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# *Internal audit annual report 2017/2018*

*Northampton  
Borough Council  
June 2018*

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## Distribution list

For action: George Candler, Chief Executive  
Francis Fernandes, Monitoring Officer  
Stuart McGregor, Section 151 Officer

For information: Members of the Audit Committee



## *Executive summary*

### *Introduction*

This report outlines the internal audit work we have carried out for the year ended 31 March 2018.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Audit Committee agreed to a level of internal audit input of 200 days, of which 177 days were delivered.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

### *Head of internal audit opinion*

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.



## *Executive summary*

### **Opinion**

Our opinion is as follows:

#### **Major improvement required**

There are significant weaknesses or non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk.

Major improvements are required to improve the adequacy or effectiveness of governance, risk management and control. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

### **Basis of opinion**

Our opinion is based on:

- All audits undertaken during the year;
- The effects of any significant changes in the organisation’s objectives or systems;
- Any limitations which may have been placed on the scope or resources of internal audit;
- What proportion of the organisation’s audit needs have been covered to date;
- Our insight gained from our regular discussions:
  - Audit Committee
  - Chief Executive
  - Leader of the Council
  - Corporate Governance and Risk Manager

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

## *Executive summary*

### **Commentary**

Over the past year the Council has focused heavily on the introduction and implementation of items identified in the governance action plan. When assessing progress in implementation the Council has moved some way forward but such measures are bound to take a substantial amount of time to embed across the Council. As yet, the revised governance arrangements are not fully embedded across the organisation.

There has been a period of uncertainty following the departure of key members of the leadership team. The Chief Executive position was filled by an interim for a period of six months until the substantive Chief Executive took up the position on 30 April. During this time the Section 151 Officer has left the organisation and the position is currently filled by an experienced interim. These changes although necessary have delayed the embedding of a new culture and regime across the Council.

The key factors that contributed to our opinion are summarised as follows:

- We completed 4 internal audit reviews. This resulted in the identification of no critical, 2 high, 8 medium and 10 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness;
- Our report on contract management was rated high risk, as there was no contract in place for all but one of the twelve suppliers with whom the Council had expenditure of over £75,000 in the period under review. The contract register had a number of errors, and
- The commitment to finalising the 2016/17 financial statements has taken up a considerable amount of time of the senior management team and relevant staff. At the time of writing, these financial statements had yet to be finally approved and the audit certificate was yet to be received. This is a serious delay, and a strong indication that the accounting controls in the Council, particularly over accounting for fixed assets, have not operated as intended. We have not been able to complete one of our planned pieces of work on the processes associated with the revaluation of land and buildings, the main cause of the delay with the accounts.

There has been considerable change in senior leadership throughout the period which has delayed progress with the Council's vision and strategy. This has hampered the Council's ability to embed a new culture and fully implement the Governance Action Plan. The appointment of a Governance & Risk Manager and Senior Controls Officer has helped to strengthen the Council's work to implement the Governance Action Plan.

### **Acknowledgement**

We would like to take this opportunity to thank Northampton Borough Council staff, for their co-operation and assistance provided during the year.

## 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 work is recorded in the table below:

Description	Detail
<p><b>Overview</b></p> <p>We completed 4 internal audit reviews. This resulted in the identification of no critical, 2 high, 8 medium and 10 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness.</p>	<p>The table in Internal Audit work conducted shows all reviews undertaken during the year and the results of these.</p>
<p><b>Internal control issues</b></p> <p>During the course of our work we identified a number of weaknesses that we consider should be reported in your Annual Governance Statement.</p>	<p>During the year we issued 1 high risk report relating to Contract Management, which contained two high risk rated findings. These should be considered for inclusion in the Annual Governance Statement. The findings related to:</p> <ul style="list-style-type: none"> <li>• <b>Contract testing</b> –three of the five contracts tested were the responsibility of an organisation external to the Council therefore should not be recorded on the contract register. A further two of the five contracts tested could not be located so it was not possible to determine if there was an appropriate mechanism for oversight and control. Finally, one of the five contracts tested included the incorrect contract owner and the appropriate person could not be identified; and</li> <li>• <b>Expenditure records</b> –the procurement rules as set out in the Constitution state that all expenditure over £75,000 should have a contractual arrangement in place. Review of the published expenditure between April 2017 and July 2017 identified that there were 20 suppliers which expenditure over £75,000, of these we would have expected a contract with 12 suppliers –yet an entry was only included on the contract register for 1 of these suppliers.</li> </ul>

## Summary of findings

Description	Detail
<p><b>Other weaknesses</b> Other weaknesses were identified within the organisation’s governance, risk management and control.</p>	<p>Medium and low risk issues arose across a range of reviews, as shown in Internal Audit work conducted.</p>
<p><b>Follow up</b> During the year we agreed that we follow up work on previously agreed actions would be undertaken by the Council.</p>	<p>It was agreed with the Governance and Risk Manager and communicated to the Audit Committee in September 2017 that this work will be undertaken internally within the Council. The available audit days have been redistributed to support the Council in other ways</p>
<p><b>Good practice</b> We also identified a number of areas where few weaknesses were identified and/or areas of good practice.</p>	<p>The following reviews were classified as low risk:</p> <ul style="list-style-type: none"> <li>Organisational change - payroll</li> </ul>

## Internal audit work conducted

### Introduction

The table below sets out the results of our internal audit work and implications for next year’s plan. The following page shows direction of control travel and a comparison of planned and actual internal audit activity.

### Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Organisational change - HR	Medium	0	0	3	4
Organisational change - payroll	Low	0	0	1	1
Contract management	High	0	2	1	1
Delegations	Medium	0	0	3	4
	<b>Total</b>	0	2	8	10

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

- Governance and risk management;
- Culture – questionnaire;
- Culture – whistleblowing; and
- Fraud workshop.

### Other activities:






In addition to the core internal audit plan we have carried out a review where no overall risk rating has been provided:

- Environment Services contract re-provision.



## Internal audit work conducted

### Direction of control travel

Finding rating	Trend between current and prior year	Number of findings	
		2017/18	2016/17
<b>Critical</b>		0	0
<b>High</b>		2	0
<b>Medium</b>		8	5
<b>Low</b>		10	13
<b>Total</b>		20	18

### Implications for management

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.

## Internal audit work conducted

### Comparison of planned and actual activity

This year has seen a considerable amount of change to the internal audit plan. We have reflected the movements in the plan, against actual delivery in the table below:

Audit unit	Budgeted days – original audit plan	Budgeted days – updated September 2017	Budgeted days – updated November 2017	Budgeted days – updated January 2018	Actual days	Comments
Governance and risk management	40	40	40	40	40	Actual days were in line with the original plan.
Organisational change - vision and strategy	10	10	10	10	0	Given the significant change in leadership at the Council it was deemed appropriate to postpone this review.
Organisational change – departmental level reviews	30	30	30	23	23	Two of the three planned reviews around HR and Payroll were undertaken. The legal review did not go ahead.
Financial governance	50	15	15	0	0	Review removed from the plan. Replaced with additional reviews detailed below.
Tracking recommendations and follow up	20	0	0	0	0	Review removed from the plan. Replaced with additional reviews detailed below.
Culture	30	30	30	30	30	Actual days were in line with the original plan.
Contract management	-	15	15	20	20	Additional review undertaken following a review of the IA plan with the Governance and Risk Manager. Communicated in September 2017. Scope extended in January 2018.
Delegations	-	10	10	23	23	Additional review undertaken following a review of the IA plan with the Governance and Risk Manager. Communicated in September 2017. Scope extended in January 2018.

## Internal audit work conducted

### Comparison of planned and actual activity

Audit unit	Budgeted days – original audit plan	Budgeted days – updated September 2017	Budgeted days – updated November 2017	Budgeted days – updated January 2018	Actual days	Comments
Fraud risk assessment/Fraud awareness	-	-	15	19	19	Additional review undertaken following a review of the IA plan with the Governance and Risk Manager. Communicated in September 2017. Scope extended in January 2018.
Estates and assets revaluations	-	15	15	15	2	Additional review undertaken following developments at the Council. Communicated in January 2018. The review did not go ahead owing to the current position of the Council.
IA Management time	20	20	20	20	20	Actual days were in line with the original plan
<b>Total</b>	<b>200</b>	<b>185</b>	<b>200</b>	<b>200</b>	<b>177</b>	

## *Follow up work conducted*

### *Introduction*

In order for the organisation to derive maximum benefit from internal audit, actions should be implemented within agreed timescales. It was agreed with the Governance and Risk Manager and communicated to the Audit Committee in September 2017 that this work will be undertaken internally within the Council. The available audit days have been redistributed to support the Council in other ways

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**Appendix 1: Limitations  
and responsibilities**

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**Appendix 2: *Opinion types***

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**Appendix 3: Basis of our  
classifications**

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**Appendix 4: *Performance of  
internal audit***

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# *Appendices*

## **Appendix 1: Limitations and responsibilities**

### **Limitations inherent to the internal auditor's work**

Our work has been performed subject to the limitations outlined below.

#### **Opinion**

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. 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 period 1 April 2017 to 31 March 2018. 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: Opinion types





The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.





Type of opinion	Indication of when this type of opinion may be given
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and</li> <li>None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Generally satisfactory with some improvements required</b>	<ul style="list-style-type: none"> <li>Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or</li> <li>High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and</li> <li>None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Major improvement required</b>	<ul style="list-style-type: none"> <li>Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or</li> <li>High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or</li> <li>Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and</li> <li>A minority of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>Unsatisfactory</b>	<ul style="list-style-type: none"> <li>High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or</li> <li>Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or</li> <li>More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Disclaimer opinion</b>	<ul style="list-style-type: none"> <li>An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:                             <ul style="list-style-type: none"> <li>Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or</li> <li>We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.</li> </ul> </li> </ul>

## Appendix 3: Basis of our classifications

### Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points
 <b>Critical</b>	40 points per finding
 <b>High</b>	10 points per finding
 <b>Medium</b>	3 points per finding
 <b>Low</b>	1 point per finding

Report classification	Points
 <b>Critical risk</b>	40 points and over
 <b>High risk</b>	16–39 points
 <b>Medium risk</b>	7–15 points
 <b>Low risk</b>	6 points or less





## Appendix 3: Basis of our classifications

### Individual finding ratings

Engagement teams should tailor the ‘assessment rationale’ section below based previous discussions with management and the relevant committee e.g. Audit Committee.

Finding rating	Assessment rationale
 <b>Critical</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
 <b>High</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
 <b>Medium</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
 <b>Low</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation’s operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>
 <b>Advisory</b>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

## Appendix 4: Performance of internal audit

### Key performance indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained :

KPI	Target	Performance	Comments
<b>Infrastructure</b>			
• Audits budgeted v actual	+/- 10 plan days	-23 days	Management requested to remove and postpone reviews from the original plan. Some days were used for additional reviews.
<b>Planning</b>			
• % of audits with Terms of Reference	100%	100%	All completed audits have a terms of reference that has been agreed by management.
<b>Fieldwork</b>			
• % of audits with an exit meeting	100%	100%	All completed audits have had an exit meeting summarising the outputs from the review and identifying the next steps in terms of preparing a report.  For all completed audits a draft report has been shared with management for comment with the option to discuss the report further.
<b>Reporting</b>			
• Draft reports issues promptly	100%	We have tried to work with management and be flexible in terms of delivery, completion of on-site work and reporting during the year. However, due to delays with management responses this has resulted in reviews being delivered later than planned and resulting in overall delays to the expected completion of reviews against the plan.	
• Attendance at Audit Committee	100%	100%	We have attended all Audit Committee meetings and provided a paper setting out our current progress against the Internal Audit Plan.
<b>Relationships</b>			
• Overall client satisfaction score	9/10	-	As yet no feedback has been requested.

## Appendix 4: Performance of internal audit

### Quality assurance improvement programme

Key Quality Assurance Systems	How this is applied
<b>Global internal audit methodology, including working practices, documentation standards and software tools applied to all internal audits</b>	<ul style="list-style-type: none"> <li>All internal audits are conducted to minimum professional standards which include:                             <ul style="list-style-type: none"> <li>Approval of terms of reference, including stakeholder “buy in” and involvement;</li> <li>Application of our global internal audit methodology;</li> <li>Standardised reporting formats agreed with you; and</li> <li>Key program steps that need to be completed on each assignment to comply with minimum quality assurance standards in line with the Public Sector Internal Audit Standards.</li> </ul> </li> </ul>
<b>Regular internal audit training and development</b>	<ul style="list-style-type: none"> <li>We place great emphasis on developing and maintaining the skills of our people. We achieve this through a programme of regular management and technical training, attended by all our staff. This is supplemented by sector specific training. For the public sector, this includes:                             <ul style="list-style-type: none"> <li>Internal training courses on internal audit with a public sector focus;</li> <li>National update seminars on, for example, risk management and governance;</li> <li>Weekly newsletter containing new and emerging issues in the public sector; and</li> <li>Distribution network for relevant internal and external documentation and publications.</li> </ul> </li> </ul>
<b>Compliance with professional practice and ethical standards</b>	<ul style="list-style-type: none"> <li>Quality is further underpinned by teams of appropriately trained people with industry experience, supported where necessary by specialist skills drawn from other service areas across the firm.</li> <li>The majority of our staff are members of professional institutes and comply with ethical rules, technical standards and professional practice laid down by those bodies. This is supplemented by the Firm’s own professional practice and ethical standards.</li> </ul>
<b>Focus on staff performance and quality</b>	<ul style="list-style-type: none"> <li>All our auditors set performance objectives prior to conducting an audit assignment. A project appraisal form is then completed at the end of each assignment which covers both performance and overall behaviour. Should there be any problems the Engagement Manager and where necessary, Engagement Leader, will advise the staff member of any improvements that should be made in their performance.</li> </ul>

## Appendix 4: Performance of internal audit

### Quality assurance improvement programme (continued)

<b>Continuous communication with you throughout the audit</b>	<ul style="list-style-type: none"> <li>Key stakeholders are involved in developing terms of reference, which is approved by a client audit owner.</li> </ul>
<b>Customer feedback</b>	<ul style="list-style-type: none"> <li>To continue to develop our service, it is important that we understand the expectations of the council and receive feedback on our performance.</li> <li>The firm's quality control and assurance procedures additionally involve the use of an annual client satisfaction survey.</li> </ul>
<b>Key Performance Indicators</b>	<ul style="list-style-type: none"> <li>We agree with you Key Performance Indicators and make sure we as a team are meeting them, if not exceeding them.</li> <li>We will look to discuss and modify our Key Performance Indicators where appropriate.</li> </ul>
<b>Quality Assurance programme</b>	<ul style="list-style-type: none"> <li>We run an annual Quality Assurance programme in which an independent team of practice partners and staff review completed engagements to access compliance with our quality standards and regulatory requirements.</li> </ul>

This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council in our agreement dated 19<sup>th</sup> June 2017. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. 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.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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