

Internal Audit Annual Report 2012/2013

Northampton Borough
Council

May 2013

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Distribution List

For action	Senior Management Team
	Heads of Service
For information	Audit Committee

This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council.

1. *Executive summary*

Background

The relevant government standards, CIPFA's Audit Code of Practice requires that the Head of Internal Audit provides a written report to the Audit Committee timed to inform the organisation's Annual Governance Statement. As such, the purpose of this report is to present our view on the adequacy and effectiveness of Northampton Borough Council's system 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. This report does not supplant the Audit Committee's responsibility for forming its own view on governance, risk management and control.

This report covers the period to the year ended 31 March 2013. The specific time period covered by our work for each individual audit is recorded in Section 3.

Scope

Our findings are based on 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 19 March 2012. All changes have been outlined in our update reports taken to the Audit Committee during the year.

Our opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix 1.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to CIPFA's Audit Code of Practice. 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.

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 although some reports remain in draft where management comments are still awaited.

Our work identified 1 high, 15 moderate and 48 low rated findings. Based on the work we have completed, 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 internal control.

The key factor that contributed to our opinion is summarised as follows:

- **Housing allocations** - The key weakness identified in this report relates to the lack of availability of key documents which provide evidence of compliance with established procedures. It is important the Authority retain this key documentation in order to substantiate the allocation of council housing to those in greatest need in compliance with the Housing Act, 1996 and so they can defend their decisions in light of growing public and political scrutiny regarding the allocation of council properties across the region.

A summary of the key findings are described in further detail on page 3.

On pages 4, 5 and 6 we show the direction of travel for both individual review areas and for the number of audit recommendations in each risk category (critical, high, medium and low). This indicates that the overall control environment at the Council has improved from the prior year.

For many of the areas reviewed in the year, the rating this year was either better or the same as last year. The number of internal audit findings and recommendations has reduced with a total number of 64 findings in 2012/13 compared to 72 in the previous year. There are reductions in the high and medium risk categories and a small increase in the low risk category.

Reviews deferred into 2013/14 Plan

The following reviews have been deferred into the 2013/14 plan:

- Car parking - due to lack of availability of management, work is deferred to May/June 2013
- IT review: "Bring your own devices" – fieldwork completed in May 2013
- Asset management – planned timing was not considered to be appropriate by management
- National Fraud Initiative: Data matching – work is ongoing and will be completed during the first half of 2013/14

Acknowledgement

We would like to take this opportunity to thank Northampton Borough Council 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 is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 26 internal audit reviews (including value enhancement reviews). This resulted in the identification of 0 critical, 1 high, 16 medium and 47 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 Council's key risks and strategic objectives. We mapped each review to these areas in our 2012/13 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>Internal Control Issues</p> <p>During the course of our work we identified one high risk finding that the Council may wish to consider including in its Annual Governance Statement.</p>	<p>The following high risk area has been identified in 2012/13:</p> <p>Housing allocations</p> <p>The key weakness identified in this report relates to the lack of availability of key documents which provide evidence of compliance with established procedures. It is important the Authority retain this key documentation in order to substantiate the allocation of council housing to those in greatest need in compliance with the Housing Act, 1996 and so they can defend their decisions in light of growing public and political scrutiny regarding the allocation of council properties across the region.</p>
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice were observed.</p>	<p>The following reviews were classified as low risk in 2012/13:</p> <ul style="list-style-type: none"> • Council tax • Budgetary control • General Ledger • Debtors • Cash and banking • Creditors (IBS and Agresso) • Fixed assets • Payroll • Housing benefits • Debt recovery • HR – Potentially violent persons • Landlord services – Gas Safety /Property Transfer • Strategic Housing – Accounting for grant income • Policy and community engagement – Equalities • Cultural Services – Museum security • Conflicts of interest

3. Internal Audit work conducted

Introduction

Our internal audit work was conducted in accordance with our letter of engagement dated 18 October 2010, CIPFA Audit Code of Practice and the Internal Audit Risk Assessment and Plan.

The table below sets out the results of our internal audit work. 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






Audit unit	Report status	Direction of Travel	Report classification	Number of findings			
				Critical	High	Medium	Low
Cross Cutting							
Council tax	Final	No review performed in prior year	Low Risk	0	0	0	1
NNDR	Final	No review performed in prior year	Medium Risk	0	0	4	1
Budgetary Control	Final	↔	Low Risk	0	0	1	0
General Ledger (part of core financial systems review)	Final	↔	Low Risk	0	0	1	2
Debtors (part of core financial systems review)	Final	↔	Low Risk	0	0	0	4
Creditors (Agresso) (part of core financial systems review)	Final	↔	Low Risk	0	0	0	1
Payroll (part of core financial systems review)	Draft	↔	Low Risk	0	0	1	1
Cash and Banking (part of core financial systems review)	Final	↔	Low Risk	0	0	0	1
Creditors (IBS)	Final	↑	Low Risk	0	0	0	0

Audit unit	Report status	Direction of Travel	Report classification	Number of findings			
				Critical	High	Medium	Low
Fixed Assets	Final		Low Risk	0	0	0	2
Housing Benefits	Final		Low Risk	0	0	0	4
Housing rents	Final		Medium Risk	0	0	2	4
Debt Recovery	Final		Low Risk	0	0	0	4
Shared Services Transition Planning	Draft	No review performed in prior year	Medium Risk	0	0	3	2
Departmental							
Human Resources – Potentially violent persons	Final	No review performed in prior year	Low Risk	0	0	1	2
Landlord Services – Gas safety checks and property transfer process	Draft	No review performed in prior year	Low Risk	0	0	1	4
Strategic Housing – accounting for grant income	Final	No review performed in prior year	Low Risk	0	0	0	1
Strategic Housing – Housing Allocations	Draft	No review performed in prior year	Medium Risk	0	1	0	4
Policy and Community Engagement – Equalities	Draft	No review performed in prior year	Low Risk	0	0	0	4
Cultural Services – Museum security	Final	No review performed in prior year	Low Risk	0	0	1	3
Conflicts of Interest	Final	No review performed in prior year	Low Risk	0	0	0	3
			Total	0	1	15	48

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

- Risk Management (final)
- Cultural Services – Leisure Trust Contract (follow-up review) (final)
- Environmental Services – Environmental Services Contract (follow-up review) (final)
- Landlord Services – Decent Homes Contract (follow-up review) (final)
- Landlord Services - Voids Management (follow-up review) (final)
- Borough Solicitor Function – Anti-fraud Health Check (follow-up review) (draft)

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings		
		2012/13	2011/12	2010/11
Critical		0	0	0
High		1	4	5
Medium		15	30	62
Low		48	38	63
Total		64	72	130

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.

Implications for management

Management should look to concentrate on higher risk areas and those with deteriorating performance (e.g. Housing Allocations and Housing Rents) 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

Ref	Audit Type	Audit Type	Planned number of audit days	Actual number of audit days
A	Cross-cutting			
A.1	Risk Management and Business Continuity	Value protection	5	5
A.2	Council Tax	Value protection	6	6
A.3	NNDR	Value protection	10	10

A.4	Core Financial Systems Reviews	Value protection	40	45*
A.5	Budgetary Control	Value protection	8	8
A.6	Creditors (IBS)	Value protection	8	8
A.7	Fixed Assets	Value protection	6	8
A.8	Housing Benefits	Value protection	8	8
A.9	Housing rents	Value protection	6	7*
A.10	Debt Recovery	Value protection	10	10
Total			107	115
B Departmental				
B.1	Human Resources - potentially violent persons	Value protection	8	9*
B.2	Customer Services and ICT - IT review	Value protection	15	2
B.3	Landlord Services - Voids and repairs process	Value protection	15	15
B.3	Landlord Services - Decent Homes	Value protection	5	6*
B.4	Strategic Housing - Accounting for grant income	Value protection	8	8
B.4	Strategic Housing - Housing allocations	Value protection	8	9*
B.5	Communications Team - Eforms	Value protection	5	1
B.6	Policy and Community engagement - Equalities	Value protection	8	14
B.7	Asset Management - time recording system, disposals, delivery of corporate programme	Value protection	8	2
B.8	Environmental Services - environmental services contract	Value protection	5	6*
B.9	Cultural Services - Leisure trust	Value protection	5	5
B.9	Cultural Services - Museums security	Value protection	8	8
B.10	Corporate Performance and Change - data quality	Value protection	8	1
B.11	Democratic and Chief Executive Services - Community asset transfer scheme	Value protection	8	1
B.12	Borough Solicitor Function - corporate fraud arrangements - anti fraud health check follow up	Value protection	5	8*
	Car Parking review	Specialist	0	7
Total			119	102
VE Value Enhancement				
VE.1	Governance and controls workshop	Value enhancement	2	0
VE.2	Audit Committee Effectiveness Training	Value enhancement	2	0
VE.3	Anti-fraud awareness training	Value enhancement	4	4
VE.4	NFI data matching	Value enhancement	20	8

VE.5	Support on HR project	Value enhancement	12	2
VE.6	Conflicts of Interest	Value enhancement	5	5
	Shared Services Transition Planning	Specialist	0	20
Total			45	39
PM	Project Management/Other			
PM.2	Teamcentral	N/A	10	0
	PwC audit tracker	N/A	0	10
PM.3	Audit Management	N/A	18	30**
Total			28	40
TOTAL DAYS			299	296

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
Removed from 12/13 plan		
IT review	-13	Timing not considered appropriate. To be included in the 13/14 audit plan.
Communications team – eforms	-4	Eforms have not been implemented therefore will not be audited in the year.
Asset Management	-6	Timing not considered appropriate. To be included in the 13/14 audit plan.
Corporate Performance and Change – data quality	-7	Corporate Performance and Change Team advised that a review in this area is no longer necessary.
Democratic and Chief Executive Services – Community asset transfer scheme	-7	Director of Resources advised that a review in this area is no longer necessary.
Governance & controls workshop and Audit Committee Effectiveness training	-4	This will be reassessed as part of the 13/14 plan when post LGSS governance structures are in place
NFI data matching	-12	Fieldwork is ongoing, days to be deferred into the 13/14 audit plan
Support on HR project	-10	This project is no longer going ahead therefore a review in this area is no longer considered necessary.
Team Central	-10	The software licence for Team Central has expired during the year and is no longer utilised therefore updates to the system are no longer required
Total	-73	
Included in the 12/13 plan		
Car Parking Review	+ 7	A specialist review of the process in place to develop and monitor budgets. Originally planned that work would be completed in 12/13 however due to lack of availability of management, fieldwork and reporting is deferred to May/June 2013 and will be included

		in 13/14 plan.
Shared Services Transition Planning	+ 20	A specialist review of the control and governance around LGSS transition plans
PwC audit tracker	+ 10	Implementation of the new PwC recommendation tracker software tool to replace Team Central (implementation to commence May 2013)
Policy and Community engagement – Equalities	+ 6	Additional days used to extend the scope of this review at the request of the Head of Business Change
Fixed assets	+2	Original audit plan had not allowed for changes due to implementation of new fixed asset system and the change in accounting policy.
* Additional days for various reviews	+13	A number of reviews took longer than originally planned, primarily due to the lack of availability of NBC staff and management to support the internal audit review and reporting process.
** Additional days for audit management	+12	We have incurred significant additional management time as a result of reviews being delayed or rescheduled. In addition draft reports have taken a long time to finalise as a result of difficulties in getting hold of officers to provide comment and review. This has been particularly noticeable during the last quarter during which the LGSS transition has started to have an impact.
Total	+ 70	
Overall net position	3	

4. Follow up work conducted

Introduction and results of follow up work

Within the Internal Audit Risk Assessment and Plan for 2012/13, 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 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. We considered prior year recommendations as part of all the reviews undertaken within the 2012/13 Internal Audit Risk Assessment and Plan.

Summary

We recommend that further work is conducted by Northampton Borough Council to ensure all previously agreed recommendations are implemented at the earliest opportunity. Recommendations that are ongoing and outstanding have been re-raised in the current year where relevant. The implementation of the new audit tracking system will support this process.

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 Internal Audit Risk Assessment and Plan, which provided for 26 internal audit reviews (including value enhancement reviews) in 296 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 year ended 31 March 2013. 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>
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



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