

Northampton Borough Council

Internal Audit Annual Report

Distribution List

s151 Officer
Chief Executive
Corporate Directors
Audit Committee
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1 Background and scope

Background to this report

The Government Internal Audit Standards (“GIAS”) and the Code of Practice for Internal Audit in Local Government in the UK 2006 require the Head of Internal Audit to provide a written report to those charged with governance timed to inform the organisation’s annual Statement on Internal Control. As such, the purpose of this report is to present our annual opinion of the adequacy and effectiveness of the Council’s system of internal control. This report is based upon the work agreed in the annual internal audit plan and conducted during the year.

Whilst our report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit was agreed with the Audit Committee at the beginning of the year and presented in our annual internal audit plan (and subsequent agreed amendments). As such, our opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities

This report covers the period from 1 April 2007 to 31 March 2008

Acknowledgements

We are grateful for the assistance that was provided to us by Northampton Borough Council staff in the course of our work.

2 Our annual opinion

Introduction

Under the terms of our engagement we are required to provide those charged with governance with an opinion on the overall **adequacy and effectiveness** of the Council's:

- risk management
- control and;
- governance processes.

Collectively we refer to all of these activities in this report as "**the system of internal control**".

Our opinion is based on the audit work performed as set out in the 2007/08 internal audit plan agreed by the Audit Committee on 27 February 2007 and subsequently agreed amendments. Our opinion is subject to the inherent limitations set out in the Limitations and Responsibilities section of this report.

Annual opinion on internal controls

It is management's responsibility to develop and maintain a sound system of internal control, and to prevent and detect 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 have planned our work so that we had a reasonable expectation of detecting significant control weaknesses. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

We have completed the program of internal audit work for the year ended 31 March 2008 (taking account of agreed amendments to the plan) and we can report that our work did not identify any significant control weaknesses that we consider to be pervasive in their effect on the system of internal control.

Our work in relation to risk management and governance has been mainly supportive with training being provided in both areas to both officers and members. We look forward to controls in these key areas continuing to develop and improve during 2008/09.

However, we *have* identified significant control weaknesses that, whilst isolated to the following specific systems and processes, when taken in aggregate have a significant impact upon the system of internal control:

- Core financial systems
- Westbridge (Electrical Services Overtime and Capital Voids)

We believe that these weaknesses are '**Significant Internal Control Issues**' and should be considered for inclusion in your Annual Governance Statement.

Consequently, we can only give **limited assurance** on the design adequacy and effectiveness of the system of internal control.

The Council's response

We are aware that the Council has actions planned to address the significant internal control issues we have identified.

3 Internal audit work conducted

Current year's internal audit plan

Our internal audit work has been conducted in accordance with our letter of engagement, the GIAS, the Code of Practice for Internal Audit in Local Government in the UK 2006 and the agreed Annual Internal Audit plan.

The Annual Internal Audit plan was agreed with the Audit Committee on 27 February 2007. Changes to our plan were agreed by the Head of Finance and reported as part of our Internal Audit Progress reports to the Audit Committee.

The results of individual audit assignments (and summary of key findings)

We set out below the results of our work in terms of the number and relative priority of findings.

Audit	Date Completed	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
General Ledger*	Dec 2007	Limited	0	1	8	7
Debtors*	Dec 2007	No Assurance	0	4	6	9
Creditor Payments	Dec 2007	Limited	0	1	8	3
Payroll*	Dec 2007	Limited	0	5	7	8
Budgetary Control*	Apr 2008	Moderate	0	0	0	5
Council Tax	Jul 2007	Limited	0	1	6	5
National Non Domestic Rates	Jul 2007	High	0	0	1	3
Bank Reconciliations*	Apr 2008	No Assurance	0	7	10	1
Cashiers	Sep 2007	Moderate	0	0	1	8
Treasury Management	Jul 2007	Moderate	0	0	2	5
Housing Benefits	Jan 2008	Limited (with improvement)	0	2	7	7
Fixed Assets*	Mar 2008	No Assurance	1	1	7	3
Savings & Efficiency Programme*	Mar 2008	Moderate	0	0	3	0
Legal Services (combined with Contracts review)	Not yet issued	N/a	N/a	N/a	N/a	N/a
Human Resources	Deferred	N/a	N/a	N/a	N/a	N/a
Health & Safety*	Apr 2008	Moderate	0	0	4	1
ICT Audits	Apr 2008	N/a	N/a	N/a	N/a	N/a

BCP Arrangements	Deferred	N/a	N/a	N/a	N/a	N/a
Westbridge DLO: Capital Voids	Not yet Issued	N/a	N/a	N/a	N/a	N/a
Voluntary Grants*	Oct 07	Limited	0	2	7	3
Contract Audit (See legal services above)	N/a	N/a	N/a	N/a	N/a	N/a
Void Management	Oct 07	Moderate	0	0	3	3
Risk Management	Apr 08	N/a	N/a	N/a	N/a	N/a
Governance & Management Information	Apr 08	N/a	N/a	N/a	N/a	N/a
Performance Management & Improvement Delivery	Deferred	N/a	N/a	N/a	N/a	N/a
Planning Applications	Mar 08	Moderate	0	0	6	3
Follow up of Communication and Citizen Engagement	Not yet issued					
General Follow up	Complete	N/a	N/a	N/a	N/a	N/a
NFI	Complete	N/a	N/a	N/a	N/a	N/a
Overtime & Expenses	Oct 07	N/a	N/a	N/a	N/a	N/a
Management Accounts Reporting*	Complete	N/a	N/a	N/a	N/a	N/a
Housing Rents	Apr 08	Limited	0	3	9	4
Electrical Services Overtime*	Apr 08	No Assurance	0	9	5	0
Housing Rents System Implementation	Not yet issued					

* Denotes in draft report stage

Results of follow-up work

We have conducted follow-up work throughout the year, either as part of our assignment reviews, as a separate review (eg Communications and Citizen Engagement) or through a follow-up audit which has looked at all other areas. In addition we have implemented TeamCentral which is an audit recommendation tracking tool that allows us to monitor progress being made against internal audit recommendations throughout the year.

We have noted that management have taken some steps to implement our recommendations, **however we still have some concerns over the number of management actions that remain outstanding.**

Implications for next year's internal audit plan

In addition to conducting general follow-up work we will take account of those areas where we have identified 'significant control weaknesses' during 2007/08. We will also continue to allocate a large part of our audit plan to the finance function which continues to undergo considerable change in structure and personnel.

4 Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. 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

The assessment of controls relating to Northampton Borough Council is as at 31 March 2008. Historic evaluation of effectiveness is not 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.

Responsibilities of management and of 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 have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried 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.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Basis of our assessment

In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan approved by the Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

Limitations in our scope

The scope of our work has not been limited in any way during the course of the year.

Access to this report and responsibility to third parties

This report has been prepared solely for Northampton Borough Council in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Appendix A Summary of internal audit performance

Audit plan 2007/08

Planned activity	Planned days	Actual days
1. Core Financial Systems – Fundamental assurance		
▪ General Ledger	10	10
▪ Debtors	10	10
▪ Creditor Payments	12	12
▪ Payroll	10	10
▪ Budgetary Control	15	15
▪ Council Tax	10	10
▪ National Non Domestic Rates (NNDR)	3	3
▪ Bank Reconciliations	8	8
▪ Cashiers	7	7
▪ Treasury Management	5	5
▪ Housing Benefits	10	10
▪ Fixed Assets	5	5

Planned activity	Planned days	Actual days
2. Operational system reviews – risk based assurance <ul style="list-style-type: none"> ▪ Savings & Efficiency Programme ▪ Legal Services *(Combined with contract audit) ▪ Human Resources *(Deferred) ▪ Health & Safety ▪ ICT Audits (IT Risk Workshop & work on Strategy & TeamCentral) ▪ BCP Arrangements *(Deferred) ▪ Westbridge DLO (Capital Voids) ▪ Voluntary Grants ▪ Contract Audit (Combined with legal services work) ▪ Void Management 	<p style="text-align: center;">15</p> <p style="text-align: center;">15</p> <p style="text-align: center;">20</p> <p style="text-align: center;">10</p> <p style="text-align: center;">30</p> <p style="text-align: center;">10</p> <p style="text-align: center;">15</p> <p style="text-align: center;">10</p> <p style="text-align: center;">20</p> <p style="text-align: center;">10</p>	<p style="text-align: center;">15</p> <p style="text-align: center;">10</p> <p style="text-align: center;">0</p> <p style="text-align: center;">10</p> <p style="text-align: center;">20</p> <p style="text-align: center;">2</p> <p style="text-align: center;">10</p> <p style="text-align: center;">10</p> <p style="text-align: center;">15</p> <p style="text-align: center;">10</p>

Planned activity	Planned days	Actual days
3. Strategic – performance assurance		
▪ Risk Management	20	20
▪ Governance & Management Information	15	15
▪ Performance management & Improvement Delivery *(Deferred)	20	5
▪ Planning Applications	10	10

Planned activity	Planned days	Actual days
4. Other		
▪ Specific follow up reviews:	15	15
➤ Communication		
➤ Citizen Engagement		
➤ Partnership		
▪ General follow up	8	8
▪ NFI	12	12
▪ Audit Management	20	20
Total	380*	312
(*planned 380 days, but 42 days re-allocated in table below)		
Total including re-allocated days (see table below)		354





Amendments to plan	Agreed days	Actual days
<ul style="list-style-type: none"> ▪ Work on overtime & expenses ▪ Budgetary Control (Timeliness of reporting) ▪ Housing Rents (Time released from Legal Services and Contract Audit) ▪ Electrical Services Overtime (additional days agreed to interview all staff involved) ▪ Housing Rents system (ICT days) 	<p style="text-align: center;">2</p> <p style="text-align: center;">8</p> <p style="text-align: center;">10</p> <p style="text-align: center;">10</p> <p style="text-align: center;">10</p>	<p style="text-align: center;">2</p> <p style="text-align: center;">8</p> <p style="text-align: center;">10</p> <p style="text-align: center;">12</p> <p style="text-align: center;">10</p>
<p>Total (Days re-allocated from original plan)</p>	<p>40</p>	<p>42</p>

Appendix B Annual assurance levels and risk ratings

Annual assurance statements

Level of Assurance	Description
High	We will provide 'high' assurance in our annual opinion where we have only identified low and medium rated risks during the course of our audit work on business critical systems.
Moderate	We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and / or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.
Limited	We will provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control <u>and</u> there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance will therefore be limited to these elements of the system of internal control.
No	We will provide 'no' assurance in our annual opinion where we have identified critical rated risks during the course of our audit work on business critical systems that are pervasive to the system of internal control or where we have identified a number of high rated risks that are significant to the system of internal control in aggregate.

Definition of risk ratings within our individual audit assignments

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
 Medium	Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

In the event that, pursuant to a request which you have 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"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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