

**NORTHAMPTON BOROUGH COUNCIL  
AUDIT COMMITTEE**

Your attendance is requested at a meeting to be held in the  
The Guildhall, St. Giles Square, Northampton, NN1 1DE.  
on Monday, 27 June 2016  
at 6:00 pm.

**D Kennedy  
Chief Executive**

**AGENDA**

**1. APOLOGIES**

Please contact Democratic Services on 01604 837722 or democratic\_services@northampton.gov.uk when submitting apologies for absence.

**2. MINUTES**

**3. DEPUTATIONS / PUBLIC ADDRESSES**

**4. DECLARATIONS OF INTEREST**

**5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED**

**6. LGSS INTERNAL AUDIT ANNUAL REPORT**

(Copy herewith)

**7. INTERNAL ANNUAL AUDIT REPORT**

(Copy herewith)

**8. ANNUAL INTERNAL AUDIT PLAN 2016-17**

(Copy herewith)

**9. SIXFIELDS UPDATE REPORT - INTERNAL AUDIT PWC**

(Copy herewith)

**10. EXTERNAL AUDIT UPDATE**

(Copy herewith)

**11. EXCLUSION OF PUBLIC AND PRESS**

THE CHAIR TO MOVE:

“THAT THE PUBLIC AND PRESS BE EXCLUDED FROM THE REMAINDER OF THE MEETING ON THE GROUNDS THAT THERE IS LIKELY TO BE DISCLOSURE TO THEM OF SUCH CATEGORIES OF EXEMPT INFORMATION AS DEFINED BY SECTION 100(1) OF THE LOCAL GOVERNMENT ACT 1972 AS LISTED AGAINST SUCH ITEMS OF BUSINESS BY REFERENCE TO THE APPROPRIATE PARAGRAPH OF SCHEDULE 12A TO SUCH ACT.”

### **SUPPLEMENTARY AGENDA**

Exempted Under Schedule, 12A of L.Govt Act 1972, Para No: -

<TRAILER\_SECTION>

A7984

### **Public Participation**

Members of the public may address the Committee on any non-procedural matter listed on this agenda. Addresses shall not last longer than three minutes. Committee members may then ask questions of the speaker. No prior notice is required prior to the commencement of the meeting of a request to address the Committee.

Agenda Item 2

**NORTHAMPTON BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**Monday, 16 May 2016**

**PRESENT:** Councillor Nunn (Chair); Councillor Golby (Deputy Chair); Councillors Chunga, Kilbride and Stone and Gowen

**1. APOLOGIES**

None.

**2. MINUTES**

The Minutes of the meeting held on 14<sup>th</sup> March 2016 were agreed and signed by the Chair.

**3. DEPUTATIONS / PUBLIC ADDRESSES**

None.

**4. DECLARATIONS OF INTEREST**

Councillor Kilbride declared a personal interest having completed some print work for Northampton Town Football Club.

**5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED**

None.

**6. NORTHAMPTON TOWN FOOTBALL CLUB UPDATE**

The Senior Audit Manager addressed the committee and gave a verbal update. He advised that a lot of progress has been made since the last Audit Committee meeting and the field work is ongoing. He confirmed that the work will be subject to the usual internal audit quality assurance procedure before being issued as a final report to the Committee.

**RESOLVED**

That the report be **NOTED**

**7. FINANCIAL MONITORING PERIOD 9 AUDIT COMMITTEE QUERIES UPDATE**

The Chair advised the committee that he has received details outlining the mayoralty expenses and will send to all committee members.

The Strategic Finance Manager presented the report. It was advised that the purpose of the report was to present the Audit Committee with additional information and answers to queries raised at the last meeting on the 14<sup>th</sup> March. At its last meeting queries were raised on the Financial Monitoring Report for Period 9 requesting further information on :

- The number of interim staff and vacant positions currently held at the Council- This information is in the final stages of verification and is due to go through the Management Board review process and therefore will be presented to the next Committee.
- Details behind the period 9 forecasts for 3 Key Service Areas namely

It was advised that these details have been provided by Heads of Service and Directors and are shown at paragraphs 3.2.5, 3.2.6 and 3.2.7 respectively in the report.

In response to questions from the committee The Strategic Finance Manager advised that the July Audit Committee will be presented with the outturn position for 2015/16. The Chief Finance Officer advised that the information collated on interims and vacant posts needs to go through the internal management process. The Borough Secretary advised that it is a complex piece of work and the process is necessary to ensure that relevant information is provided. This information needs to be collated from various directorates.

## **RESOLVED**

That the report be **NOTED**

### **8. INTERNAL AUDIT UPDATE**

The Chief Finance Officer advised the committee that Item 8 and 9 were the same report.

### **9. INTERIM AUDIT REPORT 2015/16**

The Senior Audit Manager presented the report and elaborated thereon. It was advised that the Section 151 Officer role review has been completed and PwC is in the process of finalising the report. The Internal Audit Annual report will be presented to June meeting following discussion and clearance with management. It was also advised that the annual report will include summary of relevant reviews undertaken by LGSS. The Senior Audit Manager stated that PwC is in the process of finalising the audit plan in 2016/17 in consultation with management. Following meeting with management board PwC will invite members of the Audit Committee to review and comment on the draft plan prior to bringing final version to the June meeting for Committee approval.

Councillor Golby and Councillor Chunga volunteered to work with PwC to review the draft plan.

In response to questions from the Committee the Senior Audit Manager responded as below

We have a large team therefore can deliver the plan within agreed budget.  
NBC have to keep ownership and accountability for its information.

The Chief Finance Officer advised that the Borough's Agresso system is the most up to date version.

## **RESOLVED**

That the report be **NOTED**

### **10. EXTERNAL AUDIT PROGRESS UPDATE 2015/16 - KPMG**

The External Auditor presented the report and elaborated thereon. It was advised that the interim audit work completed by KPMG to date has not identified and significant issues and has continued to progress the investigation into the football club loan.

It was stated that as of 31<sup>st</sup> March 2016 the Audit Committee has not received any internal reports from either provider and therefore KPMG has been unable to review ,or place reliance on, the work on Internal audit to date.

In response to questions from the Committee the Chief Finance Officer advised that LGSS have completed work and he expects to see draft reports over the coming week with the final report going to June's meeting.

The External Auditor advised that no major control weakness have been identified.

In response to further questioning from the Committee regarding payroll issues The Borough Solicitor stated that payroll issues have been logged and dealt with. LGSS gave assurances that what has gone wrong has been put right.

## **RESOLVED**

That the report be **NOTED**

The meeting concluded at 18:25

**LGSS Audit & Risk Management Service**

**Internal Audit Report**  
*Assurance Opinions on Key Financial  
Systems 2015/16*

## Assurance Opinions on Key Financial Systems 2015/16

Many financial activities transferred from Northampton Borough Council to LGSS during the 2013/14 financial year. It was agreed with the S151 Officer and the council’s internal auditors (PwC) that where LGSS have the responsibility to undertake the functions, LGSS Internal Audit would complete the assurance work relating to LGSS functions, whilst PwC would continue to audit those aspects which remain in the direct control of the council. This approach was used in 2013/14 and 2014/15 and has been repeated for 2015/16. We have worked with PwC to plan and undertake our work to enable us to provide the assurance opinions, whilst minimising duplication of work.

We have now finalised our work to provide these 3<sup>rd</sup> party assurances to Northampton Borough Council on the controls in key financial systems now operated by LGSS. This report sets out the results. The assurance levels are based upon the definitions in Table 1. These definitions are new and were introduced during 2015/16 following an internal review of our reporting and assurance processes.

Table 1. Assurance Level Definitions

Assurance	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment. .
Moderate	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

For systems where we were able to give substantial assurance in 2013/14 and 2014/15 we agreed an approach which walked through the system controls to verify whether or not they continued to operate in 2015/16 and followed up the previous recommendations to verify that appropriate actions had been taken. The results of the audits are summarised in the Table 2. We are pleased to report that we are able to give “Good” or “Substantial” overall assurances on all of the systems we have reviewed.

Table 2 Overall Assurance Opinions

Auditable Area	Assurance Opinion
Accounts Receivable	Substantial
Accounts Payable	Substantial
Payroll	Good
Bank Reconciliation	Substantial

The detailed assurance statements for each auditable area are set out in Appendix A. These set out the process areas included in each review and the assurance opinion on each process, leading to the overall opinions set out above. For each process area where the assurance is less than “Substantial” we have agreed an agreed action plan of improvements for implementation by LGSS. These actions will be monitored and followed up, utilising our automated audit management processes.



## APPENDIX A

### Northampton Borough Council (NBC) Third Party Assurance – Accounts Receivable 2015/16

The table below provides a breakdown of the levels of assurance given for each of the process areas identified, based upon testing of LGSS systems and processes:

Process Area	Assurance opinion
Set up of New Customers	Substantial
Amendments to Customer Accounts	Substantial
Direct Debit set up; payment run and rejected / cancelled of direct debits	Substantial
Raising Invoices	Substantial
Receipt of Payments	Substantial
Credit Notes / Cancellation of invoices	Substantial
Debt Recovery and Write off	Moderate
All control account balances are identified. Control account balances are reviewed and cleared on a regular basis.	Substantial
User Access	Substantial
<b>Overall Level of Assurance</b>	<b>Substantial</b>

Where testing and systems reviews have identified areas requiring further improvements these have been discussed with LGSS management and suitable actions have been agreed.

#### Details of findings and assurance opinions

##### Set up of New Customers – Substantial Assurance

Customer creation is an Agresso Self Service function and therefore any NBC employee can commence the process of setting up a new customer account. However, prior to the customer being available for selection, it requires approval from LGSS Exchequer.

We walked through the ‘customer approval’ process and concluded that all appropriate processes and controls are in place. In addition, we followed up on the recommendation raised during the 2014/15 review and found that this has now been implemented.

##### Amendments to Customer Accounts – Substantial Assurance

Any NBC Agresso service user can submit a request to amend an existing customer account on Agresso. The process commences with the service user submitting an

online request via the LGSS Exchequer e-mail address and attaching an Accounts Receivable Amendment Form noting changes.

We walked through the customer account amendment process and concluded that there are appropriate processes and controls in place over this function.

In addition to the above, and as part of the 2015/16 review, we also followed up on the implementation of recommendations raised during the 2014/15 review. We are satisfied that all the recommendations raised during our previous review in this area, have been implemented and actioned.

#### Direct Debit – Substantial Assurance

We walked through the customer direct debit set up process through to cash receipting including the cancellation and rejection of direct debits and noted that there are appropriate processes and controls in place over these functions.

We can also confirm that the processes and controls in 2015/16 have been tested and are unchanged from the previous year 2014/15.

#### Raising Invoices – Substantial Assurance

Any NBC employee that is required to raise sales requisitions as part of their duties, and has been set up on Agresso to do so, can raise a sales requisition. Once the requisition has been approved by the line manager, a sales order is generated. The order is processed through workflow requiring approval by LGSS Exchequer prior to becoming a sales invoice and then dispatched.

We walked through the LGSS related process and can confirm that there are appropriate processes and controls in place over these functions. This walkthrough has also confirmed that the controls covered in the 2014/15 review have been tested and continue to operate in 2015/16.

#### Receipt of Payments – Substantial Assurance

We walked through the 'receipting payment' process including batch receipting and the Jade Security Services Ltd collection of receipts for banking. No weaknesses were identified:

This walkthrough has also confirmed that the controls covered in the 2014/15 review have been tested and continue to operate in 2015/16.

#### Credit Notes / Cancellation of invoices – Substantial Assurance

Any NBC employee that is required to raise sales requisitions as part of their duties, and has been set up on Agresso to do so, can raise a sales requisition. Only the officer who raised the sales requisition initially can raise a sales credit note. When the credit note requisition is approved by the line manager, it is processed through workflow prior to LGSS Exchequer final check and approval.

Our testing involved a walkthrough of the credit note process from the point of LGSS involvement and confirmed that no weaknesses have been identified. We can also

confirm that the controls covered in the 2014/15 review have been tested and continue to operate in 2015/16.

#### Debt Recovery and Write off – Moderate Assurance

We walked through the debt recovery and write off processes and noted the following weaknesses:

- Write-off requests within the £10 - £50k band require the write-off request form to be submitted or recommended for write-off by a Manager and authorised for write-off by a Head of Service.  
On the test sample selected, the debt write-off of £16,865 was recommended for write-off by a regular officer (not a manager) and authorised by an Operations Manager (not a head of service).  
Further to the above, the debt write-off was authorised by an officer outside her authorised limits.
- Electronic signatures are 'copied and pasted' onto the write-off request form and used as evidence that the write-off has been authorised. Irrespective of whether or not the authorised signatory has sole access to the original saved authorised electronic signatures, in this particular system, electronic signatures can be 'lifted' from the saved authorised electronic write-off forms by an unauthorised officer and used as evidence of authorisation of future debt write-offs.

#### All control account balances are identified. Control account balances are reviewed and cleared on a regular basis – Substantial Assurance

We walked through the control account processes ensuring that all control accounts balances are investigated and cleared on a regular basis. We also obtained a list of all the control account balances as at audit review date. On the sample test selected, there were no long outstanding uncleared balances.

In addition to the above, we can confirm that all the recommendations raised during the 2014/15 review following weaknesses identified in this area, have been implemented and actioned.

#### User Access – Substantial Assurance

We walked through the user access process ensuring that access responsibilities were allocated to appropriate officers. No weaknesses were identified:

This walkthrough has also confirmed that the controls covered in the 2014/15 review have been tested and continue to operate in 2015/16.

**Northampton Borough Council (NBC)**  
**Third Party Assurance – Accounts Payable 2015/16**

The table below provides a breakdown of the levels of assurance given for each of the process areas identified, based upon testing of LGSS systems and processes:

<b>Process Area</b>	<b>Assurance opinion</b>
Supplier Account Setup	Substantial
Amendments to existing Supplier Accounts	Moderate
Requisition Creation and Approval	Substantial
Goods Receipt Processing	Substantial
Invoice Processing	Substantial
Payment Run	Substantial
User Access	Substantial
<b>Overall Level of Assurance</b>	<b>Substantial</b>

Where testing and systems reviews have identified areas requiring further improvements these have been discussed with LGSS management and suitable actions have been agreed.

**Details of findings and assurance opinions**

**Supplier Account Setup – Substantial Assurance**

We walked through the supplier set up process included authorisation arrangements and concluded that there are appropriate processes and controls in place over this function.

This walkthrough has also confirmed that the controls covered in the 2014/15 audit have been tested and continue to operate in 2015/16.

**Supplier Account Amendments – Moderate Assurance**

We walked through the supplier account amendment process re: bank account change and noted the following weakness:

The contact details (in this case telephone number) used by LGSS Exchequer to contact the supplier and thus confirm the veracity of the request, was obtained from the same correspondence (albeit a letter headed document) submitted by the requestor and the person who requested the change. This in our view does not provide any assurance that the ‘real’ supplier as noted on Agresso requested the change; it increases the risk of fraud and error and is contrary to the LGSS policy and procedures.

**Requisition Creation and Approval – Substantial Assurance**

We walked through the requisition creation and approval processes and noted that there are appropriate processes and controls in place for both these functions.

This walkthrough has also confirmed that the controls covered in the 2014/15 audit have been tested and continue to operate in 2015/16.

Goods Receipt Processing – Substantial Assurance

We walked through the goods receipt process with LGSS involvement limited to user access responsibilities. The process in 2015/16 has been tested and is unchanged from the previous year – 2014/15.

Invoice Processing – Substantial Assurance

We walked through the invoice processing function and conclude that there are appropriate processes and controls in place over this function. The process in 2015/16 has been tested and is unchanged from the previous year – 2014/15.

Payment Run – Substantial Assurance

We walked through the BACS and Cheque payment run processes and concluded that there are appropriate processes and controls in place over both these functions.

The process in 2015/16 has been tested and is unchanged from the previous year – 2014/15.

User Access – Substantial Assurance

We walked through the User Access responsibility function and concluded that there are appropriate processes and controls in place over this process. The process in 2015/16 has been tested and is unchanged from the previous year – 2014/15.

**Northampton Borough Council (NBC)**  
**Third Party Assurance – LGSS Payroll 2015/16**

The table below provides a breakdown of the levels of assurance given for each of the process areas identified, based upon testing of LGSS systems and processes:

<b>Process Area</b>	<b>Assurance opinion</b> (Please see Appendix 1 for definitions)
User Access	Substantial
Establishment Controls	Moderate
Standing Data Security	Moderate
Manual Input Controls	Substantial
Starters	Substantial
Leavers	Good
Variations	Substantial
Deductions	Substantial
Exception Reporting	Substantial
Payment Run	Good
Payroll Overpayment and Recovery	Good
<b>Overall Level of Assurance</b>	<b>Good</b>

Where testing and systems reviews have identified areas requiring further improvements these have been discussed with LGSS management and suitable actions have been agreed.

It is important to note that the LGSS Payroll team is a central function which undertakes payroll processing but do not have management control over the quality of data received for processing. Clearly there were challenges faced by the team with regards to ensuring that NBC staff comply with the standard processes.

**Details of findings and assurance opinions**

User Access – Substantial Assurance

There are appropriate processes in place to both create new Payroll users and to delete users from the Payroll System including appropriate authorisation and user access responsibility levels.

Added to this, on a monthly basis, a Payroll User Access Report is now generated by Systems and submitted to Payroll via Payrolls generic email account, rather than the individual managers email account within the Payroll team. This has been

implemented as result of last year's recommendation, which further strengthens the controls in place.

#### Establishment Controls – Moderate Assurance

There are adequate systems in place to create new or amend existing posts with appropriate authorisation arrangements. Furthermore, only designated officers have access to this responsibility on the Payroll System.

The Establishment is regularly reviewed by Finance and Services as part of monthly budget monitoring processes.

The above notwithstanding, our testing identified the following compliance weaknesses:

- An EC1 Form was not completed for new post SPYC665005 which was created in September 2015. Council procedures require an EC1 Form to be completed for all Establishment changes, post creation, deletion and amendments.
- Following the above, another random sample was selected, i.e. NBC post no. SPYC868003 which was created in March 2016. It was noted that although this post was set up on Agresso and added to the establishment structure, Section 4 of the EC1 Form (i.e. the funding source and a requirement for the post to be created) was not completed.
- There was no documented process or flowchart detailing tasks required to be undertaken when making amendments to the establishment list. The service officer indicated that a 'step by step process guideline is in the process of being drawn up but no completion by date has yet been established.

#### Standing Data Security – Moderate Assurance

A review of the controls in this area identified the following issues:

- The procedural flowchart which includes details of the day to day operational procedures to be followed when making changes to employee standing data requires updating to reflect processes undertaken in practice but which have not been included in the guidance.
- In addition to the above, there were some issues around the failure to review the amendment logging report between the period November 2015 – February 2016.

From discussions with management, it was understood that notwithstanding the weakness above, 100% checks on the NBC payroll slips to Agresso including payroll changes generated through 'Let's Go Direct', has been carried out since December 2015 thus compensating for the weakness identified above.

Whilst this belt and braces 100% check approach is time consuming and costly, we noted the following:

- a) The 100% pay slip check was not incorporated into the payroll checklist. There was therefore no evidence that this check was undertaken.
- b) In the post Let's Go Direct era and in theory, this 100% check format if undertaken correctly should achieve the same objectives. However, this check in our view should not supersede the amendment logging report check as this is an exception report which highlights specific changes pertinent to this area and is thus easier to check.

#### Manual Input Controls – Substantial Assurance

There was appropriate control over manual input including submission to Payroll on standard forms and an authorised signatory listing in place detailing authorising officers who could submit these standard forms.

#### Starters – Substantial Assurance

There was a robust process in place for adding new starters to the Payroll system including the completion of a standard form and appropriate authorisation. Discussions with the key officers involved with the process and a walkthrough confirmed that the request form had been submitted by an appropriately authorised officer and the start date from this form had then been correctly input into the system. The starter had been paid correctly in the first month.

#### Leavers – Good Assurance

In the main there was a strong process in place for removing Leavers from the Payroll system including the completion of a standard form and appropriate authorisation. A walkthrough confirmed that the form had been completed, appropriately authorised and that the leaving date on the form had then been input correctly onto the system.

Notwithstanding the above, a few issues were identified regarding the Leaver process:

- The Agresso Leaver Checklist is required to be updated to take account of tasks undertaken in practice, but which at not included on the Leaver Checklist.
- According to the HR and Payroll Transactional Manager the following are undertaken on a monthly basis:
  - 1) Payroll runs a list of leavers instructions through Let's Go Direct to ensure all instructions have been actioned;
  - 2) All work queues are cleared and checked before every final payroll run to ensure that all the leaver instructions and emails have been received; and



3) A 100% payslip check of all NBC employees to Agresso is also undertaken.

Notwithstanding the above, we found no evidence that the payroll checks as described above were being undertaken. Furthermore, they were also not incorporated into any of the payroll checklists detailing tasks to be undertaken and / or completed each period.

Whilst there was no evidence that the above checks were carried out, results of corresponding tests undertaken on actual payroll overpayments (refer to the Payroll Overpayments and Recovery section below), suggests that the controls in place to avoid payroll overpayments post leaver NBC employment, have been effective.

#### Variations – Substantial Assurance

There was adequate control over pay variations. Standard forms were completed and submitted by responsible officers. Discussions with the key officers involved with the process and a walkthrough of a variation confirmed that these controls had been complied with. The increase in hours worked (variation) was accurately reflected in the payslip in the correct period.

#### Deductions – Substantial Assurance

There was adequate control over deductions including appropriate authorisation and deductions were supported with adequate documentation.

#### Exception Reporting – Substantial Assurance

These are produced on a monthly basis and reviewed / signed off at an appropriate level.

#### Payment Run – Good Assurance

A monthly payroll checklist is completed and signed by the payroll officer and the payroll reports are signed off independently by the Payroll & HR Transactions Service Manager. There is a satisfactory process in place to process BACS runs including full supporting documentation. The BACS file is sent to the BACS centre by IT Services and the payroll officer e-mails the control totals from the payroll reports to the BACS centre. If the control totals do not agree, they are queried by the BACS centre.

Notwithstanding the above, our testing identified the following issues:

- The Agresso Payment Run Checklist is out of date and requires updating.
- The February 2016 Payment Run Checklist was not signed off and by the Senior Payroll Officer.

#### Payroll Overpayment and Recovery – Good Assurance

NBC payroll overpayments are being managed by both the Payroll Service Delivery Team (for current employees) and LGSS Recovery (for ex employees). We found that

in the main, once identified, action is taken promptly to recoup all payroll overpayments.

Notwithstanding the above, our testing identified the following issues:

- As at the audit review date, the current balance of the debt being managed by LGSS Recovery was £13.7k. Of these debts, £11.5k were more than 2 years old and relate to debt from individuals who are no longer employed at NBC. NBC Management and LGSS Payroll is therefore required to consider:
  - a) The extent to which these debts are considered to be recoverable;
  - b) Whether it would not be prudent to make a specific provision in 2016/17 to cover the possibility that they may not be recovered.
- 100% of the monthly payslips were checked to Agresso to ensure that there were no overpayments. This check however was not incorporated into the payroll checklist of tasks required to be undertaken on a monthly basis. There was therefore no evidence that this check was undertaken.

**Northampton Borough Council (NBC)**  
**Third Party Assurance – Bank Reconciliation 2015/16**

The table below provides a breakdown of the levels of assurance given for each of the process areas identified, based upon testing of LGSS systems and processes:

Process Area	Assurance opinion
Monthly bank reconciliations undertaken	Substantial
All control account balances are identified. Control account balances are reviewed and cleared on a regular basis.	Substantial
Bank reconciliations are accurate and non-reconciled items are cleared in a timely manner	Substantial
<b>Overall Level of Assurance</b>	<b>Substantial</b>

Where testing and systems reviews have identified areas requiring further improvements these have been discussed with LGSS management and suitable actions have been agreed.

**Details of findings and assurance opinions**

**Monthly bank and control account reconciliations undertaken – Substantial Assurance**

The following tests were undertaken:

- Bank reconciliation walkthrough.
- Selected the November 2015 bank reconciliation statement, ensured that the reconciliation statements were signed by the preparer and authorised by a senior manager.

No weaknesses were identified.

**All control accounts have been identified and balances reviewed and cleared regularly – Substantial Assurance**

The following tests were undertaken:

- Identified all the control accounts and ensured that balances are reviewed and cleared monthly.

No weaknesses were identified

Bank reconciliations are accurate and non-reconciled items are cleared in a timely manner – Substantial Assurance

The following tests were undertaken:

- On the bank reconciliation statements selected above, ensured that unreconciled items are cleared monthly.
- Ensured that long outstanding cheques (6 months old) are investigated, cleared and written back.

No weaknesses were identified.

In addition to the above and as part of the 2015/16 review, we followed up on the implementation of recommendations raised during the 2014/15 review. We are satisfied that all the recommendations raised during our previous review in this area, have been implemented and actioned.

# *Internal Audit Annual Report 2015/2016*

Northampton Borough  
Council

June 2016

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## Distribution List

For action	David Kennedy, Chief Executive Francis Fernandes, Monitoring Officer Glenn Hammons, Section 151 Officer
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 under our engagement letter.

# 1. Introduction

The Council obtains its assurance over risk management, internal control and governance from a number of different sources. This year our internal audit work has focussed on the Council's governance arrangements, including the LGSS contract, Section 151 officer role and risk management. Our findings in respect of this work are summarised in Section 2.

The Council also obtains internal audit assurance from the LGSS over the financial processes and controls operated by them. We have not validated the work performed by the LGSS internal audit function but we have summarised the results of their work in appendix 3; however this does not form part of our opinion. In considering the Council's overall assurance and the implications for the governance framework, the Council should consider the different sources of assurance available and the Council may use the results of both internal audit functions to inform the Annual Governance Statement.

This report outlines the internal audit work we have carried out for the year ended 31<sup>st</sup> March 2016.

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 175 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.

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

## 2. Head of Internal Audit Opinion

Appendix 2 of this report sets out the options that the Head of Internal Audit has when considering the opinion to be given. In considering our internal audit opinion for 2015/16, we have taken account of the circumstances at the Council and its relationship with LGSS.

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.

In response to the risks identified we designed our 2015/16 Internal Audit Plan, approved by the Audit Committee in September 2015, to provide assurance over internal controls and to focus on the Council's governance arrangements in relation to specific areas, including the LGSS contract, Section 151 Officer role and the risk management framework.

In accordance with the plan, we have performed work in the following areas:

- Supporting management in undertaking a refresh of the risk management framework and risk register
- Reviewing the LGSS contract management arrangements and processes to manage the financial and service delivery of the contracted activities; and
- Reviewing the scope and effectiveness of the Section 151 Officer arrangement.

Findings from these reviews are summarised below.

The actual audit work performed during the year has differed from that planned in a number of areas to allow for changes in the Council's organisation structure and to focus on areas of identified risk. These changes are summarised below.

### *Northampton Town Football Club*

During the year, we were advised of additional risks to the Council's loan to the Football Club. We are reviewing the circumstances surrounding the loan, focusing on whether policies and procedures were adequate and whether they were adhered to in this instance. At the time of this report, this review is ongoing and has not been reflected in our annual opinion.

### *Risk and assurance mapping*

The original internal audit plan included support to the Council in mapping risk and assurance, and a refresh of the risk management framework and strategic risk register. We agreed that this would form the basis for additional assurance and compliance reviews to address specific risk areas, to enable us to provide an assurance opinion over the Council's governance, internal control and risk management.

The review was delayed during internal reorganisation, and there was no officer responsible for risk management. We started a series of risk management and assurance mapping workshops in February 2016 with the Directors. The Council now has a risk and performance management officer, and we will continue to provide support to embed the risk management framework. Further workshops are planned in May and June which will concentrate on risks to achieving the new Corporate Plan for 2016 to 2020, approved in March.

Although progress is now being made, the delays meant we were not able to plan further controls assurance internal audit reviews based on the risk assessment, or conclude on the adequacy of risk management arrangements. Our opinion is therefore limited to the outcome of this initial workshop and our wider knowledge of the council's risk management arrangements.

### *Directorate Governance Reviews*

These were designed to assess whether governance and financial accountability are operating consistently across the organisation. Last year we reviewed the Customers & Communities and Regeneration & Planning Directorates; this year we intended to review the Borough Secretary Directorate but this has been deferred to



2016/17 at the request of the Council owing to a change in the directorate’s structure and a need for new roles to be embedded.

**Audit opinion**

As detailed above, the internal audit plan has been subject to a number of changes which have limited the amount of internal audit work undertaken to a certain extent. These changes were initiated by the Council in order to respond to key risks and amended priorities. Although 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, we would draw your attention to the fact that our opinion is based solely on the audit reviews completed in the year and our interactions with management and the audit committee.

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. Our opinion is as follows:

Satisfactory	<b>Generally satisfactory with some improvements required</b>	Major improvement required	Unsatisfactory
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Based on the work undertaken, governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Please see our Summary of Findings in Section 3.

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 the results of the audits undertaken during the year and insight gained from our regular attendance at the Audit Committee.

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

**Commentary**

In summary, our opinion is based on the following:

- Although the changes to the internal audit plan have seen a reduction in the planned work undertaken, the reallocation of audit resource at the request of both management and the audit committee has been specifically to focus on areas of greater risk to the Council. This has contributed to our opinion.
- Although a number of areas for improvement were identified through our work, particularly in relation to evidencing the risk management process and implementing improved contract management arrangements in relation to LGSS, these did not constitute significant control weaknesses.
- The audit review of the Council loan to Northampton Town FC had not been concluded at the time of writing this report and therefore the findings from this review do not contribute to our opinion.

### ***3. Summary of Internal Audit Work performed***

The section below summarises the results of our internal audit work:

#### ***Risk management***

We are supporting the Council in re-designing its risk management arrangements, ensuring these are fit for purpose, fully integrated into the Council's business activities and that there is an evidence base to show that consideration of risk is integral to decision making.

In February we facilitated the first of a series of workshops with the Directors to identify risks and existing sources of assurance and/or gaps and determine the appetite to risk, in order to ensure that the Council can deliver its services in a cost effective and efficient manner. We also shared guidance and best practice risk management and recommendations where the Council's existing policy can be updated.

In this workshop it was acknowledged that risk is considered during all business decisions and seen as business as usual, however there was a recognition that this approach needs to be evidenced. We also noted that risk appetite is defined in the existing policy framework although this is at a corporate level only.

The Council recognises the need to formalise its risk management arrangements and has now employed an officer to take forward risk and performance management. We will continue to support the Council with the further development of an embedded risk management framework and with workshops planned in May and June 2016.

#### ***LGSS contract review***

This advisory work followed on from our 2014/15 review of contract management activities within the Council around the LGSS agreement. We reviewed LGSS service delivery for a sample of services; HR, Payroll and Legal, including the level of financial and service monitoring on both sides. Our review highlights that whilst the Council has made progress against many of the previous recommendations there is still opportunity to increase the robustness of processes to review and validate contract cost and service information, including a need for greater transparency in the information reported by LGSS to the Council.

Recommendations for improvement have been made in the following areas:

- Monitoring of financial performance of the contract by the Council
- Tracking of staff costs within LGSS
- Monitoring of savings
- Monitoring of activity levels within LGSS and NBC
- Contract variations

We will continue to support the Council's wider assessment of value for money around the LGSS contract in 2016/17 with a non-assurance review to analyse the actual resources in place within LGSS to deliver the contracted services, compared that to the level of charge and the Council's understanding of the services being received.

#### ***Review of the scope and effectiveness of the Section 151 Officer arrangement***

Achieving cost efficiencies whilst maintaining front line services has seen many local authorities outsource back office functions. In 2013, the Council entered into a contract with LGSS for the provision of professional, transactional and operational services, including the role of the s151 Officer (or Chief Financial Officer (CFO)).

Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements. The Chartered Institute of Public Finance and Accounting (CIPFA) statement on "the Role of the CFO in Local Government" sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role.

Our review considered whether:

- the CFO professional services delivered under the LGSS contract are in line with the requirements set out in the Local Government Act 1972 and the CIPFA guidance;
- procedures are in place to monitor and measure performance of the S151 services delivered; and
- key stakeholders believe service provision is adequate and effective.

We found that the current day to day arrangements adequately comply with the five principles in the CIPFA guidance and the legislative requirements. On the whole, executive team members were happy with the operational aspect of the finance function services provided and felt that the CFO works 'in partnership' with the directorates, applying pragmatic solutions to enable the achievement of strategic goals. From that perspective, the outsourcing of the CFO role was not considered to have had a detrimental impact on day to day financial service provision.

We identified some weakness in the governance structure for managing and monitoring the service provision which could expose the Council to a higher level of risk. Contract management of the service could be further enhanced by robust monitoring of delivery and focusing on critical key performance indicators. Recommendations arising from the report have been agreed by the Council to be implemented going forward.

### *Northampton Football Club Loan*

The Audit Committee commissioned an additional piece of work focused on the internal arrangements within the Council for processing the Northampton Town Football Club loan. This work is ongoing and the results will be communicated to the Audit Committee separately once concluded.

## *4. Implications for next year's plan*

The 2016/17 Internal Audit Plan will include work in the following areas:

- Undertake the Directorate Governance: Borough Secretary review which was not completed during 2015/16
- Perform the second phase of the LGSS contract review. This will be a non-assurance review to analyse the actual resources in place within LGSS to deliver the contracted services, comparing that to the level of charge and the Council's understanding of the services being received.
- Conclude the review into the Northampton Football Club Loan
- Support management in the continued development of a risk management framework and update to the strategic risk register.
- The risk and assurance mapping assessment which started in 2015/16 will be concluded and inform additional internal audit reviews.

The 2016/17 internal audit plan will place more emphasis on providing assurance over the Council's key operations.

## 5. Comparison of planned and actual activity

<i>Audit Unit</i>	<i>Budgeted days</i>	<i>Actual days</i>	<i>Comment</i>
Risk Management	75	30	Work is ongoing and days will be delivered in 2016/17
LGSS Contract	75	62	Phase 2 of the review will commence during 2016/17
Directorate governance: Borough Secretary	10	0	Deferred to 2016/17
Review of Section 151 officer role	10	13	Completed
Audit management	30	30	
Northampton Town Football Club loan	0	40	Additional piece of work agreed with the Audit Committee in January 2016
<b>Total</b>	<b>200</b>	<b>175</b>	

The adjustments made to the audit plan have been reported as part of the Progress Reports to the Audit Committee during the year.

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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<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016. 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.

<i>Type of opinion</i>	<i>Indication of when this type of opinion may be given</i>
<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 <i>not significant in aggregate</i> to the system of internal control; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>isolated</i> 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 <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and</li> <li>• <i>A minority</i> 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 <i>in aggregate are pervasive</i> to the system of internal control; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or</li> <li>• <i>More than a minority</i> 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: Third Party Assurance Report***

The LGSS Internal Audit function has undertaken reviews in the areas detailed below and will provide a separate report of their findings. This does not form part of our opinion.

<b>Auditable Area</b>	<b>Assurance Opinion</b>
<b>Accounts receivable</b>	Substantial
<b>Accounts payable</b>	Substantial
<b>Payroll</b>	Good
<b>Bank reconciliation</b>	Substantial

Substantial Assurance - There are minimal control weaknesses that present very low risk to the control environment.

Good Assurance - There are minor control weaknesses that present low risk to the control environment.





In the event that, pursuant to a request which Northampton Borough Council has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. Northampton Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, Northampton Borough Council discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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# *Internal Audit Risk Assessment and Plan 2016/17*

**DRAFT**

Northampton Borough  
Council

June 2016

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## **Distribution List**

For action	David Kennedy, Chief Executive Francis Fernandes, Monitoring Officer Glenn Hammons, Section 151 Officer Audit Committee
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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. Introduction and approach

## Introduction

This document sets out the risk assessment and our internal audit plan for Northampton Borough Council.

## Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter. A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by Northampton Borough Council's organisational objectives and priorities, and the risks that may prevent Northampton Borough Council from meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

### Step 1

*Understand corporate objectives and risks*

- Obtain information and utilise sector knowledge to identify corporate level objectives and risks.

### Step 2

*Define the audit universe*

- Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.

### Step 3

*Assess the inherent risk*

- Assess the inherent risk of each auditable unit based on impact and likelihood criteria.

### Step 4

*Assess the strength of the control environment*

- Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.

### Step 5

*Calculate the audit requirement rating*

- Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.

### Step 6

*Determine the audit plan*

- Determine the timing and scope of audit work based on the organisation's risk appetite.

### Step 7

*Other considerations*

- Consider additional audit requirements to those identified from the risk assessment process.

## *Basis of our plan*

The level of agreed resources for the internal audit service for 1 April 2016 to 31 March 2017 is 200 days and £85,000. The plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Audit Committee recognises this limitation.

## *Basis of our annual internal audit conclusion*

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to the 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. Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our final individual internal audit reports.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

## *Other sources of assurance*

In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. The other sources of assurance for Northampton Borough Council are as follows:

- Internal audit work performed by the Local Government Shared Service (LGSS);
- External inspections; and
- External audit work.

We do not intend to place reliance upon these other sources of assurance.

## *Key contacts*

Meetings have been held with the following Officers and Members during the process:

David Kennedy, Chief Executive

Glenn Hammons, Section 151 Officer

Francis Fernandes, Monitoring Officer

Julie Seddon, Director of Customers and Communities

Peter Baguley, Head of Planning

Cllr Favell, Audit Committee Chair

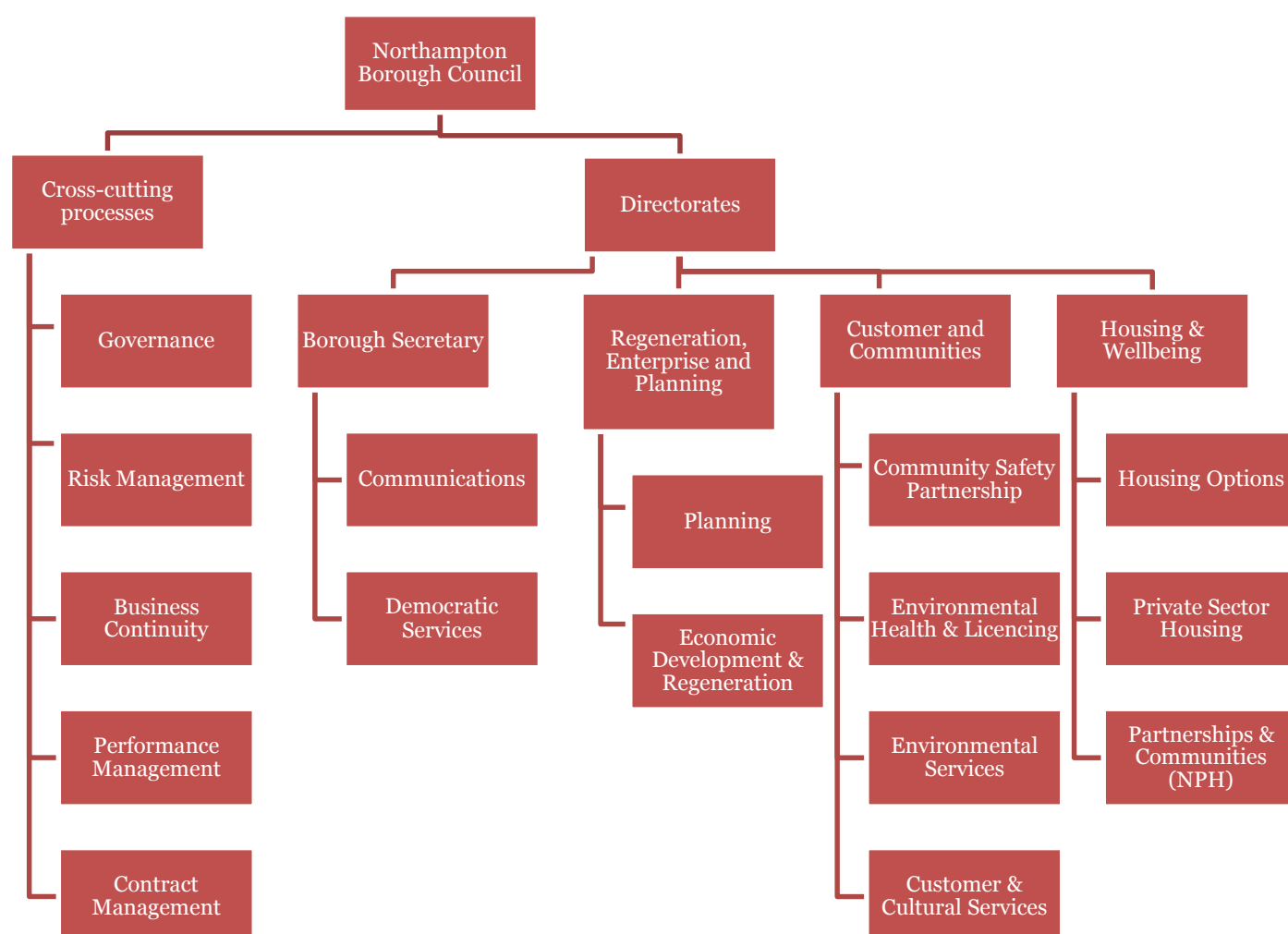
Cllr Golby, Audit Committee member

Cllr Chunga, Audit Committee member

## 2. Audit universe, corporate objectives and risks

### *Audit universe*

The diagram below represents the high level auditable units within the audit universe of Northampton Borough Council. These units form the basis of the internal audit plan.





The Local Government Shared Service (LGSS) is responsible for delivery of the following services on behalf of Northampton Borough Council:

- HR (including payroll and health and safety)
- ICT
- Finance
- Legal services
- Revenues and Benefits
- Procurement
- Insurance

These areas will be considered as part of the LGSS internal audit risk assessment and plan.

## Corporate objectives and risks

The Council's objectives are set out in the Corporate Plan 2016-2020 and summarised in the table below. We consider the corporate priorities when preparing the internal audit plan.

<i>Objective</i>	<i>Risk(s) to achievement of objective</i>
CP1 – Northampton Alive	<p>The Council is in the process of revising the risk management framework and updating the strategic risk register in line with the Corporate priorities for 2016-2020.</p> <p>Our internal audit plan will support this process and is flexible to ensure work is focused on areas of risk and/or priority.</p>
CP2 – Safer communities	
CP3 – Housing for everyone	
CP4 – Protecting our environment	
CP5 – Love Northampton	
CP6 – Working hard and spending your money wisely	

## 3. Risk assessment

### Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below. The Council is currently revising its strategic and corporate risk register. We will revisit this risk assessment to ensure it reflects the Council's risks and our planned response remains appropriate.

Ref	Auditable Unit	Corporate Objectives	Inherent Risk Rating 1=low 6=high	Control Environment Indicator 6 = strong 1= weak	Audit Requirement Rating	Colour code	Frequency
A	Cross Cutting						
	Governance	CP6	6	3	5	R	Annual
	Risk Management	CP6	6	3	5	R	Annual
	Business Continuity	CP6	6	3	5	R	Annual
	Performance Management	CP6	6	4	4	R	Annual
	Contract Management	CP6	6	3	5	R	Annual
B	Regeneration, Enterprise and Planning						
	Economic Development & Regeneration	CP1, CP5	4	3	3	A	2 years
	Planning	CP3, CP5	4	3	3	A	2 years
C	Borough Secretary						
	Communications	CP6	3	3	2	Y	3 years
	Democratic & Members Services	CP6	3	4	n/a	n/a	n/a
D	Customers and Communities						
	Customer & Cultural Services	CP1, CP2, CP3, CP5	4	3	3	A	2 years
	Community Safety Partnership	CP2	4	3	3	A	2 years
	Environmental Health & Licencing	CP2, CP4	4	3	3	A	2 years
	Environmental Services	CP4	5	3	4	R	Annual
E	Housing and Wellbeing						
	Housing Options	CP3	4	3	3	A	2 years
	Private Sector Housing	CP3	5	3	4	R	Annual
	Partnerships & Communities	CP2, CP5	4	3	3	A	2 years

### *Key to frequency of audit work*

Audit Requirement Rating	Frequency – PwC standard approach	Colour Code
6, 5, 4	Annual	R●
3	Every two years	A●
2	Every three years	Y●
1	No further work	G●

## 4. Annual internal audit plan

### Annual plan and indicative timeline

The following table sets out on a high level the internal audit work planned for 1 April 2016 to 31 March 2017. This includes internal audit work in the auditable units requiring annual review in accordance with our risk assessment process. The audit plan will be reviewed following the update of the Council's risk management framework to ensure it remains appropriate and reflect any changes in the risk assessment.

Ref	Auditable Unit	Indicative audit days	Q	Comments	Responsible
<b>A</b>	<b>Cross-cutting Processes</b>				
	Contract Management: LGSS Review - Phase 2 (TBC)	20	Q1-2	A non assurance review to analyse the actual resources in place within LGSS to deliver the contracted services, comparing that to the level of charge and the Council's understanding of the services being received	
	Risk management	10	Q1-2	Continued support in the development of a revised risk management framework and update to the strategic risk registers	
	Business Continuity	10	Q3	Review of business continuity arrangements	
	Governance: Corporate Policy	10	Q3	Review of processes for policy update and ensuring officers are aware of and operating in compliance with current policies	
	Performance Management	10	Q3	Review of performance monitoring and reporting arrangements	
	Northampton Town Football Club	10	Q1	Conclusion of the review examining the internal arrangements within the Council for managing the Northampton Town Football Club loan and providing lessons learnt	
	<b>Total cross-cutting</b>	<b>70</b>			
<b>B</b>	<b>Regeneration, Enterprise and Planning</b>				
	Economic Development & Regeneration	10	Q4	Scope of work to be determined	
	Planning	10	Q3	Scope of work to be determined	
<b>C</b>	<b>Borough Secretary</b>				
	Directorate Governance: Borough Secretary	10	Q2	Review the controls in place to ensure the Council's established processes for governance and financial accountability are operating consistently across the directorate and are suitably robust to achieve the Council's objectives.	

Ref	Auditable Unit	Indicative audit days	Q	Comments	Responsible
<b>D</b>	<b>Customers and Communities</b>				
	Environmental Health & Licencing	10	Q3	Scope of work to be determined	
	Environmental Services	10	Q3	Scope of work to be determined	
	Customer & Cultural Services	10	Q3	Scope of work to be determined	
<b>E</b>	<b>Housing and Wellbeing</b>				
	Housing Options	10	Q2	Scope of work to be determined	
	Private Sector Housing	10	Q2	Review of the new licencing regime and processes and controls to ensure it is operating effectively	
	Partnerships and Communities	10	Q3	Northampton Partnership Homes – review of the overall governance arrangements and current practices to support effective partnership arrangements	
	<b>Directorate audit days</b>	<b>90</b>			
<b>F</b>	<b>Project Management</b>				
	Internal audit management	20	Q1-Q4	Including attendance at Audit Committees and Management Board meetings, and liaison with external audit.	
	Contingency	20	Q1-Q4	To allocate to reviews above once scope of work is determined and provide additional support to issues that may arise in the year	
	<b>Total</b>	<b>40</b>			
	<b>Total days</b>	<b>200</b>			

### *Key performance indicators*

Appendix 3 sets out the proposed Key Performance Indicators for internal audit. Performance against these indicators will be reported annually to the Audit Committee.

# Appendix 1: Detailed methodology

## Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your corporate plan and organisational structure
- Drawn on our knowledge of the local government sector; and
- Met with a number senior management.

## Step 2 - Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for Northampton Borough Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

## Step 3 - Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and its sector; and
- Discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

## Step 4 - Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits

### *Step 5 -Calculate the audit requirement rating*

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

### *Step 6 -Determine the audit plan*

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

### *Step 7 -Other considerations*

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.



# Appendix 2: Risk assessment criteria

## *Determination of Inherent Risk*

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

<i>Impact rating</i>	<i>Assessment rationale</i>
6	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
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact or Major breach in laws and regulations resulting in significant fines and consequences or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact or Moderate breach in laws and regulations with moderate consequences or Moderate impact on the reputation of the organisation.
2	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
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence ; or Insignificant impact on the reputation of the organisation

<i>Likelihood rating</i>	<i>Assessment rationale</i>
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

# Appendix 3: Key performance indicators

## Key performance indicators

To ensure your internal audit service is accountable to the Audit Committee and management, we have proposed the following key performance indicators.

<i>KPI</i>	<i>Target</i>	<i>Comments</i>
<b>Infrastructure</b>		
Audits budgeted v actual	+/- 10 plan days	We expect to deliver the annual plan with tolerance of 10 days with the agreement of management
<b>Planning</b>		
% of audits with Terms of Reference	100%	Terms of reference will be agreed with the Audit Sponsor before fieldwork commences
<b>Fieldwork</b>		
% of audits with an exit meeting	100%	Exit meetings will be held with the Audit Sponsor once fieldwork has been completed for all reviews undertaken
<b>Reporting</b>		
Draft reports issued promptly	100%	Draft reports will be issued within three weeks following fieldwork completion
Attendance at Audit Committee	100%	
<b>Relationships</b>		
Overall client satisfaction score	9/10	



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Appendices



## AUDIT COMMITTEE REPORT

<b>Report Title</b>	<b>Northampton Town Football Club Update</b>
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**AGENDA STATUS: PUBLIC**

<b>Audit Committee Meeting Date:</b>	27 <sup>th</sup> June 2016
<b>Policy Document:</b>	No
<b>Directorate:</b>	LGSS Finance
<b>Accountable Cabinet Member:</b>	Cllr Brandon Eldred

### 1. Purpose

1.1 To inform the Audit Committee that a verbal update will be given on the Internal Audit of the Northampton Football Club Loan work.

### 2. Recommendations

2.1 It is recommended that the Audit Committee note this report.

### 3. Issues and Choices

#### 3.1 Report Background

3.1.1 Audit Committee requested an Internal Audit review be undertaken into the loan to Northampton town Football Club (NTFC) and development of land at Sixfields. The Committee agree the terms of reference for the review at its meeting on 18<sup>th</sup> January 2016.

#### 3.2 Issues

3.2.1 Updates were provided by Pricewaterhouse Coopers at the meeting of the Audit Committee on the 14<sup>th</sup> march and 16<sup>th</sup> May 2016. The review has continued in line with the agreed terms of reference and continues to progress well. The Internal Auditors have been working through the substantial

information that has been provided by the Council, as well as understanding the intricacies and complexities of the transaction. At present the fieldwork is substantially complete. Once this phase is complete the report will be taken through the established Internal Audit quality assurance and review process. It will then be presented to the Audit Committee.

### **3.3 Choices (Options)**

3.3.1 None.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

4.1.1 None to report.

### **4.2 Resources and Risk**

4.2.1 None to report at present.

### **4.3 Legal**

4.3.1 None to report at present.

### **4.4 Equality**

4.4.1 Not applicable.

### **4.5 Consultees (Internal and External)**

4.5.1 None

### **4.6 Other Implications**

4.6.1 None.

## **5. Background Papers**

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5.1 None to date

**Glenn Hammons**  
**Chief Finance Officer, Telephone 01604 366521**

Appendices



## AUDIT COMMITTEE REPORT

<b>Report Title</b>	<b>External Audit Progress Update</b>
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**AGENDA STATUS: PUBLIC**

<b>Audit Committee Meeting Date:</b>	27 <sup>th</sup> June 2016
<b>Policy Document:</b>	No
<b>Directorate:</b>	LGSS Finance
<b>Accountable Cabinet Member:</b>	Cllr Brandon Eldred

### 1. Purpose

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1.1 To inform the Audit Committee that a verbal update will be given on the current progress of external audit work carried out by KPMG.

### 2. Recommendations

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2.1 It is recommended that the Audit Committee note this report.

### 3. Issues and Choices

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#### 3.1 Report Background

3.1.1 As part of their engagement as external auditors KPMG provide regular updates to the Audit Committee of progress against planned work and any issues during the year. This Committee update will be in the form of a verbal report given by KPMG staff at the meeting.

#### 3.2 Choices (Options)

3.2.1 None.

#### **4. Implications (including financial implications)**

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##### **4.1 Policy**

4.1.1 None to report.

##### **4.2 Resources and Risk**

4.2.1 None to report at present.

##### **4.3 Legal**

4.3.1 None to report at present.

##### **4.4 Equality**

4.4.1 Not applicable.

##### **4.5 Consultees (Internal and External)**

4.5.1 None

##### **4.6 Other Implications**

4.6.1 None.

#### **5. Background Papers**

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5.1 None to date

**Glenn Hammons**  
**Chief Finance Officer, Telephone 01604 366521**