

Internal Audit Progress report

Northampton
Borough Council
September 2016

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Distribution List

For information Audit Committee

Introduction

Purpose of this report

We are committed to keeping the Audit Committee up to date with Internal Audit progress and activity throughout the year. This summary has been prepared to update you on our activity since the last meeting of the Audit Committee and to bring to your attention matters that are relevant to your responsibilities as members of the Authority's Audit Committee.

2016/17 Internal Audit Plan Progress

The draft 2016/17 Internal Audit Plan was presented and approved by the Audit Committee at its meeting on the 27 July 2016. The Internal Audit Plan sets out the risks that were identified as part of the planning process, together with the targeted work to be performed in order to address the identified risks. We will report back to you on any changes to the assessment of audit risks and on the work undertaken in response to the risks identified.

We have continued our Internal Audit fieldwork and are pleased to report work is ongoing in the following areas:

- Risk Management;
- Northampton Town Football Club;
- Disabled Facilities Grant;
- Economic Development & Regeneration;
- Planning;
- Environmental Health & Licencing;
- Environmental Services; and
- Customers & Cultural Services.

We have also arranged review scoping meetings for the following areas:

- Housing Options;
- Private Sector Housing; and
- Partnerships and Communities.

A detailed assessment of our performance against the Internal Audit Plan, tracking assignments undertaken and planned activity is shown in Appendix One. At the time of writing this report we have completed 42 days of the planned audit days.

Changes to the 2016/17 Internal Audit Plan

The 2016/17 Internal Audit Plan included a contingency of 20 days. We have used some of this contingency, 6 days to date, to deliver a report into the 2015/16 Disabled Facilities Grant. The review will support the Section 151 Officer, on behalf of the Council, in signing the DFG Grant Declaration to Northamptonshire County Council.

Activity and progress

Ongoing fieldwork

Work is progressing in the following areas:

Risk Management

We started a series of risk management and assurance mapping workshops in February 2016 with the Directors and we have continued to provide support to embed the risk management framework.

A workshop was held in May 2016 with the risk and performance management officer and section 151 officer to review the proposed risk register and consider the effects of the Council's revised approach to risk management. We facilitated a workshop at the Management Board meeting in June 2016 and supported Directors in identifying current risks which affect the Council.

Going forward, another workshop is planned at the Management Board meeting in September 2016 where we will support in reviewing the updated risk register, populated with the identified risks. Once finalised, the risk register will be shared on a regular basis with the Audit Committee.

Northampton Town Football Club

The fieldwork is complete and we have drafted the report. We have met with the Chief Executive, Leader, Deputy Leader, Monitoring Officer and Section 151 Officer on the 12 August to review the factual accuracy of our findings. We are in the process of updating the report before it is shared with the Audit Committee. Northamptonshire Police have requested a meeting to discuss our findings and we will seek to finalise the report as soon as possible. Once the report is finalised, we understand that a specially convened Audit Committee is likely to be held to share the findings of the report.

Disabled Facilities Grant

The fieldwork is substantially complete and we are in the process of following up with officers to identify whether additional evidence is available for some outstanding areas. Once this information is received we will be undertaking internal review procedures before the report is shared with management and the Audit Committee.

Planned fieldwork

Work is planned in the following areas:

- **Economic Development & Regeneration, Planning and Environmental Health & Licencing:** scoping meetings were held on the 1 August and terms of reference developed. We are in the process of finalising the terms of reference with management and expect to commence fieldwork during October;
- **Environmental Services:** a scoping meeting was held on the 1 August and a subsequent follow up meeting was held on 15 August. We have identified an opportunity for PwC to support officers with the options assessment currently being prepared to determine the future delivery model for the Environmental Services contract. We are in the process of drafting a scope of work and agreeing this with management.
- **Customer & Cultural Services:** a scoping meeting was held on the 1 August and a subsequent follow up meeting was held on 15 August. We have identified an opportunity for PwC to support officers with project management of the museum redevelopment and establishment of the museum trust. We are in the process of drafting a scope of work and agreeing this with management.

Appendix 1: Detailed progress tracker

| <i>Ref</i> | <i>Auditable Unit</i> | <i>Indicative number of audit days*</i> | <i>Actual audit days to date</i> | <i>Proposed fieldwork dates</i> | <i>Scoping meeting date</i> | <i>Proposed draft report date</i> | <i>Proposed management response date</i> | <i>Proposed final report date</i> | <i>Audit Committee reporting date</i> |
|------------|---|---|----------------------------------|---------------------------------|-----------------------------|-----------------------------------|--|-----------------------------------|---------------------------------------|
| A1 | Contract management: LGSS review | 20 | - | Q1-2 | TBC | TBC | TBC | TBC | TBC |
| A2 | Risk management | 10 | 7 | Q1-2 | Work ongoing from 15/16 | | | | |
| A3 | Business Continuity | 10 | - | Q3 | TBC | TBC | TBC | TBC | TBC |
| A4 | Governance: Corporate Policy | 10 | - | Q3 | TBC | TBC | TBC | TBC | TBC |
| A5 | Performance Management | 10 | - | Q3 | TBC | TBC | TBC | TBC | TBC |
| A6 | NTFC | 10 | 15 | Q1 | Work ongoing from 15/16 | August 2016 | September 2016 | October 2016 | October 2016 |
| B1 | Economic development and regeneration | 10 | 1 | Q4 | 1 st August 2016 | October 2016 | October 2016 | November 2016 | November 2016 |
| B2 | Planning | 10 | 1 | Q3 | 1 st August 2016 | October 2016 | October 2016 | November 2016 | November 2016 |
| C1 | Directorate governance: Borough Secretary | 10 | - | Q2 | TBC | TBC | TBC | TBC | TBC |
| D1 | Environmental Health and Licencing | 10 | 1 | Q3 | 1 st August 2016 | October 2016 | October 2016 | November 2016 | November 2016 |
| D2 | Environmental services | 10 | 1 | Q3 | 1 st August 2016 | TBC | TBC | TBC | TBC |

| | | | | | | | | | |
|-----------|---------------------------------|-----|-----|------|---------------------------------|----------------|----------------|----------------|---------------|
| D3 | Customers and cultural services | 10 | 1 | Q3 | 1 st August 2016 | TBC | TBC | TBC | TBC |
| E1 | Housing options | 10 | 0.5 | Q2 | 28 th September 2016 | TBC | TBC | TBC | TBC |
| E2 | Private Sector Housing | 10 | 0.5 | Q2 | 28 th September 2016 | TBC | TBC | TBC | TBC |
| E3 | Partnerships and Communities | 10 | - | Q3 | 28 th September 2016 | TBC | TBC | TBC | TBC |
| F1 | Internal audit management | 20 | 8 | Q1-4 | TBC | TBC | TBC | TBC | TBC |
| F2 | Contingency | 20 | 6 | Q1-4 | August 2016 | September 2016 | September 2016 | September 2016 | November 2016 |
| | Total audit days | 200 | 42 | | | | | | |

** Where appropriate and in agreement with client management, we are able to flex our audit service to include more senior or specialist staff to respond to the risks generated by audit reviews. Where we do this we effectively agree a fixed fee for the audit work which is derived from the combined fees of the planned audit days allocated to this audit review during the annual planning process.*

Appendix 2. Recent Publications

1. *PwC Public sector contracts: are you getting what you've paid for?*

The UK public sector spends over £100bn per annum on contracts with third-party suppliers. Billing errors alone can run to millions of pounds, undetected. This article outlines three ways to ensure you are getting value for money: <http://pwc.blogs.com/publicsectormatters/2016/03/public-sector-contracts-are-you-getting-what-youve-paid-for.html>

2. *The impact of Brexit on Government and Public Sector*

With the outcome of the EU referendum being to leave the EU, you will no doubt be thinking about issues ranging from changes to regulations and the impact on your future funding to migration and the impact on public services. And, while the outcome of the vote is known, a long period of adjustment will now follow a decision to leave which bring with it a period of uncertainty. The outcome will impact all of us, personally and professionally. In this short paper, we set out some of the implications for the public sector to help you make informed decisions about your strategic choices as we prepare to exit the EU.

You can read the paper at <http://www.pwc.co.uk/the-eu-referendum/the-impact-of-brexit-on-government-and-public-sector.html>

3. *HMRC Consultations Salary Sacrifice*

It is currently proposed that the tax effectiveness of many salary sacrifice arrangements will be removed from 6 April 2017. The proposal is that only pension contributions, cycles, childcare and employer provided pension advice will still attract a tax and employer's NIC saving through salary sacrifice.

The proposal is that the greater of the salary sacrificed or the cash equivalent of the benefit will be subject to both tax and Class 1A NIC for all but the above excluded benefits. There is however currently no proposal to charge employee's NIC on the BIK or sacrificed sum.

Employers with salary sacrifice arrangements and flexible benefit packages will need to urgently assess their benefit offering to determine the appropriate next steps. Arrangements likely to be affected by the current proposals include car parking, living accommodation, cars, technology including computers/iPads/mobiles and training.

Termination payments

Following an earlier consultation, HMRC have released draft legislation confirming their intention to:

- Charge employer's NIC on termination payments above £30,000
- Remove the foreign service exemption and limited foreign service exemption
- Subject all Payments In Lieu of Notice (PILONs) to tax as if they were 'contractual PILONs'

These changes are scheduled to come into effect from April 2018. Prior to this date it will be necessary to review termination policies and procedures as well as budget for the potential increase in costs associated with the additional employer's NIC charge.

Other relevant consultations

Finally, HMRC have also released two additional consultations regarding simplifying the PAYE Settlement ("PSA") process and giving clarity on when 'making good' employer's costs will reduce or eliminate a benefit-in-kind. Both of these appear at first reading to be welcome proposals for simplification, including the possibility of online PSA reporting in future alongside streamlining the PSA agreement process.

The combination of the above proposed changes (especially around salary sacrifice) represent what could be viewed as some of the most significant changes to the employment tax environment in many years. If you would like more information on how any of these upcoming changes could affect your organisation or want to discuss the responses we are seeing in the market more generally then please do not hesitate to raise this and one of our local employment tax experts will be in touch.

4. National Insurance on Termination Payments

Announced in the 2016 Budget, employers will now need to pay national insurance on any pay-offs (e.g. termination payments) above £30,000 where income tax is also due. The change will take effect from April 2018. Full payments will remain out of the scope of employee national insurance contributions. The scope of payments which are eligible for the £30,000 exemption has also been tightened.

Further details can be found at: <https://www.gov.uk/government/publications/budget-2016-documents/budget-2016#executive-summary>



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