

Internal Audit Progress Report

March 2016

Northampton Borough Council



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Background and scope	The purpose of this report is to provide a progress update on the agreed 2015/16 internal audit plan.

Plan outturn

2015/16 Audit Plan

The 2015/16 internal audit plan was approved by the Audit Committee on 7 September 2015 and since then we have undertaken work in accordance with the plan.

A statement tracking assignments undertaken and planned activity is shown in Appendix One. At the time of writing this report we have completed 119 days (60%) of the planned audit days. Work is ongoing and we will continue to keep members informed of progress.

Activity and Progress

Draft reports and ongoing fieldwork

LGSS review – draft report issued

In line with our agreed terms of reference, we have completed our review of processes and controls within the Council and LGSS to manage and oversee the delivery of back office services to the Council, specifically HR/payroll and legal services. A draft report setting out our observations and recommendations has been shared with the Council for their consideration.

This review follows on from our 2014/15 review of contract management activities within the Council around this agreement and considers how activities in the Council have changed since that time. It also considers the processes in LGSS to manage the financial and service delivery of the contracted activities.

This review highlights that whilst the Council has made progress against previous recommendations, a number of issues continue to impact the effective delivery of this contract including robust processes to review and validate contract cost and service information. We also found a number of areas where processes in LGSS could be improved to provide more transparency to the Council over the services they are receiving. We have summarised these points below.

- ***Monitoring of financial performance of the contract by the Council*** – there is opportunity to increase the level of scrutiny, challenge and validation of the month end and year end contract cost information provided by LGSS to give greater visibility of how the service is being delivered and provide comfort that any savings over and above those built into the contract are accurately identified and shared in line with the partnership agreement.
- ***Tracking of staff costs within LGSS*** – LGSS report the cost of service delivery to the Council each month and at the year end. Any over/underspend against budget is shared with the Council in line with the sharing mechanisms agreed. We understand there is no regular monitoring of these costs to ensure they accurately reflect the costs incurred by LGSS and form a robust basis to identify any additional savings.
- ***Monitoring of savings*** - Amounts payable by the Council under the contract incorporate the annual savings agreed in the initial Business Case. Progress against the savings target, whether original savings schemes have been achieved, or replaced by alternative schemes is monitored regularly by LGSS and shared with the Council at the year end. For further transparency, this information should be provided on a more regular basis and the Council should request support from LGSS for the savings achieved to ensure that all efficiencies have been shared appropriately.
- ***Monitoring of activity levels within LGSS*** - LGSS does not use a time tracking system and does not routinely capture or report the amount of time spent delivering Council services. The Council has no means of assessing whether demand for LGSS's services is changing or whether additional services are being provided. Without regular monitoring by LGSS of time spent on NBC activities and what this time has been spent on, it is not

transparent to NBC what they are receiving. One off exercises have been completed by LGSS eg the analysis recently provided to the Council of the split of activity levels between NBC and Northampton Partnership Homes.

Services provided by LGSS Legal operate under a different model with a cap set for business as usual legal support at a pre-determined annual fee. Actual hours delivered during the contract have reduced to significantly below this cap and consideration should be given to usage of this service to determine whether a reduction (and potentially a refund) is warranted.

- **Monitoring of service levels within LGSS and NBC** - KPIs have been agreed for each activity to define acceptable service levels. The Council is provided with monthly and quarterly performance reports including performance against these KPIs. Current service issues are being picked up outside of these KPIs which indicates that they are not the right KPIs for the Council at this time and do not focus on areas of service delivery which are of concern. KPIs can be amended annually. The Council should review and update the existing KPIs to reflect more relevant service indicators.
- **Contract variations** - NBC and LGSS can, and have, requested variations to the agreement and service specification. Costs and savings arising from these changes are shared in accordance with the agreed contract sharing mechanism. Since the PDA was entered into, the Council has been through a period of change and current needs are unlikely to be the same. A review should be undertaken of the current service specification to determine whether further changes are needed.

While the above provides the Council with the means of increasing its understanding of the contract and improving its monitoring of the service going forward, in order to support the Council's wider assessment of value for money around the LGSS contract, we have agreed a Phase 2 to this work. Phase 2 will focus specifically on reviewing the actual resources in place within LGSS to deliver the full range of contracted services, comparing that to the Council's understanding of the services being received and the resource committed to their activities. In addition, Phase 2 will consider non-staff costs invoiced to the Council. We are in the process of agreeing the Terms of Reference for this review with the Council.

Our observations and recommendations from both Phase 1 (a review of processes and controls supporting the delivery of specified LGSS services) and Phase 2 (a focused review of actual staff and non-staff levels within LGSS to deliver services across the full range of the contracted services) will be incorporated into one report which will be presented to the Audit Committee at its May 2016 meeting.

Review of Section 151 Officer role – draft report issued

We have completed our review of the Section 151 Officer role and are currently awaiting management responses. We anticipate reporting our findings from this review at the next Audit Committee meeting.

Work is also progressing in the following areas:

Governance and risk

This is a non-assurance review to support the Council in re-designing risk management arrangements, ensuring these are fit for purpose, fully integrated into Council business activities and that consideration of risk is integral to decision making going forward.

In February we facilitated a workshop with the Senior Management Team 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 have also shared guidance and best practice risk management and recommendations where the Councils existing policy can be updated.

A further workshop is planned in March to continue the risk identification and assurance mapping exercise.

Changes to the Internal Audit Plan

We have continued to review our Audit Plan on an ongoing basis to ensure that it considers your risks. On that basis, we have made the following revisions to our audit plan as outlined below:

- Our original plan included 10 days for a review of the Borough Secretary Directorate. Due to changes in the Borough Secretary Directorate's structure this review will be of more value in 2016/17, allowing time for new roles to be embedded.
- The days released from the Borough Secretary review have been applied to support the work relating the Northampton Football Club Loan.

Appendix 1 - Internal audit detailed progress tracker

<i>Ref</i>	<i>Auditable unit</i>	<i>Indicative number of days*</i>	<i>Actual audit days to date</i>	<i>Scoping meeting date</i>	<i>Proposed fieldwork dates</i>	<i>Proposed final report date</i>	<i>Audit Committee reporting date</i>
A1	Governance and risk	75	25	June 2015	Q4	March 2016	May 2016
A2	LGSS contract	75	50	September 2016	Q2 – Q4	February 2016	May 2016
A3	Directorate governance: Borough Secretary	10	-	January 2016	Deferred	n/a	n/a
A4	Review of Section 151 Officer role	10	12	During 2014/15	Q1 & Q2	February 2016	May 2016
M1	Audit Management	30	22	n/a	n/a	n/a	n/a
	Review of Football club loan	-	10	January 2016	Q4		
Total days		200	119				

* Where appropriate and in agreement with client management, we are able to flex our audit service to include more senior or specialist staff to respond to the risks generated by audit reviews. Where we do this we effectively agree a fixed fee for the audit work which is derived from the combined fees of the planned audit days allocated to this audit review during the annual planning process.

Appendix 2 – Thought leadership publications

As part of the regular reporting to you we plan to keep you up to date with emerging thought leadership published by PwC. The PwC Public Sector Research Centre produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

All publications can be read in full at www.psrc.pwc.com/. You can also read our blogs on Public Sector Matters Globally http://pwc.blogs.com/psm_globally/.

Government and the Global CEO – Feb 2016

Each year, PwC's Annual Global CEO Survey captures the issues at the top of the agenda for the world's business community. As in past years, we have deepened the research for PwC's 19th Annual Global CEO Survey by including a range of interviews with senior decision makers in governmental organisations across the world. Our aim in doing this is to compare and contrast the views of business and government, and understand the policy and delivery responses for the challenging conditions of today, and tomorrow.



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