North
Northamptonshire
Council

Internal Audit Progress Report

November 2021

1. Introduction

1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit & Governance Committee to scrutinise 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 2021/22, as agreed at the July 2021 meeting of the Audit and Governance Committee. The progress on delivery of assignments to date is summarised in Table 1:

Table 1: Progress on delivery of audit plan assignments

Planned start date	% underway or complete	% at draft or final report stage	Comments
Q1 (April 2021 – June 2021)	100%	81%	All assignments in advanced stages of delivery or complete.
Q2 (July 2021 – September 2021)	75%	19%	Some assignments postponed to Q3/Q4 to align with service area requirements.
Q3/Q4 (October 2021 – March 2022)	10%	-	Fieldwork progressing on two key assignments planned for Q3 and Q4.

2.2 A full copy of the current audit plan is provided as Table 3, on pages 9 to 14 of this report. As reported at the last meeting, the timing of some of the Q2 assignments has been delayed following initial discussions with senior management in order to co-ordinate with staff availability/resource pressures and when the audit would add the most value.

3. *Key findings*

3.1 The Internal Audit service has finalised reports in respect of three assignments from the 2021/22 Internal Audit Plan. The key findings arising from those audits are summarised as follows:

Treasury management

The Council has appropriate systems in place to support Treasury Management including:

- Whilst there are gaps in the current Treasury Management Strategy (as a result of the disaggregation of the County Council balance sheet not yet being finalised and the fact that key values cannot be formally agreed until the final statement of accounts for the legacy Councils are agreed), the strategy and practices are reflective of CIPFA recommended practice and clearly defines the goals of the Treasury Management Team and how it plans to achieve these.
- Arrangements are in place to ensure that cashflow forecasts are undertaken on a daily basis to identify surplus funds for investments. A review of forecasts has recently commenced as the intention is to use quarter one information to project cashflow going forward in 2021/22.
- Appropriate controls are in place to ensure investments are subject to approval by a designated officer with appropriate segregation of duties in place covering such activity.
- Member Committee reporting arrangements for Treasury Management have been defined although no reports have yet been issued. In addition, the Treasury Manager meets with the Assistant Director of Finance & Strategy and Group Accountant every two weeks to provide a detailed update on the Council's treasury management activity.

Given that the audit has covered only a small period in the early stages of the Council operating (the level of transactions is limited in number), it is not felt appropriate that an assurance level in respect of compliance can be provided at this stage. However, testing found good compliance with procedures highlighted, although some information in respect of borrowing activity has not been provided to allow Internal Audit to assess that such activity is been administered correctly.

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

Internal Audit Assurance Opinion		
Control Environment	🟢	Good
Compliance		N/A
Organisational Impact	🟢	Minor

Accounts payable

Accounts Payable are administered on behalf of the Council by Cambridgeshire County Council. Whilst the arrangement has only been in operation at the Council since April 2021, the systems in place for administering payments have been in place for a number of years. Despite this, Accounts Payable have had to deal with a number of issues especially in the first few months' post vesting day

linked to activity originating from the sovereign Councils and the requirement for some officers to adapt to new ways of working in the Council.

Based on the audit findings, the assurance given over the system design is Good. The Council has appropriate systems in place to support payments including:

- A robust control environment has been set up in ERP Gold to oversee the raising of requisitions / orders. There is a fully automated process which has built in segregation of duties and workflow to ensure requisitions are approved in line with the requirements of the Council's Constitution.
- A defined process is in place to ensure for order related activity raised through ERP Gold that the invoice is only processed for payment when a three-way match occurs between the order, goods receipt note and invoice. Additionally, where this match does not take place, systems are in place to ensure the relevant officer is automatically notified through ERP Gold of the issue so they can take action to allow the invoice to be matched and processed for payment.
- A range of checks are undertaken by the Accounts Payable team as part of every payment run to ensure the accuracy of payments before they are paid by BACs or cheque.

The level of assurance reflects the fact that some issues were identified in respect of the supplier master-file, namely a number of officers have access to create and amend details on the supplier master-file despite this no longer being part of their role and responsibilities. It should be noted, however, that supervisory controls are operating in relation to daily management review of such amendments, which gives some assurance that any misuse of the access rights should be detected.

Whilst not within the scope of this audit's testing, it is acknowledged that 2020/21 audit work identified weaknesses in respect of spreadsheet interface payment files which continue to be in use and will be considered in a project which is currently in the planning stages.

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

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

Financial decision making / scheme of delegation

Financial decision making is included in various sections of the Council's Constitution, namely the Scheme of Delegation for Officers, Financial Procedure Rules and Contract Procedure Rules.

Based on the audit findings, the assurance given over the system design is **Good**. Overall, the review has found that the Council's Constitution covers the range of financial decisions that a Council makes and clearly defines officer / member responsibilities for such decisions. Furthermore, a range of

manual / automated systems are in place in the Council to ensure that financial decisions are considered and approved in line with the requirements of the Constitution.

Given the audit has covered only a small period in the early stages of the Council operating and there has been limited activity in some of the areas reviewed, it is not felt appropriate that an assurance level in respect of compliance can be provided at this stage. However, where appropriate, testing of arrangements in place found no issues at this stage in respect of compliance.

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

Internal Audit Assurance Opinion		
Control Environment	🟢	Good
Compliance		N/A
Organisational Impact	🟢	Minor

General Ledger

The Council's General Ledger is administered using the ERP Gold system. This system is supported by a number of feeder systems which are regularly interfaced. The system is operated and monitored by the Finance Team which is responsible for statutory duties such as the preparation, monitoring and reporting of revenue and capital budgets and the closedown of the accounts each financial year.

The Council has appropriate systems in place to support general ledger activity including:

- A defined system is in place to administer changes to the chart of accounts;
- A robust process was in place to ensure that the budget approved by the Shadow Authority in February 2021 was accurately uploaded onto the general ledger;
- Effective arrangements in place to ensure the accuracy of data interfaced onto the general ledger of ERP Gold from Council feeder systems; and
- Robust arrangements in place to oversee control account reconciliations undertaken on behalf of the Council by West Northamptonshire Council and Cambridgeshire County Council.

The level of assurance reflects the fact the following issues identified that require action:

- No control account reconciliations have been completed in the first quarter of 2021-22 for legacy client systems and district / borough migrated balances.
- In respect of journals, auto-approval access has been granted to 67 ERP users, meaning they can process journals without approval by a designated officer. No review of such access has been carried out by the Council's Finance team to ensure this is appropriate and necessary.
- ERP Gold has been designed to allow budget managers to raise and approve the same journal. From an audit perspective, this is viewed as the equivalent to auto approval access. It should be noted that such access is limited to the cost centre that the budget manager is responsible for.
- Based on current arrangements, the majority of journals are processed either without any independent approval or without Finance oversight (i.e. budget manager approval).

Currently, no routine checks are undertaken to ensure that journals have been processed in line with agreed procedures.

Given the audit has covered a small period in the early stages of the Council operating and there has been limited activity in some of the areas reviewed, it is not felt appropriate that an assurance level in respect of compliance can be provided at this stage. However, testing of compliance with procedures highlighted some compliance issues, specifically in relation to journals. These areas will be re-visited by Internal Audit during the financial year.

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

Internal Audit Assurance Opinion		
Control Environment	🟡	Satisfactory
Compliance		N/A
Organisational Impact	🟢	Minor

In addition to the planned audit assignments, the Internal Audit team have also been working on grant verification work in relation to a number of grants paid to Northamptonshire County Council for 2020/21 - these include Local Transport Capital Block Funding, Travel Demand Management and Home to School grants.

Support has also been provided to service areas and Corporate Leadership Team on the development of directorate risk registers.

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   As at 30th September 2021, 14 open actions have been confirmed as implemented since the last meeting of the Audit & Governance Committee – an overview is provided in Table 4 of this report. There are currently 17 recommendations which are overdue for implementation. All of these actions were inherited from legacy authorities and one of these had been assigned a 'high' priority.

4.3   To provide the Committee with further detail on high risk actions which remain overdue for more than three months, full details are provided in Table 5, with latest updates from officers.

5. Investigation activity

5.1 The Counter Fraud team, led by the Council's Head of Internal Audit and Counter Fraud service, are set up to receive and handle referrals regarding allegations of fraud, misconduct and irregularities via a number of channels. There is a fraud reporting mailbox available to internal and external stakeholders, in addition to the whistleblowing procedures and general service referrals.

5.2 All referrals are logged, assessed and allocated to the relevant party for investigation, where appropriate. Included in Table 2 is a summary of referral activity within the service during the financial year to date. Whilst investigations are progressing, it is not appropriate for further details of allegations to be shared at the risk of jeopardising formal investigation outcomes.

Table 2: Investigation statistics to date

Description	Since last update	Financial year to date	Comments
Referrals received to date	20	40	
Breakdown of referral type: - Blue badge - Housing - Revenues discounts - Benefits - Grants - Parking - Agency staff	 4 5 2 4 - 5 1	 9 9 7 6 2 6 1	Referrals received via dedicated mailbox and internal intelligence.
Referrals closed at time of reporting	18	37	
Breakdown of outcomes: - Referred to partner agency - Property/monies being recovered - Advice to service area on controls - No further action following initial enquiries	 6 - 1 11	 15 1 2 19	All grant related frauds were attempts which had not been successful with no loss incurred, evidencing the robust fraud prevention controls in place. All attempts are still reported to the national fraud authorities and central government.

5.3   In addition to the reactive investigation work, the counter fraud officers have also continued working on the implementation of the new Fraud Hub for North Northamptonshire Council. This is a system provided by the Cabinet Office which enables real time matching of data sets and intelligence to identify potential indicators of fraud. The Council signed up to this service and the counter fraud team are prioritising use of the system for the Council's highest fraud risk areas.

5.4   Since the last Audit and Governance Committee meeting, this work has flagged a further 20 cases where it would appear that death notifications had not been received, payments were ongoing and overpayments are due. Such work thereby enables further loss to be prevented and recovery action to take place promptly. The counter fraud officers are supporting service areas on interpreting and processing the findings and appropriate action. Data matches due to commence this period are payroll, single person discounts and housing. The Counter Fraud officers are supporting service areas in preparing for this work.

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											
Risk Management strategy	Q1						▓	Strategy adopted and risk management workshop facilitated in June 2021.			
Key Governance Documents, Policies & Records	Q1						▓	No assurance opinion given as no audit testing conducted – rather, gap analysis provided for prioritisation by management.			Reported at Sept 21 meeting
Assurance opinions and annual reporting for sovereign councils	Q1						▓	Annual reports and opinions presented at July 2021 Audit and Governance Committee meeting			
Risk management – facilitation	Q1 - 4			▓				Ongoing throughout financial year			
Risk management – audit coverage	Q2 - 4		▓					Ongoing throughout financial year			
COVID-19 Restart grants	Q2						▓	Grant certification provided to central government			
Financial Management	Q2		▓								

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Transformation	Q3/4	▮									
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.											
Legacy bank accounts	Q1						▮	**Limited** 🔴	**Limited** 🔴	**Moderate** 🟡	Reported at Sept 21 meeting
Bank reconciliations	Q1						▮	**Good** 🟢	**Satisfactory** 🟡	**Moderate** 🟡	Reported at Sept 21 meeting
General ledger	Q1						▮	**Satisfactory** 🟡	**N/A**	**Minor** 🟢	See section 3.1
Government Procurement Cards (GPCs)	Q1						▮	**Satisfactory** 🟡	**N/A**	**Minor** 🟢	Reported at Sept 21 meeting
Accounts payable	Q1						▮	**Good** 🟢	**Good** 🟢	**Minor** 🟢	See section 3.1
Manual interface payments	Q1			▮							Delays in project
Cashflow from sundry income	Q1					▮					
Debt recovery	Q1					▮					

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Payroll	Q1				▓						Delays in obtaining info
Treasury management	Q1						▓	**Good** ●	N/A	**Minor** ●	See section 3.1
IT financial controls	Q1					▓					
Year end accruals	Q1			▓							Delays in obtaining info
Financial decision making	Q1						▓	**Good** ●	N/A	**Minor** ●	See section 3.1
Council tax	Q2				▓						
Housing benefits	Q2			▓							
Legacy debts	Q2					▓					
Business rates	Q4	▓									
Adults, Communities and Wellbeing Services Priorities and Risks											
Safeguarding vulnerable adults	Q2		▓								

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Financial operations	Q2	▓									
Procurement and contracts audit	Q3	▓									
Housing allocations and rents	Q2			▓							
Landlord Health and Safety	Q3/4	▓									
Lettings and voids	Q3/4	▓									
Rent arrears	Q3/4	▓									
Homelessness and temporary accommodation	Q3/4	▓									
Guardianship and Appointees	Q3/4	▓									
Adult social care	Q3/4	▓									
Place Services Priorities and Risks											
S106 monitoring	Q2					▓					
Asset / property management	Q2			▓							
Parking income	Q2			▓							

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Development control	Q3/4	▓									
Leisure service contracts	Q3/4	▓									
Taxi licensing	Q3/4			▓							
Procurement and contracts audit	Q3/4	▓									
Capital projects	Q3/4	▓									
Children's services											
Schools thematic review	Q3/4	▓									
Children's Trust commissioning	Q3/4	▓									
Corporate and cross cutting reviews											
Procurement compliance	Q3/4	▓									
ICT – Access controls	Q2	▓									
ICT – Cyber security	Q2		▓								
ICT – Disaster recovery	Q2		▓								
ICT- Interfaces	Q3/4	▓									

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Eclipse – social care system	Q3/4			▓							
Pensions	Q3/4	▓									
Health and safety	Q3/4	▓									
Human resources	Q3/4	▓									
Information governance	Q3/4	▓									
Partnership assurances	Q3/4	▓									
Customer services	Q3/4	▓									
Grant certifications	-			▓							

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	1	50%	9	75%	4	24%	14	45%
Actions due within last 3 months, but not implemented	-	-	-	-	-	-	-	-
Actions due over 3 months ago, but not implemented	1	100%	3	25%	13	76%	17	55%
Totals	2	100%	12	100%	17	100%	31	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)
East Northamptonshire Council and Corby Borough Council - Bank Reconciliations (Inherited action)	Finance	To complete all outstanding bank reconciliations.	East Northamptonshire – Bank Reconciliation is completed for 2019/20 and Payments and Receipts bank accounts have been reconciled for each month for 2020/21. Unreconciled items are currently being investigated. Corby – Bank Reconciliation is completed for 2019/20. Payments and Receipts bank accounts are reconciled for each month for 2020/21. Unreconciled items are currently being investigated.	Assistant Director of Finance and Accounts	March 2021	November 2021

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.