

Northampton Borough Council

Internal Audit Annual Report

Distribution List

s151 Officer
Chief Executive
Directors
Audit Committee
Leader of the Council

Contents

Section	Page
1 Background and scope	3
2 Our annual opinion	4
3 Internal audit work conducted.....	6
4 Limitations and responsibilities	9
Appendix A Summary of internal audit performance	11
Appendix B Annual assurance levels and risk ratings	15

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 Governance Statement (AGS). 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 2008 to 31 March 2009

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 2008/09 internal audit plan agreed by the Audit Committee on 26 February 2008 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 2009 (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 2009/10.

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:
 - Fixed Assets;
 - Debtors;

- Payroll;
 - Uniclass creditors;
 - Bank reconciliations; and
 - Housing Rents.
- Car parking income.

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, 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 26 February 2008. 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	November 2008	Limited	0	0	6	6
Debtors	November 2008	No Assurance	0	5	8	7
*Creditor Payments: Agresso system Uniclass system	November 2008	- Moderate No Assurance	0	1	10	5
*Payroll	December 2008	No Assurance	0	3	11	8
Budgetary Control	January 2009	Moderate	0	0	0	4
Council Tax	December 2008	Moderate	0	0	2	4
Non Domestic Rates	August 2008	High	0	0	1	5
*Bank Reconciliations	April 2009	No Assurance	0	2	9	1
Cashiers	July 2008	Limited	0	0	8	11
Treasury Management	November 2008	Moderate (with improvement)	0	0	2	6
Housing Benefits	March 2009	Limited (with significant improvement)	0	2	4	3

Audit	Date Completed	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
Fixed Assets	December 2008	No Assurance	1	0	7	4
Housing Rents	December 2008	No Assurance	0	5	8	1
*Expenses (including members)	July 2008	Moderate	0	0	4	7
VAT	December 2008	Limited	0	2	5	0
Human Resources	Deferred	N/a	N/a	N/a	N/a	N/a
Regeneration	March 2009	Moderate	0	0	4	2
Westbridge DLO: *Call Out arrangements	October 2008	No Assurance	0	3	7	0
Fuel Management	January 2008	Limited	0	6	3	0
Housing Management – Temporary Accommodation	November 2008	No Assurance	0	4	5	2
Procurement / VFM	April 2009	Limited	0	1	4	6
Freedom of Information and Data Protection	July 2008	Limited	0	1	11	5
*Concessionary Fares	March 2009	Moderate	0	0	4	2
Environmental Health	July 2008	Moderate	0	0	2	5
*ICT audits	March 2009	Limited	0	2	5	2
Risk Management	Completed	N/a	-	-	-	-
Governance & Management Information	Completed	N/a	-	-	-	-
Performance Management & Improvement Delivery	Deferred	N/a	-	-	-	-
General Follow up	Ongoing	N/a	-	-	-	-
NFI	Ongoing	N/a	-	-	-	-
Grants verification work	Completed	N/a	-	-	-	-
Unders and overs	Completed	N/a	-	-	-	-
Car Parking	December 2008	No Assurance	0	6	8	1
*Leisure Centre Income	January 2009	Limited	0	0	11	7
Petty Cash	February 2009	Limited	0	1	4	5

* Denotes in draft report stage

We have noted year on year improvements in relation to the control and operating environments in relation to the following systems:

- Agresso creditors;
- Council Tax;
- Cashiers;
- Treasury Management; and
- Housing Benefits.

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 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. The data from TeamCentral is included within Corporate Performance reviews.

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 in some areas.

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 2008/09. We will also continue to allocate a large part of our audit plan to the finance function which has undergone 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 2009. 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 2008/09

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

Planned activity	Planned days	Actual days
1. Core Financial Systems – Fundamental assurance continued		
▪ Housing Rents	10	10
▪ Expenses (including members)	10	10
▪ IFRS Healthcheck	5	5
▪ VAT	10	10

Planned activity	Planned days	Actual days
2. Operational system reviews – risk based assurance		
▪ Human Resources (Deferred)	20	3
▪ Regeneration	10	10
▪ Westbridge DLO:	20	-
➤ Call Out Arrangements	-	10
➤ Fuel Management	-	10
▪ Housing Management	8	8
▪ Procurement/VFM	10	10
▪ Freedom of Information and Data Protection	10	10
▪ Concessionary fares	10	10
▪ Environmental Health	5	5
▪ ICT audits	20	20

Planned activity	Planned days	Actual days
3. Strategic – performance assurance		
▪ Risk management (including fraud risk management assessment)	15	25
▪ Governance – management information	15	6
▪ Performance management and improvement delivery (Deferred)	15	2

Planned activity	Planned days	Actual days
4. Other		
▪ Specific follow up reviews: (followed up through TeamCentral)	8	4
➢ Contract Audit (Capital Programme) and Legal Services		
➢ Grants to voluntary bodies		
▪ General follow up	10	10
▪ NFI	12	12
▪ Contingency (see amendments to plan below)	35	60
▪ Audit Management	18	18
Total	377	370






Amendments to plan	Agreed days	Actual days
Additional work		
▪ Grants verification work	4	4
▪ Under/overs	2	2
▪ Car Parking	10	10
▪ Leisure Centre Income	10	10
▪ Petty Cash	6	6
▪ Investigative work	12	12
▪ Further investigative work	15	15
▪ Further analysis of under/overs	1	1
Total	60	60

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
<p> </p> <p>Critical</p>	<p>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:</p> <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.
<p></p> <p>High</p>	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives.</p> <p>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.</p>
<p></p> <p>Medium</p>	<p>Control weakness that has a low impact on the achievement of the key system, function or process objectives; or</p> <p>This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</p>
<p></p> <p>Low</p>	<p>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.</p>

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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