

# Northampton Borough Council Internal Audit Annual Report

## Distribution List

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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 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 2009 to 31 March 2010

## **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 2009/10 internal audit plan agreed by the Audit Committee on 17 February 2010 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 2010 (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.

We noted **considerable improvement** in a number of audit areas with no control weaknesses identified in the following areas:

- Treasury Management
- Budgetary Control

We were also pleased to note that the overall opinion improved from the prior year in the following areas:

- \*Bank Reconciliations
- \*General Ledger
- \*Housing Rents

- Health and Safety
- \*Fixed Assets
- \*Bank Reconciliations

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:

- \*Debtors;
- Uniclass creditors;
- Grounds Maintenance

\* denotes report is in draft

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

We have however taken into account the considerable improvements in a number of areas and the positive response of management responses to the findings and consequently, we are able to 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 17 February 2009. 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	January 2010	Moderate Assurance	0	0	5	2
*Debtors	December 2009	No Assurance	0	3	2	5
Creditor Payments: Agresso system Uniclass system	December 2009	Agresso - Moderate Uniclass -No	0	10	2	12
*Payroll	January 2010	Limited Assurance	0	2	4	5
Budgetary Control	January 2010	High Assurance	0	0	0	0
Council Tax	January 2010	Moderate Assurance	0	0	4	1
Non Domestic Rates	August 2009	Moderate Assurance	0	0	3	7
*Bank Reconciliations	February 2010	Moderate Assurance	0	0	3	2
Cashiers	July 2009	N/A controls work performed	-	-	-	-
Treasury Management	January 2010	High Assurance	0	0	0	0

Audit	Date Completed	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
Housing Benefits	March 2010	Limited Assurance	0	1	2	0
*Fixed Assets	February 2010	Moderate Assurance	0	0	7	3
*Housing Rents	December 2009	Moderate Assurance	0	0	5	7
Miscellaneous Income	July 2009	N/A controls work performed	-	-	-	-
*PAYE	March 2010	Limited Assurance	0	2	6	1
Legal Services	February 2010	Moderate Assurance	0	1	3	1
Human Resources	March 2010	High Assurance	0	0	0	5
Grounds Maintenance	December 2009	No Assurance	0	3	4	0
Partnerships	February 2010	Limited Assurance	0	1	5	1
*Citizen Engagement (Including Housing Tenants)	March 2010	Moderate Assurance	0	0	2	3
*ICT audit	March 2010	Moderate Assurance	0	0	6	0
Home Renovation Grants	July 2009	Moderate Assurance	0	1	6	4
Health and Safety	August 2009	Moderate Assurance	0	0	1	2
IFRS Health-check	Removed from plan	N/a	-	-	-	-
Contracts review	Deferred	N/a	-	-	-	-
Closedown reports	Removed from plan	N/a	-	-	-	-
Risk management & Business Continuity Arrangements	December 2009	Moderate Assurance	0	0	7	6
Governance Arrangements	Survey completed	N/a	-	-	-	-

Audit	Date Completed	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
Performance Management & Improvement Delivery	Deferred	N/a	-	-	-	-
*Anti fraud and corruption	March 2010	Moderate Assurance	0	0	4	2
Follow Ups: Including Freedom of Information & Data Protection VAT	Ongoing	N/a	-	-	-	-
NFI	Ongoing	N/a	-	-	-	-
*Cash Collection	December 2009	Moderate Assurance	0	0	8	2

\* 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 or through a follow-up audit which has looked at all other areas.

We have been pleased to note the high number of recommendations management have marked as implemented on Team-central. We are currently conducting a sample check of these implemented findings.

### 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 2010/11.



# 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 2010. 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 2009/10

Planned activity	Planned days	Actual days
<b>1. Core Financial Systems – Fundamental assurance</b>		
▪ General Ledger	8	8
▪ Debtors	8	8
▪ Creditor Payments	10	10
▪ Payroll	10	10
▪ Budgetary Control	8	8
▪ Council Tax	8	8
▪ Non Domestic Rates (NDR)	6	6
▪ Bank Reconciliations	10	10
▪ Cashiers	8	8
▪ Treasury Management	8	8
▪ Housing Benefits	10	10
▪ Fixed Assets	6	6
▪ Housing Rents	8	8
▪ Miscellaneous Income	5	2
▪ IFRS Healthcheck	5	0
▪ PAYE	10	10

Planned activity	Planned days	Actual days
<b>2. Operational system reviews – risk based assurance</b>		
▪ Legal Services	10	10
▪ Human Resources	15	15
▪ Grounds Maintenance	10	10
▪ Contract Audit	10	0
▪ Partnerships	10	10
▪ Citizen Engagement (Including Housing Tenants)	8	8
▪ ICT audit	20	20
▪ Home Renovation Grants	10	10
▪ Health and Safety	8	8
▪ Closedown reports	10	0

Planned activity	Planned days	Actual days
<b>3. Strategic – performance assurance</b>		
▪ Risk management & Business Continuity Arrangements	15	15
▪ Governance – management information	10	10
▪ Performance management and improvement delivery	10	0
▪ Anti fraud and corruption	15	15
TOTAL DAYS = 40		

Planned activity	Planned days	Actual days
<b>4. Other</b>		
▪ Specific follow up reviews:	5	5
➢ Freedom of Information & Data Protection		
➢ VAT		
▪ General follow up	10	14
▪ NFI	12	15
▪ Audit Management	18	18
<b>TOTAL DAYS = 52</b>		
<b>Total</b>	<b>334</b>	<b>303</b>
<b>Plus additional work (see table below)</b>		<b>10</b>
<b>Outturn</b>		<b>313</b>





Additional work	Planned days	Actual days
<b>5. Further work undertaken at request of Management</b> <ul style="list-style-type: none"> <li>▪ Cash Collection</li> </ul>	10	10

# 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"> <li>• the efficient and effective use of resources</li> <li>• the safeguarding of assets</li> <li>• the preparation of reliable financial and operational information</li> <li>• compliance with laws and regulations.</li> </ul>
 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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