amongst end-users.
GDPR Compliance	1	1	1	Moderate	Moderate	<p><u>Overall Conclusions</u></p> <p>Policies and privacy notes are all compliant with the Data Protection Act 2018 and are regularly updated. Furthermore, data protection impact assessments are up to date leading to a strong control framework to ensure that personal data is maintained and processed correctly. However, the LGSS contract did not include an addendum for the management of data and we identified two instances where data breaches were not resolved and reported to the ICO within the designated time frames.</p> <p>Findings:</p> <ul style="list-style-type: none"> • A contractual addendum should be agreed with the Local Government Shared Service (LGSS) around data handling • Reporting of data breaches within legislative time scales • Implement tracking methods for non-completion of mandatory GDPR training.

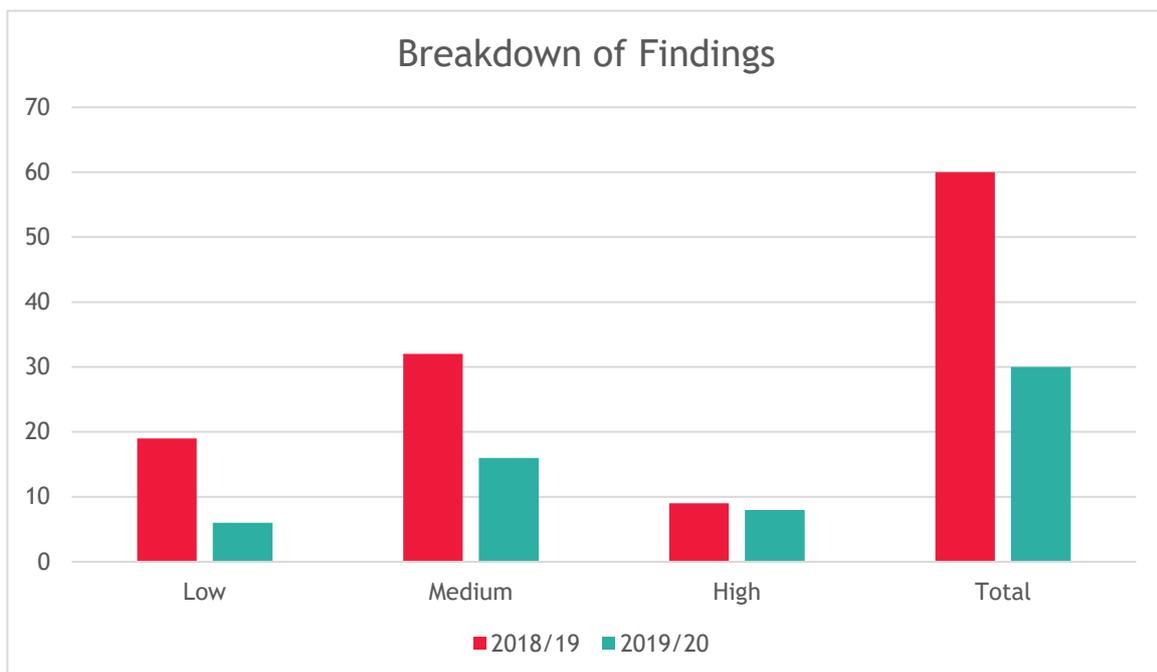
SUMMARY OF FINDINGS

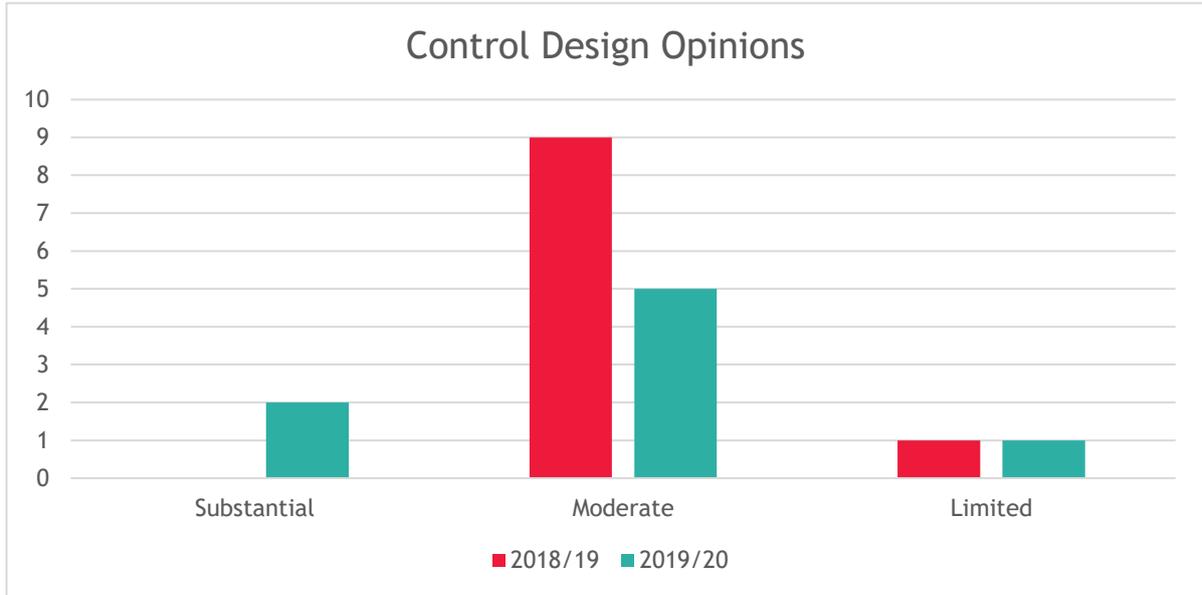
RECOMMENDATIONS AND ASSURANCE DASHBOARD

The chart shows a summary of our recommendations for 2019/20; it also shows the summary based on the previous year's work. In 2018/19 we undertook 10 reviews whereas in 2019/20 we were only able to complete seven reviews; two reviews were incomplete at the year-end due to as testing disruption caused by the COVID-19 pandemic. Therefore the chart shows the recommendations made in a like-for-like comparison to the prior year with a breakdown comparison between High, Medium and Low recommendations.

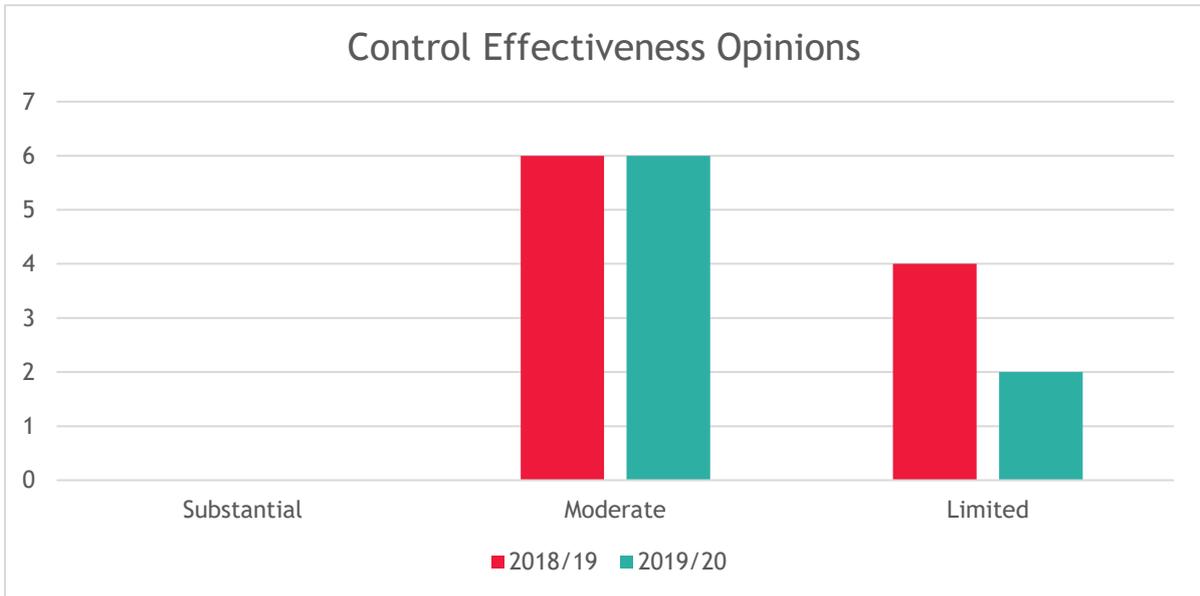
The comparison shows that there has been a 44% reduction in High recommendations and a 56% reduction in Medium recommendation which reflects the improved Moderate opinion. Furthermore, two of our reviews received Substantial for control design in 2019/20 which is an improvement from none in 2018/19. Whilst we acknowledge an improvement in overall control design and effectiveness in the Council there are further areas for improvement in corporate governance and engagement of internal audit amongst management.

Findings





In 2019/20 there were 2 Substantial, 5 Moderate and 1 Limited Opinion given for control design in reports issued during the year. This reflected an improvement from the prior year where no Substantial Opinions were given and 9 Moderate Opinions.



In 2019/20 we issued 6 Moderate Opinions for control effectiveness which is consistent with the number for the prior year. However, there was only 2 Limited Opinions given on control effectiveness in 2019/20, for the Asset Management and Disabled Facilities Grants reviews, which is 2 fewer than in the previous year.

ADDED VALUE



SUPPORT AND NETWORKING

We invited the Governance team to a Midland District Group which one member attended and we hosted to share ideas on governance and internal audit for local authorities. We also held an Accountancy Group meeting which a member of the Council attended



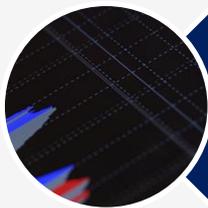
RESPONSIVENESS

Undertook extensive work to support the Council to process Small Business Grants Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF) during the COVID-19 pandemic. Whilst this was at the end of the year and forms part of 2020/21 work we managed to form a team of 10 people at short notice



BENCHMARKING AND BEST PRACTICE

We have provided benchmarking against other local authorities in the Health & Safety review, identifying specific tools that other authorities use



IT SPECIALISM

Specialist IT auditors were deployed for the Cyber and GDPR Compliance reviews

KEY THEMES



PEOPLE

The Council welcomed the internal audit process at a senior level and welcomed our reviews



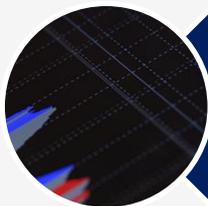
GOVERNANCE & STRUCTURES

A common theme arising from our reviews were that the Council had good governance and monitoring arrangements via departmental management meetings in various departments. Plus we noted that IT groups had been set up with key partners to manage cyber security



POLICES & PROCEDURES

Our reviews identified strong policies/procedures across several reviews including for health and safety, GDPR management, cyber security and for the planning department



FOLLOW UP

We followed up on all recommendations that were outstanding in 2018/19 and all those arising in our reports in 2019/20. There was a significant improvement from the prior year in the implementation of these recommendations, albeit some instances where due dates had to be revised multiple times still continued

BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to the Council 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. 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 2019 to 31 March 2020 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.

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 the Council to manage risks in business areas identified by management set out in the 2019/20 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 the Council's 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
- 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 was responsive to our internal audit fieldwork and provided us with adequate levels of time and engagement during the reviews, including opportunities to discuss findings and agree recommendations prior to the issue of draft reports. Management responses to draft reports were slow on occasion including some circumstances where we had to make four requests for a response.

Recommendations follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

We conducted follow up on a quarterly basis following up on all remaining outstanding Medium and High priority recommendations from 2018/19 reviews and Medium and High recommendations that were raised in 2019/20. Of the 2018/19 recommendations 82% are now complete or have been agreed with management to be removed. There has been a similar trend in the 2019/20 recommendations of which 76% have been completed. This is a significant improvement in the completed recommendations reported in the 2018/19 Annual Report and suggests better engagement from management. However, the due dates of some recommendations were revised up to four times, notably those arising from the Member-Officer review that was completed in 2018/19.

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.

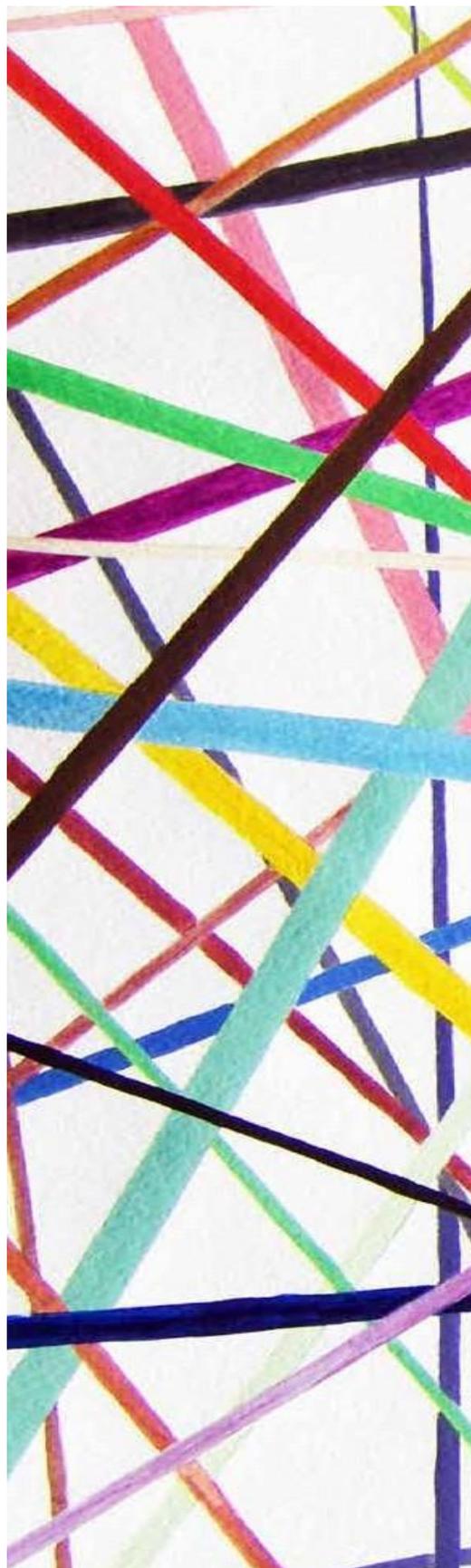
Report by BDO LLP to Northampton Borough Council

As the internal auditors of Northampton Borough Council (the Council) we are required to provide the Audit Committee, and the Members 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 Moderate assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2019/20. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

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

- All internal audits undertaken by BDO LLP during 2019/20
- 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 that 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 from our reviews were positive and recommendations were agreed with management. In our surveys that we issue after each report, we received a 4/5 rating from the Chief Finance Officer on how they rated the overall audit experience for all reviews. It was recognised that in the IT reviews we did there were staffing challenges but we rectified this by the manager taking forward the work.	●
Responsiveness of the Service	We have responded to deadlines and adapted to the COVID-19 pandemic by engaging with the Council to re-arrange reviews and support the processing of business grants. We supported due diligence on applications at short notice for the 2,407 grants received totalling £30.34 million.	●
Completion of the audit plan	We have completed and finalised seven of the 10 planned reviews. Changing working processes caused by the COVID-19 pandemic resulted in delays to the Safeguarding and Disabled Facilities Grant reviews and the Corporate Plan review was agreed to be delayed to 2020/21. We have given this a green status as we have completed all work assigned and any delays have been at the discretion of the Council.	●
Follow-up recommendations	We have followed up on all recommendations due prior to the end of June 2020. There has been an improvement in implementation of recommendations during the year and we have engaged with the Governance team to improve follow-up engagement from managers.	●

We will obtain feedback during the year upon finalisation of each report and feed results back to the Audit Committee.



APPENDIX 1

OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
Substantial 	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.
Moderate 	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.
Limited 	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.
No 	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.

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