Internal Audit Progress Report

September 2023

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 Since the last meeting of the Audit and Governance Committee, the Internal Audit team has been progressing work on delivery of the 2023/24 audit plan.

2.2 A full copy of the 2023/24 audit plan is provided as Table 1, on pages 8 to 15 of this report.

2.3 At the time of reporting, 30% of the audit plan in Table 1 has been delivered to at least draft report stages and a further 32% is in fieldwork stages. This reflects that delivery is on track for this stage in the year.

3. Key findings

3.1 Since the last meeting of the Audit & Governance Committee, finalised reports have been issued in respect of six audit assignments. The key findings arising from those audits are summarised as follows:

Information Governance (data retention and Subject Access Requests)

The primary aim of information governance is to establish compliance with statutory obligations set out in the UK General Data Protection Regulation (UK GDPR) and Data Protection Act 2018 (DPA 2018). The last audit of information governance was undertaken in 2022 and resulted in a satisfactory assurance opinion. This year's audit seeks to provide assurance that appropriate controls are in place for the effective governance when processing personal data, focusing on data retention within services and processing and disclosure of personal data through Subject Access Request (SAR) in line with regulations.

Based on the audit findings, data retention guidance for customers and staff is available via the Council's intranet and the website. The Council has a Data Retention Schedule which outlines service specific document retention periods, however, based on audit testing there is scope for the document to be reviewed to ensure all information is accurate and up to date. As part of the 2022/23 information governance audit it was recommended that a Data Retention and Disposal Policy be implemented to support the Data Retention Schedule document. This recommendation remains open.

Audit testing of service areas' data retention arrangements provided assurance that service areas undergoing   internal transformation or implementation of integrated software have considered their data retention responsibilities as part of project implementation. The Council has existing Record of Processing Activity (RoPA) and Information Asset Register (IAR) documents created prior to the unification of the five Councils into one in April 2021. These

arrangements could be strengthened through the preparation of a combined Corporate RoPA/ IAR providing a point of reference for all data processing activities and a record of all data created, managed and held by the Council in accordance with the UK GDPR.

Audit testing of the SAR procedures found the Council has established sound working practices, with clear guidance available to both staff and customers via the Council's intranet and website. There is scope for the development of template documents and all documents disclosed as part of a SAR to be watermarked to ensure that if documents are shared/re-used by the requester, it is clear they have been provided by the Council as part of a SAR.

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

Internal Audit Assurance Opinion		
Control Environment	🟡	Moderate
Compliance	🟢	Good
Organisational Impact	🟢	Low

Cyber security (training and awareness)

As part of the 2023/24 Internal Audit plan, a programme of cyber security audits is being undertaken, with the first audit reviewing the arrangements over engagement and training of end users. 'End users' is a term used for those accessing the Council's networks, equipment and systems – including officers, Members and temporary staff.

Effective security depends on people. Security awareness, engagement and training helps end users understand their responsibilities and act as both a preventative and detective control – preventing incidents or detecting if one has occurred. If suitably informed, end users could enable earlier detection of incidents, often not picked up by technology, and early detection of incidents is crucial in limiting the impact.

End users are engaged and trained via sharing of policies and Cyber Security online training. The Council has also pro-actively conducted campaigns to test end user awareness and provide a real-life test of their understanding of risks. The audit has highlighted areas for further development which will be taken forward as part of an action plan.

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

Internal Audit Assurance Opinion		
Control Environment	🟡	Moderate
Compliance	🟡	Moderate
Organisational Impact	🟡	Medium

Management of capital projects

There is a documented governance process in place that Directorates must adhere to in respect of obtaining approval for and subsequent management of capital projects. Outturn against the capital programme is reported on a quarterly basis to the Executive and the Finance and Resources Scrutiny Committee.

The scope of the audit was to evaluate the Council's arrangements for ensuring that capital projects are implemented effectively, with costs and timescales of delivery being managed appropriately and projects delivering expected benefits.

Four projects were selected as follows for detailed testing:

- A43/Steel Road roundabout
- Kettering Heritage Action Zone
- Customer Contact & Digital (new CRM system).
- Cornerstone

In overall terms, the audit confirmed that there are suitable processes in place to approve and subsequently monitor progress on capital projects. However, reviews of a sample of projects have highlighted some learning points for the future and some areas where the control environment could be improved. Opportunities have been identified to ensure that a consistent process is followed across the Council for managing projects, which could be driven by the compilation and implementation of a fully developed project management framework.

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

Internal Audit Assurance Opinion		
Control Environment	🟡	Moderate
Compliance	🟡	Moderate
Organisational Impact	🟡	Medium

Right to buy

The Council has an obligation to protect its property assets from fraudulent misuse by having appropriate, robust risk and control frameworks in place that include clear plans to prevent and detect by ensuring all sales of the Council's housing stock are sold to those who legally qualify. Right to buy is the scheme that allows tenants who have lived in their properties for a qualifying period the right to purchase the property. Key features of the scheme include (a) the purchase price paid includes a discount of up to £96k, although, the purchaser must pay back some of this if they sell the property within five years, and (b) in the event that the property is sold within 10 years, the Council must be offered to the chance to re-purchase the property. During 2022/23, 51 properties had been sold under this scheme and 14 in 2023/24 have been processed to date. Audit testing across this period reflected improvements made to the control environment in recent months, which should support the effective and consistent application of controls going forward.

Working practices in place to support administering the right to buy scheme, including proactive fraud checks, are consistent with recommended practice defined by the Department of Levelling Up, Housing and Communities. Additionally, the application process is supported by management oversight and Legal Services lead on the sale process on behalf of the Council. The review did highlight the following:

- The Council has not yet developed procedures to support and direct the consistent administering of right to buy applications.

- A review of the arrangements in place highlighted inconsistent practices for measuring the time taken to process an application. Testing also highlighted that the majority of applications are not processed in line with target days, risking potential financial implications for the Council.
- Whilst testing found that generally, applications had been processed accurately, one case was identified where the discount awarded was incorrect and overstated by £5,200, due to human error, exposing potential weaknesses in approval mechanisms.

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

Internal Audit Assurance Opinion		
Control Environment	🟡	Moderate
Compliance	🟡	Moderate
Organisational Impact	🟢	Low

Housing repairs store (Corby) – consultancy review

The 2022/23 audit of housing repairs commented on the lack of a stores facility at Corby for items commonly used to repair and maintain social housing stock. It was confirmed that plans to introduce a stores facility were underway with a view to being operational from April 2023. A request was made for Internal Audit to provide some advice on the controls that should be included for the new system and facility.

This review was conducted as a consultancy assignment and, as such, was not testing controls nor seeking to give assurance over their effectiveness in practice.

A review of the proposed design of the controls for the Corby stores appeared robust, with thought given to physical security and separation of duties covering the ordering, receipting and issue of stock process. If the operatives in the field use the system as designed and all designed controls are consistently applied, risks should be suitably managed. There are however some inherent issues relating to the software system currently being used to run the Corby stores and actions are being taken forward in relation to this.

Government Procurement Cards (GPCs)

GPCs are a mechanism used to make purchases other than through the traditional method of raising an order through ERP Gold. When used effectively, GPCs can be a cost-effective and timely way for the Council to procure goods and services. To provide further context, there are 98 cardholders with access to a GPC in the Council and spend through this mechanism is just under £1.4 million in 2021/22 and 2022/23.

When compared with the traditional mechanism of raising of an order on ERP Gold, there is an in-built risk with the use of GPC as because purchases are made instantly, all checks are retrospective and there is no system mechanism to ensure all purchases are subject to retrospective review and approval. The review did, however, highlight the following arrangements were in place to support GPC administration:

- Clearly documented procedural guidance.
- The application process includes the requirement for approval by the applicant's Assistant Director as well as the Assistant Director of Finance and Accountancy. Additionally, there are checks in the system over card / transaction limits as well as the type of purchases that can be made, in some cases.
- Comprehensive information is provided to senior officers in Finance which details the key issues requiring focus in respect of GPC purchases.

The following areas have been identified, where further action is required to manage associated risks:

- Whilst compliance levels for cardholders' reviewing their purchases was at 82% over the last year (e.g. 4,476 out of 5,463 purchases), the review identified seven cardholders who had not reviewed any of their purchases since April 2022 and, currently, there is no defined process for tackling such non-compliance.
- For £161.5k of purchases which had not been reviewed by the cardholder, only £570 of VAT has been recorded. Additionally, testing on hotel purchases (predominantly for accommodation organised through the Housing Service) of £197k highlighted that the level of VAT recorded in financial records was understated by around £9k.
- 60% of GPC transactions had not been approved by managers in the period April 2022 to May 2023. This includes transactions that could not be approved as they had not been reviewed by the cardholder. This equates to 3,321 transactions, valued at approximately £474k.

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

Internal Audit Assurance Opinion		
Control Environment	🟡	Moderate
Compliance	🔴	Limited
Organisational Impact	🟢	Low

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, 33 open actions have been confirmed as implemented – an overview is provided in Table 2 of this report. There were 76 recommendations overdue for implementation as at 30th August 2023.

4.3 To provide the Committee with further detail on high risk actions which remain overdue by more than three months, full details are provided in Table 3, with latest updates from officers. There are two such actions at this time.

Table 1: Progressing the Annual Internal Audit Plan 2023/24

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Governance											
Ethical governance	Q2		▓								
Corporate compliance with key controls and policies											
Agency staff and consultants	2022/23						▓	**Moderate**	**Limited**	**Medium**	Reported in August 2023
Information governance	Q1						▓	**Moderate**	**Good**	**Low**	See section 3
Starters and leavers	Q1					▓					
Staff recruitment	Q2			▓							
Procurement compliance	Six monthly			▓							
Partnerships and hosted services	Q2		▓								

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Budgetary control and savings plans	Q3	▓									
Business continuity management	Q3	▓									
Agency workers and consultants (follow up)	Q3		▓								
IT risks											
Cyber security – training and awareness	Q1						▓	**Moderate**	**Moderate**	**Medium**	See section 3
Cyber security – vulnerability management	Q2		▓								
IT strategy and governance	Q1					▓					
Disaster recovery	Q3	▓									
IT software licensing	Q4	▓									

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Corporate objective – Modern Public Services											
New Customer Relationship Management system – phase 1	Q1						▓	**Good**	**Good**	**Low**	Reported in August 2023
Management of capital projects	2022/23						▓	**Moderate**	**Moderate**	**Medium**	See section 3
New revenues and benefits system (embedded assurance)	All year			▓							
New income management solution (embedded assurance)	All year			▓							
Hospital discharge invoicing	Q1				▓						
Right to buy applications	Q1						▓	**Moderate**	**Moderate**	**Low**	See section 3
Complaints and compliments management	Q2			▓							
Agile working	Q2	▓									

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Housing repair stores (advisory)	Q2						███		Consultancy		See section 3
Asset management – leased assets (follow up)	Q3	███									
Capital project management – Kettering library roof	Q4	███									
Corporate objective – Safe and Thriving Places											
Homelessness and temporary accommodation	2022/23						███	**Good**	**Moderate**	**Medium**	Reported in August 2023
External placements	2022/23					███					
Landlord health and safety	Q2			███							
Home to school transport (follow up)	Q2			███							
Highways maintenance contracts	Q3	███									
Private sector housing	Q3	███									

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
enforcement and empty homes		▓									
Housing repairs (follow up)	Q4	▓									
Planning service transformation	Q4	▓									
UK Shared Prosperity Fund	Q1					▓					
Corporate objective – Greener, Sustainable Environment											
Climate change strategy	Q4	▓									
Corporate objective – Better, Brighter Futures											
SEND	Q2			▓							
SEND action plan	TBC	▓									Subject to Ofsted inspection
Early years providers	Q2				▓						
Schools – thematic review	Q3		▓								
Ad-hoc support and school audits	As required							One Safer Recruitment audit completed at management request in June 2023.			

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Governance of the Children's Trust	Q4	▓									
Corporate objective – Active, Fulfilled Lives											
Payments to social care providers	Q1					▓					
Continuing health care (CHC) funding	Q1	▓									Linked to coverage in other audits – on hold
Adult social care data quality	Q2		▓								
Specialist care centres	Q2		▓								
Health and Social Care Act 2022 (advisory)	Q3	▓									
Public health contract management (follow up)	Q3	▓									
Cygnum project (embedded assurance)	Q3	▓									
Recruitment and retention of social workers	Q4		▓								

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Adult safeguarding	Q4	▓									
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.											
Payroll	Q4	To be delivered by host authority's internal audit team – West Northamptonshire Council									
Pensions	Q4	To be delivered by host authority's internal audit team – West Northamptonshire Council									
Creditors	Q4	To be delivered by host authority's internal audit team – Cambridgeshire County Council									
Debtors and debt recovery	Q4	To be delivered by host authority's internal audit team – Cambridgeshire County Council									
Main accounting system – year end	Q1						▓	**Moderate**	**Moderate**	**Medium**	Reported in August 2023
Main accounting system	Q4	▓									
Treasury management	Q4	▓									
Government procurement cards	Q1						▓	**Moderate**	**Limited**	**Low**	See section 3
Local taxation 2022/23	Q1						▓	**Moderate**	**Moderate**	**Medium**	Reported in August 2023

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Local taxation 2023/24	Q4	▓									
Housing benefit 2022/23	Q1						▓	**Good**	**Good**	**Low**	Reported in August 2023
Housing benefit 2023/24	Q4	▓									
Public Health											
Public health grant	Q2			▓							
Grant claims											
Supporting families	Quarterly							Quarterly audits and sign off			
Family Hubs	Q1						▓	Complete			
Contain Outbreak Management Fund (COMF)	Q1						▓	Complete			
Disabled Facilities Grants	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 is a sound system of internal control to support delivery of the objectives.	The control environment is operating as intended with no exceptions noted which pose risk to delivery of the objectives.
Good 🟢	There is generally a sound system of internal control, with some gaps which pose a low risk to delivery of the objectives.	The control environment is generally operating as intended with some exceptions which pose a low risk to delivery of the objectives.
Moderate 🟡	There are gaps in the internal control framework which pose a medium risk to delivery of the objectives.	Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.
Limited 🔴	There are gaps in the internal control framework which pose a high risk to delivery of the objectives.	Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.
No 🔴	Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.	Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

Organisational Impact		
Level		**Definition**
High	🔴	The weaknesses identified during the review have left the Council open to a high level of risk. If the risk materialises it would have a high impact upon the organisation as a whole.
Medium	🟡	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a medium impact upon the organisation as a whole.
Low	🟢	The weaknesses identified during the review have left the Council open to low risk. This may have a low impact on the organisation as a whole.

Table 2: 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%	23	30%	6	30%	33	30%
Actions due within last 3 months, but not implemented	6	50%	9	12%	3	15%	18	17%
Actions due over 3 months ago, but not implemented	2	17%	45	58%	11	55%	58	53%
Totals	12	100%	77	100%	20	100%	109	100%

Table 3: '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)
Governance of Children's Trust 2021-22	Children's Services	Intelligent Client Function To develop a framework for assessing the effectiveness of the Client Function	Whilst the framework is not yet completed, progress has been made. This work is currently paused (capacity issue) whilst the ICF works with both Councils to address concerns about the financial position of the Trust. - WNC and NNC Officers and the ICF Lead met in early June 2023 to review potential options on the future scope and delivery of the Client Function and wider assurance arrangements. - Proposals are being drawn up for review by DCS's, although this has been delayed by other urgent work related to the Trust. - Bevan Brittan have been commissioned to provide legal advice to create an Interface Agreement setting out the arrangements between the 2 councils for managing the Trust. - Once agreement has been reached between NNC and WNC recommendations will be taken to Strategic Group and Joint Officer Board if required. - It should be noted that under the service delivery contract significant change to the ICF's current model may constitute a Notifiable Change requiring the Secretary of State for Education's (SoSE) consent as per the Governance Side Agreement between the Secretary of State and Councils.	Director of Children's Services / Assistant Director Commissioning and Partnership	31/08/2022	01/11/2023

Audit Title and Year	Service Area	Outstanding Action	Status Update	Officer Responsible	Original Date	Revised Date (if provided)
Governance of Children's Trust 2021-22	Children's Services	Service delivery contract Development of detailed protocols for issues such as unregulated or unregistered placements and Ofsted inspections.	The Trust have commissioned an LGA review of its assurance model/ processes and a further review of partnership arrangements (as a follow on to a review conducted 2 years ago). Both reports have now been published. The Councils have requested revisions to the LGA partnership review and CEX's are scheduled to meet with the author in August 2023. NCT reported to Operational Group in July 2023 that they will seek to set out requirements for the delayed re-positioning paper covering the outputs of the reviews and considering the impact of separate ILACS inspections in September 2023 as part of the Contract Sum process. This will feed into recommendations being developed by the Councils on assurance arrangements. Following agreement by NNC and WNC (and in line with the governance arrangements set out in the service delivery contract and associated documents) recommendations will be taken to Strategic Group and a change control issued. It should be noted that under the service delivery contract significant change to the ICF's current model or assurance arrangements may constitute a Notifiable Change requiring the Secretary of State for Education's (SoSE) consent as per the Governance Side Agreement between the Secretary of State and Councils.	Director of Children's Services / Assistant Director Commissioning and Partnership	30/09/2022	30/10/2023

Audit Title and Year	Service Area	Outstanding Action	Status Update	Officer Responsible	Original Date	Revised Date (if provided)
			Once complete and a refreshed assurance framework agreed it will ensure that robust scrutiny and assurance of NCT's activities in delivering services for which the Councils, through there respective Directors of Children's Services have statutory responsibilities for.

Legal advice will be instructed to support the implementation of this work as and when required. | | | |

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.