

Internal Audit Annual Report 2015/2016

Northampton Borough
Council

June 2016

Contents

1. Introduction	2
2. Head of Internal Audit Opinion	3
3. Summary of Internal Audit Work performed	5
4. Implications for next year's plan	7
5. Comparison of planned and actual activity	8
<hr/>	
Appendices	9
Appendix 1: Limitations and responsibilities	10
Appendix 2: Opinion types	11
Appendix 3: Third Party Assurance Report	12

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 31st 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	Generally satisfactory with some improvements required	Major improvement required	Unsatisfactory
--------------	---	----------------------------	----------------

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
Total	200	175	

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

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 1st April 2015 to 31st 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>
Satisfactory	<ul style="list-style-type: none"> • 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 • None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • 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 • 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 • Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • 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"> ○ 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 ○ 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.

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.

Auditable Area	Assurance Opinion
Accounts receivable	Substantial
Accounts payable	Substantial
Payroll	Good
Bank reconciliation	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.

This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council in our agreement. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2016 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.