



**Internal Audit Progress Report
September 2022**

1. Introduction

1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit & Governance Committee to oversee the performance of the Internal Audit Team and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the Internal Audit service.

2. Performance

2.1 The Internal Audit team is working on the delivery of the planned audit assignments for 2022/23.

2.2 A full copy of the current audit plan is provided as Table 3, on pages 8 to 14 of this report.

3. Key findings

3.1 During the year to date, the Internal Audit service has finalised reports in respect of five audit assignments. The key findings arising from those audits are summarised as follows:

Treasury management

Good treasury management is a key element of the effective management of working capital, ensuring that the organisation has cash available to meet its obligations while ensuring any surplus cash is managed within the Council's appetite for risk and return.

The level of assurance given reflects that a Treasury Management Strategy is in place for 2022-2023 which is based on CIPFA's revised codes and is used by staff to guide decision making when initiating treasury activities. The Strategy includes authorised limits, interest rate forecasts and the counterparty list, which records the names of entities the Council will make investments in and was approved by Council on 24 February 2022.

The level of assurance given for compliance primarily reflects the findings that the processes are currently being followed to match investments to surplus funds, initiate investments, check investments against the counterparty lists and maintain segregation of duties. Additionally, from a sample of five investments, a daily dealing sheet had been completed for all the legacy bank accounts.

When all Legacy councils' accounts are signed off, the Treasury Management Strategy Statement should be updated to include the current position on assets, borrowing, investments and funding. This will be followed up at the next audit.

Based upon the fieldwork completed, the following assurance opinions have been given:

Internal Audit Assurance Opinion	
Control Environment	● Substantial
Compliance	● Substantial
Organisational Impact	● Minor

Government procurement cards (GPCs)

Cambridge County Council (CCC) administer the procurement card system on behalf of North Northamptonshire Council, West Northamptonshire Council and Milton Keynes Council. Records indicate that 75 cards are currently in use within the Council.




In overall terms, the audit concluded that progress has been made against the actions identified in the internal audit review of September 2021. All cardholders who transferred from legacy organisations have signed Terms and Conditions of Use upon receipt of their new cards, and there is a clear User Guide available to all cardholders as a point of reference. There are established processes in place for the approval of new cardholders and for terminating cards for leavers.

Whilst there are procedures in place for the review and approval of transactions by the cardholder and authorised approver, these are not always followed and, as with the previous audit, there is evidence of non-compliance with these procedures. Monthly reports are produced for consideration by the Assistant Director of Finance and Strategy and the Head of Financial Operations (CCC) that highlight incidents of non-compliance by cardholders. It was noted that there is no Service Level Agreement in place outlining the respective roles and responsibilities of CCC and those of the Council, which it is recommended is addressed.

Merchant category restrictions are applied to some restricted spending such as personal services, computer equipment, automotive fuel and cash. The previous audit review noted that a small number of legacy cardholders had access to restricted merchant categories. A review of blocked merchant categories confirmed that this issue had been resolved with the exception of one cardholder. It is understood that GPC administration would be reviewing this exception.

The Local Government Transparency Code (2015) states that, on a quarterly basis, local authorities must publish details of every transaction made using GPCs. This data was not published at the time of audit and a recommendation has been made to address this.

Based upon the fieldwork completed, the following assurance opinions have been given:

Internal Audit Assurance Opinion	
Control Environment	 Good
Compliance	 Satisfactory
Organisational Impact	 Minor

Bank reconciliations

Bank reconciliations explain differences at a particular point in time between the balances shown in the Council's bank statements and the balances as shown on the Council's general ledger. At the reconciliation date, there are likely to be a small number of transactions that appear on the accounting records but not on the bank statement (e.g. unpresented cheques) and vice versa (e.g. income / expenditure on the bank statement but not recorded on the ledger). The reconciliation process ensures these transactions are identified, investigated and action taken to clear them.

An initial review of bank reconciliations took place during May / June 2021 to ensure arrangements were in place to support this key activity. This latest audit was conducted upon the start of the 2022/23 financial year to assess the effectiveness of arrangements covering bank account reconciliations throughout the previous financial year and in place for the

2022/23 year. Compliance testing for 2022/23 will take place in quarter four of the financial year under the main accounting system coverage.

The control environment is based on clearly defined procedures and both operational management / professional finance oversight which provides a robust system covering the administration of bank account reconciliations.

Testing found that reconciliations had been completed on a timely basis during the last financial year. Additionally, whilst at times during 2021/22, the level of unreconciled items had been significant, the March 2022 reconciliations across the three bank accounts found the number and value of unreconciled items to be low, when taking account of activity through these bank accounts. Of the 560 unreconciled items, 557 transactions had been transactions generated towards the end of March due to timing differences, indicating that these are being cleared in a timely manner.

Based upon the fieldwork completed, the following assurance opinions have been given:

Internal Audit Assurance Opinion		
Control Environment	●	Good
Compliance	●	Good
Organisational Impact	●	Minor

IT Asset Management

An accurate and complete ICT Asset Register/log should support the ICT team in exercising effective control over hardware and software owned by the Council. This should include complete, accurate and updated records of ICT equipment and software applications.

Following the unification of four Councils into one in April 2021, members of staff that had been district and borough employees (Corby Borough Council, Kettering Borough Council, Wellingborough Borough Council and, East Northants Council) automatically became North Northamptonshire Council (NNC) employees and their ICT assets became the property of NNC. During the same period, some Northamptonshire County Council (NCC) staff became NNC employees, however, the decision was made to continue the arrangements whereby this cohort of staff retained their current ICT assets now belonging to West Northamptonshire Council (WNC) and ICT support would also continue to be provided by WNC. The audit was a review of NNC hosted arrangements only – with assurances to be sought from WNC on their arrangements.

The Council's current ICT hardware asset list was compiled after vesting day (April 2021), prior to which, each of the legacy Councils held their own ICT asset lists. These were amalgamated into one in August 2021 to form the master hardware ICT asset list (MAL). The current procedures to ensure ICT assets are recorded and maintained on the MAL are generally robust, however, there is a reliance on line managers and Human Resources to inform the ICT team of staff changes to ensure the records remain accurate and some control arrangements within the ICT team had not been fully and consistently embedded at the time of testing.

It was established that ICT have procedures and tools in place for the safe installation of software. However, arrangements for the recording and effective ongoing management of the software in use on ICT equipment across the Council require development. The role of system administrators and the ICT team in, for example, monitoring licences and usage remains undefined and exposes a potential risk of lack of oversight and control. The

production of a software register and clarity on roles is recommended as means of strengthening controls in this area going forward and will be revisited in 2022/23 audit coverage.

Based upon the fieldwork completed, the following assurance opinions have been given:

Internal Audit Assurance Opinion	
Control Environment	● Satisfactory
Compliance	● Satisfactory
Organisational Impact	● Moderate

Adult social care – Trading Operating Model

The Adult Services Target Operating Model (TOM) was implemented in October 2020 and is based on a strength-based approach with the focus on the client and their independence, listening to them and working with them to achieve their ideal outcomes. As with all transformation, a number of expected success factors were also defined to support these new ways of operating. At the time the TOM was being developed, Adult Services were dealing with increased waiting lists and a significant backlog of scheduled reviews. A review of TOM documentation highlighted the new ways of working would negate the need for more staff at that time as it was expected there would be increases in the productivity of individuals / teams going forward reflecting findings during the design phase of the TOM.

Given the scale of services covered by the TOM, it was agreed that this audit would be targeted on Community Teams who now act as the front door for adult social care. The objective of this audit review was to provide assurance that:

- The structure underpinning the operation of the teams ensures appropriate and flexible resources are in place to deliver services across North Northamptonshire;
- Appropriate systems are in place covering client interaction from entry into the service to agreeing support and then subsequently through planned reviews; and
- Robust mechanisms are in place to assess the impact of new ways of working and to ensure that appropriate targets are being met.

The review has found appropriate mechanisms are in place to both assess the new ways of working and monitor progress against the delivery of financial targets linked to the TOM. Whilst the review found that structures are in place to deliver adult social care across North Northamptonshire and that, in the main, effective systems were in place to facilitate client interaction, the following key weaknesses have been identified in respect of current arrangements in these two areas:

- The structure in place across the various Community, Inclusion and Learning Disability teams may not be suitably flexible to mitigate against the impact of significant unplanned absence or vacancies faced by a specific team.
- The Community Teams are now the front door to Adult Social Care. A review of arrangements covering this role found there to be a lack of flexibility in resources who act as the initial contact point - as there is only one full time equivalent post in each team and a lack of back up administrative cover to deal with absence.
- Clarity on approach to scheduled reviews across Community and Locality Teams.

The level of assurance given to compliance is Satisfactory. This reflects that arrangements are operating well around the delivery of financial savings and reporting. However, a mixed picture was found across the various teams in respect of delays in accessing the service as well as in respect of certain performance metrics, including case closures.

Based upon the fieldwork completed, the following assurance opinions have been given:

Internal Audit Assurance Opinion	
Control Environment	● Satisfactory
Compliance	● Satisfactory
Organisational Impact	● Moderate

In addition to the above audit assignments, the Internal Audit team have also completed extensive verification work in relation to the following grants:

- Covid Outbreak Management Fund;
- Homelessness Prevention Grant,
- Rough Sleeper Initiative;
- Protect and Vaccinate;
- Test and Trace; and
- the first of the Supporting Families claims for 2022/23.

4. Implementation of recommended actions

- 4.1 Where any weaknesses or opportunities for improvement are identified by audit testing, recommendations are made and an action plan agreed with management. These actions are subject to agreed timeframes and owners and implementation is followed up by Internal Audit on a monthly basis.
- 4.2 Since the last Audit and Governance committee meeting, 18 open actions have been confirmed as implemented – an overview is provided in Table 4 of this report. There are currently 29 recommendations which are overdue for implementation.
- 4.3 To provide the Committee with further detail on high risk actions which remain overdue for more than three months, full details would usually be provided in Table 5, with latest updates from officers. There are no such actions at this time.

5. Refreshing audit plan coverage

- 5.1 The Internal Audit plan should remain subject to review throughout the financial year to ensure it remains focused on key areas of risk and responds to changes in the risk and control environment. Amendments are proposed, based on discussions with senior management, and supported by the Chief Internal Auditor, as follows:
- Following the formal approval of the Internal Audit Plan for 2022/23 in March 2022, final reports were issued in relation to the audits of Temporary Accommodation and Asset Management and these both received Limited Assurance opinions. As such, it is proposed that follow up audits of these two areas should be incorporated in the audit coverage for 2022/23.

- It is noted that the Council has recently invited a peer review of the planning service via the Planning Advisory Service (PAS) which is scheduled for September 2022. The PAS review will include coverage of the processes within the development management function and planning enforcement. As such, this will provide a valuable, independent review of the control environment and enable the development of an informed action plan. As such, it is considered by the Chief Internal Auditor that the planned audit work on Development Management should be postponed at this time, to enable the planning service to focus on the peer review and revising processes based on the outcomes of this. Internal Audit can then play a key role in following up on delivery of the resulting action plan and giving assurance over efficiencies/service improvements realised. It is, therefore, recommended that the audit of Development Management be postponed to 2023/24.
 - Since the 2022/23 audit plan was approved, a consultation has also commenced on the structure of the Transformation service. As such, it is proposed that audit coverage of the Transformation Programme is postponed at this time pending the outcome of the consultation and the formal proposals for the delivery of Transformation going forward.
- 5.2 The Council's ongoing risk management cycle also continues to monitor and assess existing and emerging risks. The audit plan coverage should continue to be reviewed and refreshed in light of these risks. Corporate Leadership Team are reviewing and assessing such risks – including, for example, potential risks arising from the current macro-economic climate and inflation – and sources of assurance available. Any role for Internal Audit should be considered in relation to gaps in current assurance coverage.

Table 3: Progressing the Annual Internal Audit Plan

KEY
Current status of assignments is shown by shading

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Governance											
Governance of shared / delegated services	Q3										
Partnerships	Q4										
Ethical governance policies / Code of Corporate Governance	Q2										
Oversight of post case review	TBC										
Risk management											
Real time risk assurances	All year										
Annual assurance on risk management	Q4										

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Risk management support / reporting	All year										
Legacy issue support and monitoring	All year										
Corporate compliance with key controls and policies											
Fees and charges	Q1										
Procurement compliance	Quarterly										
Staff recruitment	Q3										
Use of temporary staffing / agency workers	Q1										
Performance management	Q3										
PCI DSS compliance	Q3										
Contractor health and safety	Q2										
Contract extensions	Q3										
Grant claims											
Supporting Families	All year									Q1 submission signed off for claim.	

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Covid Outbreak Management Fund	Q1							Declaration completed - £8.9 million funding			
Homelessness prevention grant								Declaration completed - £1.2 million funding			
Rough Sleeper Initiative	Q1							Declaration completed - £737k funding			
Protect and Vaccinate	Q1							Declaration completed - £115k funding			
Test and Trace	Q1							Declaration completed			
Disabled Facilities Grant	Q2							(Deadline of 30 th September 2022)			
Bus Service Operators Grant	Q2							(Deadline of 30 th September 2022)			
Local Transport Capital Funding	Q2							(Deadline of 30 th September 2022)			
Key financial systems - Providing assurance that the Council has made arrangements for the proper administration of its financial affairs, these system audits focus on the systems with the highest financial risk.											
Treasury management	Q1							Substantial	Substantial	Minor	See section 3
Creditors	Q4										
Government Procurement Cards (GPCs)	Q1							Good	Satisfactory	Minor	See section 3
Debtors	Q4										

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Payroll	Q4										
Main accounting system	Q4										
Bank reconciliations (Q1)	Q1							Good	Good	Minor	See section 3
General ledger	Q1										
Local taxation	Q4										
Housing benefit	Q4										
Pensions	Q4										
Fixed assets	Q4										
Budgetary control	Q4										
Online payment systems	TBC										
Adults, Communities and Wellbeing Services Priorities and Risks											
Direct payments	Q1										
Adult safeguarding	Q4										
Adult Social Care – Target Operating Model	Q1							Satisfactory	Satisfactory	Moderate	See section 3

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Approved Mental Health Professionals (AMHP)	Q3										
Housing repairs	Q3										
Voids management	Q3										
Rent arrears	Q2										
Leisure provision	Q2										
Preparation for Care Reforms	Q3										
External placements	Q3										
Commissioning and contracting in Public Health	Q3										
Place & Economy Services Priorities and Risks											
S106 monitoring – follow up	Q4										
Development management	Q3										
Management of capital projects	Q3										

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Asset management – leases	Q2										
Business continuity	Q4										
Fleet & fuel management	Q3										
Climate change strategy	Q4										
Planning fee income	Q2										
Waste management service	Q2										
Project Management Office (consultancy support)	Q3										
Children's and Education services											
Schools thematic audit	Q3										
Children's Trust commissioning and governance	Q4										
Early years providers	Q2										

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Engagement with schools forum and pro-active support (including Schools Financial Value Standard)	All year										
ICT and Transformation											
Transformation programme	Q3										
ICT – Asset management	Q2							Satisfactory	Satisfactory	Moderate	See section 3
ICT – Cyber security	Q2										
ICT – Disaster recovery	Q2										

The Auditor's Opinion

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Compliance Assurances		
Level	Control environment assurance	Compliance assurance
Substantial ●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended either no, or only minor, errors have been detected.
Good ●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory ●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited ●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No ●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.




Organisational Impact		
Level		Definition
Major		The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate		The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor		The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Table 4: Implementation of Audit Recommendations

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	4	33%	10	36%	4	57%	18	38%
Actions due within last 3 months, but not implemented	8	67%	12	43%	3	43%	23	49%
Actions due over 3 months ago, but not implemented	-	-	6	21%	-	-	6	13%
Totals	12	100%	28	100%	7	100%	47	100%

Table 5: 'High' priority actions overdue for more than three months

Audit Title and Year	Service Area	Outstanding Action	Status Update	Officer Responsible	Original Date	Revised Date (if provided)
None						

Limitations and Responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit & Governance Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention. As a consequence, the Audit & Governance Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This 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, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

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 or 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. Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.