



INTERNAL AUDIT PROGRESS REPORT

Northampton Borough Council

August 2020

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SUMMARY OF 2019/20 AND 2020/21 WORK

Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2019/20 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

2019/20 Internal Audit Plan

We are now making good progress in the delivery of the 2019/20 audit plan, and we are pleased to present the following reports to this Audit Committee meeting:

- Asset Management
- Disabled Facilities Grant

We are also completing the fieldwork on the following audits:

- Safeguarding

We anticipate presenting this report at the next Audit Committee.

2020/21 Internal Audit Plan

There have been changes to the 2020/21 Plan with the removal 4 reviews as shown on page 5. These have been agreed with the Section 151 Officer, Chief Executive and Head of Internal Audit. All 2020/21 audits have been planned with Terms of References issued.

Other reports

We are also reporting our Annual Opinion for 2019-20 and our follow-up of recommendations report which are both under separate cover.

REVIEW OF 2019/20 WORK

Audit Area	Audit Days	Exec Lead	Status Update	Opinion	
				Design	Effectiveness
Planning & Section 106	20	Peter Baguley, Director of Planning	Final	Substantial	Moderate
Enterprise Zone	15	Kevin Langley, Economic Growth & Regeneration Manager	Final	Moderate	Moderate
Contract Management	15	Stuart McGregor, Chief Finance Officer	Final	Substantial	Moderate
Asset Management	20	Kevin Langley, Economic Growth & Regeneration Manager	Final	Limited	Limited
Health & Safety	15	Stuart McGregor, Chief Finance Officer	Final	Moderate	Moderate
GDPR	15	Stuart McGregor, Chief Finance Officer	Final	Moderate	Moderate
Cyber Security	15	Stuart McGregor, Chief Finance Officer	Final	Moderate	Moderate
Disabled Facilities Grant	20	Phil Harris, Director of Housing	Final	Moderate	Limited
Safeguarding	15	Phil Harris, Director of Housing	Fieldwork commenced 19 August 2020	TBC	TBC
Corporate Plan Progress	10	George Candler, Chief Executive	Removed from plan		
Additional Unitary Work	25	Stuart McGregor, Chief Finance Officer	Removed from plan		

2020/21 INTERNAL AUDIT PLAN

Audit Area	Audit Days	Executive Lead	Planning	Fieldwork	Reporting	Opinion		
						Design	Effectiveness	
HMO Licensing & Enforcement	20	Phil Harris, Director of Housing	✓	14 December 2020				
Licensing	10	Marion Goodman, Director of Customer & Communities	✓	16 November 2020				
Climate Emergency (Environment)	12	Peter Baguley, Director of Planning	✓	2 November 2020				
Treasury Management	15	Stuart McGregor, Chief Finance Officer	Removed from plan					
Northampton Partnership Homes (NPH) Service Level Agreement	20	Phil Harris, Director of Housing	✓	9 November 2020				
Capital Projects	15	Kevin Langley, Economic Growth & Regeneration Manager	✓	12 August 2020				
Gifts & Hospitality	12	Francis Fernandes, Monitoring Officer	Removed from plan					
Corporate Plan Progress	15	George Candler, Chief Executive	Removed from plan					
Social Lettings Agency	15	Phil Harris, Director of Housing	✓	5 October 2020				
Unitary	27	Stuart McGregor, Chief Finance Officer	✓	As required				
Use of Volunteers (Nightshelter)	12	Phil Harris, Director of Housing	Removed from plan					

ASSET MANAGEMENT

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE

Design	Limited	System of internal controls is weakened with system objectives at risk of not being achieved.
Effectiveness	Limited	Non-compliance with key procedures and controls places the system objectives at risk.

SUMMARY OF RECOMMENDATIONS

High	3
Medium	3
Low	1

TOTAL NUMBER OF RECOMMENDATIONS: 7

KEY FINDINGS

- The following reconciliations are not in place at the time of the review; reconciliation between (a) the Tenancy Schedule and RAM for completeness of records and accuracy of valuations and (b) the Tenancy Schedule and Agresso for completeness of records and accuracy of valuations. In addition the updates to the Tenancy Schedule do not indicate who made the changes and dates changes were made. **(Finding 1 - High)**
- The Asset Management Strategy and Community Asset Transfer policy were in draft and not yet finalised. The updating of asset management and property management policies and procedures were in abeyance until an agreed unitary approach is advised. The lack of a robust community asset transfer policy has resulted in delays impacting council resources due to a lack of clarity of appropriateness of transfers and the pricing mechanisms. **(Finding 2 - Medium)**
- From our valuation sample testing we noted:
 - 7/26 - Property valuations were missing and not provided
 - 1/26 - Properties were overdue a valuation**(Finding 3 - Medium)**
- Reactive and compliance works have historically not been consistently purchased per Council procurement practice due to a lack of stability in the team, however work with the LGSS Procurement Manager is underway to resolve the issue. In addition there was inconsistency in the processing of repairs work requests from Council teams which are not always processed through the Help Desk but via telephone. **(Finding 4 - High)**
- There was inadequate resource and capacity planning of asset management project works due to a lack of manager work oversight resulting from a vacant team manager post which impacted the operations of the team. **(Finding 5 - Medium)**
- From our rental income sample testing we noted:

-
- 2/26 tenancies are out of date
 - 1/26 tenancy agreement was missing
 - 2/26 long term tenancies had no rent review narrative in the tenancy agreements
 - 9/26 tenancies had an out of date rent review
 - 13/26 rent values per tenancy schedule did not reconcile to the tenancy agreement and
 - 10/26 up to date rent review memoranda were missing and therefore the rent did not reconcile to rent reported on the Agresso finance system

In addition the Rent Arrears report is not aged and therefore did not facilitate robust debt analysis and collection. (**Finding 6 - High**).

CONCLUSION

Overall we have concluded that there is limited assurance over the design and limited assurance over the operational effectiveness of the controls in place. We have raised seven findings; three of which are high.

Progress has been made in 2019-20 with the engagement of the Corporate Asset Manager and Property Maintenance 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. These collectively have implications for the design and effectiveness of controls which has led to our opinion on both as limited.

DISABLED FACILITIES GRANT

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Limited	Non-compliance with key procedures and controls places the system objectives at risk.

SUMMARY OF RECOMMENDATIONS:

High	3
Medium	2
Low	0

Total number of recommendations: 5

KEY FINDINGS

- Invoices for works completed were paid without evidence of inspections being completed or prior to inspections being completed to verify the quality of the work. (Finding 1- High)
- Despite the requirement to complete financial assessments for all adult grant applicants we were unable to verify this being completed in nine instances. Despite this all were approved. Additionally we were unable to confirm client approval of the works to be completed in 15 instances. (Finding 2- High)
- We identified weaknesses in the tendering process for works to be completed. There were three contractors used that were outside of the approved contractor list with no documentation in place to support the deviation. Additionally we were unable to verify an appropriate number of quotes were obtained in 10 instances. (Finding 3- High)
- We identified one grant paid which was above the £30,000 limit. The original grant amount was for £29,440.00 (£25,600 for works and £3,840 council preliminary/ancillary charges). Additional unforeseen works were added to the value of £4,400 bringing total of works to £30,000. (Finding 4- Medium)
- We noted that the Council has no documented clawback provisions within its Private Sector Adaptations Policy and as a result in accordance with statute cannot re-claim any funds in the event of a property sale. However the revised policy was updated during the audit fieldwork dates and now includes provisions for clawback. This is due for ratification in July 2020. (Finding 5- Medium).

CONCLUSION

We have reached a design opinion of moderate as there was generally a sound system of internal control designed to achieve system objectives with some exceptions. However we identified a number of instances of non-compliance with key procedures and controls placing the system objectives at risk. As such we have reached an effectiveness opinion of limited.

SECTOR UPDATE

SECTOR UPDATE

Our quarterly Local Government briefing summarises recent publications and emerging issues relevant to Local Authorities that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers, directors and members.

FINANCE

Councils could need additional £6bn to balance Covid-19 spend

The organisation analysed returns councils submitted to the Ministry of Housing, Communities and Local Government on the financial impact of the pandemic earlier this month. The LGA found that the two emergency tranches of £3.2bn allocated by the government covered costs and income losses so far, but around £2bn more is likely to be needed to cover further costs of responding to the pandemic. An additional £4bn may be needed to deal with the impact of lost income from sources such as council tax, business rates and sales, fees and charges, the LGA said - stressing these figures were based on the assumption that things return to normal in July. "Vital emergency funding from government has helped meet extra cost pressures and lost income in the past three months, James Jamieson, LGA chairman said. "Concerns remain about the ongoing financial pressures ahead. Councils will need further funding and financial flexibilities in the weeks and months ahead to meet ongoing Covid-19 pressures and to keep services running normally. "Certainty around this is desperately-needed so councils can balance their budgets this year and take vital decisions about how to pay for vital local services next year."

<https://www.publicfinance.co.uk/news/2020/05/councils-could-need-additional-ps6bn-balance-covid-19-spend>

PWLB Future Lending Terms

A recent report by the National Audit Office (NAO) highlights how a minority of local authorities have started using low-cost loans from the Public Works Loan Board (a public body that lends to local authorities for capital projects) to buy investment property primarily for rental income. The case for this 'debt-for-yield' activity can be compelling for the individual local authority. But it introduces risks locally and nationally. At the local level, it exposes ratepayers to the risk that the income does not materialise, leaving the local authority with an inflexible commitment to keep up with the repayments on their loans. Within the wider public sector, it diverts money from core services such as schools, hospitals, and roads. And, because local authorities can often access debt more cheaply than the private sector, it becomes hard for businesses to compete. In the wider economy, it could crowd out public investment, and risks distorting property markets. The government has launched this consultation to work with local authorities, sector representatives, and wider stakeholders to develop a targeted intervention to stop this activity while protecting the crucial work that local government does on service delivery, housing, and regeneration. The government's overall aim in this is to secure the effective operation of the prudential system for local councils, taxpayers and for all of us that rely on local services.

Alongside the publication of this consultation, the government is cutting the interest rate on new loans for social housing and has offered over £1 billion of discounted lending for high-value local infrastructure projects. The government intends to cut the interest on all new loans from the PWLB, subject to market conditions, following the development and implementation of a robust lending framework co-designed with the sector through this consultation.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/884986/Public_Works_Loan_Board_future_lending_terms_consultation.pdf

Coronavirus: LGA statement on local government funding crisis

“Extra funding for councils will be helpful but they will need up to four times the funding they have been allocated by government so far.”

Cllr Richard Watts, Chair of the Local Government Association’s Resources Board, said: “Local government continues to lead local efforts to beat this virus but is being stretched to the maximum. Many councils continue to face spiralling cost and demand pressures at the same time as seeing a huge drop in income. This is unsustainable. “Extra funding for councils will be helpful but they will need up to four times the funding they have been allocated by government so far. We are working with councils to provide the most robust evidence to government on the financial challenges they face. Their latest monthly returns should show the impact of a full month of cost pressures and income reductions and the impact of lower council tax and business rates collection rates.

<https://www.local.gov.uk/coronavirus-lga-statement-local-government-funding-crisis>

Spelthorne receives 90% of commercial rent despite Covid disruption

The council has gained attention over recent years for its investment strategy, which relies on borrowing significant sums from the Public Works Loan Board to invest in commercial property. In a report on its economic response to the pandemic, the council said of the 10% outstanding rent, all but 3.6% has been addressed through rent deferral plans agreed between the council and the tenants. The council’s most high-profile venture was the purchase of a £360m business park in Sunbury-on-Thames in 2016, for which it took out 50 separate PWLB loans. The report said that the council’s property portfolio is valued at £1bn, and that the income is critical in funding services and tackling the Covid-19 pandemic. “As a result of our investments, we have improved the financial resilience of and increased service delivery resources in areas such as homelessness and independent living,” the report said. “This has enabled the council to pro-actively and rapidly move in response to COVID-19 to meet the needs of its vulnerable communities without reliance on government funding in advance.” The council redeployed staff to almost exclusively focus on maximizing rent receipts in order to ensure rental income was received, spending around 75% of their time in March and April on the task, the report said.

<https://www.publicfinance.co.uk/news/2020/05/spelthorne-receives-90-commercial-rent-despite-covid-disruption>

IT

Council deploys tech to identify fraud

St Albans City and District Council says it is making “good progress” in tackling fraud, after adopting new technology to identify residents who are potentially abusing council tax discounts for single occupancy. Last year, the council subscribed to a government service that pinpoints properties where suspect claims are being made, and has since begun investigating an “unusually high number” of people claiming the single person’s discount of 25% for council tax.

It’s doing so by matching discount claims with other financial and personal data that public bodies are entitled to hold. During the first three months of this year, 139 people were identified as high risk and were sent letters stating they were in receipt of single-occupancy reduction that they were not entitled to, according to a report given to a council audit committee last week. Further investigations will begin after the coronavirus pandemic passes.

“Already, more than 100 people suspected of incorrectly claiming a council tax discount have been identified along with four council homes where there may be tenancy fraud. We will look

to recover any money which the council is owed and free up properties that are in the wrong hands.”

<https://www.publicfinance.co.uk/news/2020/05/council-deploys-tech-identify-fraud>

Environment

Carbon conundrum

Local authorities have an important role to play in the UK’s goal to hit net-zero carbon emissions. But amid a flurry of ambitious pledges, Rachel Willcox asks whether they have bitten off more than they can chew.

Against a backdrop of climate demonstrations, activism and growing public concern about environmental issues, in June last year the UK became the first major economy to legislate for net-zero emissions by 2050. It committed to reducing greenhouse gas emissions by at least 100% of 1990 levels. Extreme weather conditions over the past few weeks have propelled local authorities to the frontline of dealing with climate impacts, including flooding and storm damage. Perhaps not surprisingly, many have added their names to the bulging list of councils declaring climate emergencies - at the last count, 265 of the 408 councils in England. Many have also set deadlines for becoming carbon-neutral that shun the Government’s 2050 deadline in favour of more ambitious targets. Nottingham City Council aims to become the UK’s first carbon-neutral city by 2028 (see panel). Local authorities, alongside other public sector bodies, have an important role to play in meeting the UK’s ambitious carbon reduction goals. Transport, representing the largest source of carbon emissions in 49% of local authority areas, will be a key focus, alongside energy use, housing, food, waste, buildings and land use.

<https://www.publicfinance.co.uk/feature/2020/05/carbon-conundrum>

HOUSING

Local authority set to approve council-owned housing association

Manchester City Council is set to form a part-council-owned housing development company, in a bid to provide more affordable homes.

A proposal was agreed in principle by the council’s executive committee in March, with the aim of increasing the number of multi-tenure homes for lower-income families.

The council said a local housing delivery company will ensure a supply of affordable homes at or below Local Housing Allowance, with the potential to deliver 500 homes per year up to 2025 - helping the council to meet its affordable homes delivery target by 2025.

The council said the company must deliver at least 500 homes per year, and these must be a mix of affordable homes and market homes, with the latter used to subsidise the affordable homes. It added the company must allow the council to investment land and Right to Buy receipts.

“Our affordable housing target is ambitious by design because we know that as our population continues to grow that we will need to match that growth with high-quality new homes that Manchester people can afford,” Suzanne Richards, Manchester City Council’s executive member for housing and regeneration said.

<https://www.publicfinance.co.uk/news/2020/06/local-authority-set-approve-council-owned-housing-association>

Salford agrees deal for cladding removal

Salford City Council has revised a deal with a property management organisation to remove dangerous cladding from nine tower blocks in the city.

Deputy mayor John Merry signed the agreement at a cabinet meeting earlier this week, after a previous proposal was rejected by the government. Pendleton Together, a subsidiary of housing association Together Housing, estimates that the cost of the work is around £32m, which it would fund under the proposed deal, a council report said.

Following the Grenfell Tower fire in 2017, the government banned the use of aluminium composite material cladding on high-rise buildings, and in 2018 announced a £400m fund to help with remediation of buildings with this type of cladding.

Subsequently, the council found nine tower blocks in the city that had ACM cladding, and the authority agreed to borrow £25m to complete the work. However, the government blocked that decision, saying it could not loan the money to a private finance initiative, which provides dividends for shareholders. The council said it was also not eligible for funding under the terms of the remediation fund. A part of the deal, the council has set aside £4m to pay for the installation of sprinklers in the tower blocks.

<https://www.publicfinance.co.uk/news/2020/05/salford-agrees-deal-cladding-removal>

LGA responds to HCLG Committee report on homelessness and rough sleeping

"Councils want to take this opportunity to change the lives of our most vulnerable residents and stand ready to work with government on a national plan to move people into safe housing with access to wider support they might need"

It has been a monumental effort by councils to get most rough sleepers and homeless people off the streets. Councils want to take this opportunity to change the lives of our most vulnerable residents and stand ready to work with government on a national plan to move people into safe housing with access to wider support they might need for substance dependency and help with benefits, skills and getting work. We are pleased that the Committee has backed our call for councils to be able to spend 100 per cent of money from Right to Buy sales and combine receipts with other government funding pots. This, alongside extending the deadline to spend the money to at least five years, is critical to allow councils to get on with the job of building the new homes that people in their areas desperately need.

<https://www.local.gov.uk/lga-responds-hclg-committee-report-homelessness-and-rough-sleeping>

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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