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# INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

Northampton Borough Council

2020-21

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# SUMMARY OF 2020-21 WORK

## Internal Audit 2020-21

This report details the work undertaken by internal audit for Northampton Borough Council and provides an overview of the effectiveness of the controls in place for the full year. The following reports have been issued for this financial year:

- Licensing
- Climate Emergency (Environment)
- Northampton Partnership Homes (NPH) Service Level Agreement
- Capital Projects
- Social Lettings Agency
- Self-isolation Grant
- Health and Safety NPH
- Safeguarding (carried over from 2019-20).

We have detailed the opinions of each report and key findings on pages four to eight. Our internal audit work for the 12 month period from 1 April 2020 to 31 March 2021 was carried out in accordance with the internal audit plan approved by management and the Audit Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

### Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to the Board, through the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period. The basis for forming my opinion is as follows:

- We conclude a **Limited Opinion** on the overall arrangements for governance, risk and control (2018-19 - Limited and 2019-20 - Moderate)
- We have seen an increase in the number of high findings issued in 2020-21 and also in the number of Limited Opinions in both the Design of Controls and the Effectiveness of Controls despite conducting fewer reviews this year. Of the 9 reports, 4 gave limited assurance on design of controls and 5 gave limited assurance on the effectiveness of controls. We do recognise that in working with the Council we agree to focus on areas of known concern. However, taking this into account there are key themes from our work which raise concern about the effectiveness of governance and oversight, particularly in relation to contract and project management.
- Whilst there has been good engagement in some reports during the year and taking into account the impact of the Covid-19 pandemic, there have been instances of long delays in management responding to reports and some management responses that have not provided confidence that the issue would be addressed. This is at least partly due to the move towards unitary status and some issues have been carried forward for the new authority to action.

Please note that this Opinion is being issued on 25 March 2021 to the Council's Audit Committee. An Opinion would ordinarily be issued after 1 April in any given year however due to the Council moving to Unitary status we are issuing this earlier. Therefore whilst our Opinion is for 2020-21 period it is only correct as of the date 25 March 2021 and does not take into account any subsequent events between this date and 1 April 2021 which could otherwise impact our Opinion.

## REVIEW OF 2020-21 WORK

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Licensing	-	2	3	Substantial	Moderate	<ul style="list-style-type: none"> <li>The Licensing Team maintain detailed policies, procedures and guidelines for applicants for the licensing application process. Their communication with the applicants, based on a sample reviewed, assists the process for the applicant. Issues noted included:</li> <li>Some application types fees are not applied automatically in the system which leads to manual payments. Three of our sample of 25 applications were processed with a potentially incorrect fee category (although the difference was small) and some payments have missing supporting justifications for a manual or payment waiver</li> <li>Our sample test of 25 license applications found that some licenses were approved despite inadequate information being provided to support the application. For example, on taxi license was approved when the DBS certificate on the applicant was out of date. In one further case the private vehicle hire application was approved even though the vehicle inspection report was outdated</li> <li>The Council do not currently have an effective process to measure the application processing timeline and performance of the team</li> </ul>
Northampton Partnership Homes (NPH) Service Level Agreement	2	2	1	Moderate	Limited	Overall the Council has a Moderate control design for the management of the NPH Management Agreement. There were no nominated officers assigned to responsibilities in the Management Agreement, however, in practice, there appears to be clear distinction between the operational management and strategic management of NPH's performance. However, there were apparent weaknesses in communication

						<p>arrangements between Council officers and the Council nominees on the NPH board.</p> <p>The Management Agreement includes clear requirements from NPH in terms of transparency of board meetings and annual preparations of the Delivery Plan. However, there is currently no mutual understanding between the Council and NPH as to whether these apply and as a result these have not been met.</p> <p>This leads us to conclude that the control effectiveness is Limited.</p>
Climate Emergency (Environment)	1	3	1	Limited	Moderate	<p>The Council is in the early stages of establishing a process designed to ensure it achieves its target of becoming carbon neutral by 2030. The Council, through work completed by the Director of Planning, has developed a draft strategy and has identified a number of key actions needed to ensure their target date is achieved. However, whilst these actions have been recorded in the strategy, the strategy itself provides little detail and information in terms of current work, the specifics of the Council and their objectives when compared to other strategies viewed. Similarly, the process for monitoring and reporting as well as the actions themselves require further work.</p> <ul style="list-style-type: none"> <li>Based on the above we can provide Limited assurance over both the design of controls. We have issued a Moderate Opinion over operational effectiveness of the controls currently in place as the Council have declared two motions around a climate emergency and have taken a number of steps to improve their environmental credentials. We do note that this Moderate Opinion on the effectiveness of controls could quickly move to a Limited position if the design elements around the strategy and governance structures are not progressed</li> </ul>
Capital Projects	3	-	-	Limited	Limited	<ul style="list-style-type: none"> <li>There was a clear lack of contract management controls in place, including insufficient retention of key information for the contract. Moreover poor procurement arrangement has also been evidenced from the Delapre Abbey project.</li> <li>The Delapre Abbey project was handed over to the last project</li> </ul>

						<p>manager in 2016 without any sufficient and appropriate documentations, including financial budgets and cost reports, key performance indicators, previous minutes of contractor performance or a summary of progress, which contributed to the significant overspent over the years</p> <ul style="list-style-type: none"> <li>The Council did not identify the previous project managers' lack of expertise required and the Council did not act promptly to ensure the project management issues were rectified.</li> </ul>
Social Lettings Agency	1	4	-	Limited	Limited	<ul style="list-style-type: none"> <li>There is currently no Empty Homes Officer in place at the agency. The responsibilities of this role are shared between the Housing Advice and Options Service team and the Private Sector Homes team. This may have led to inadequate take up of the scheme as there are only three landlords who have signed up to the private sector leasing scheme. There are currently three properties under the scheme, against an original target of 250 and revised target of 50</li> <li>The Project Plan does not detail how the agency intends to measure the success of its communication strategy</li> <li>The business case and performance reports for the social lettings agency do not specify how the objectives outlined in the business case are measured</li> <li>The agency does not have a live risk register in place which would allow the agency to monitor existing risks or raise new risks</li> <li>While a performance framework is in place to identify where additional training is required, there is currently no structured training in place for agency staff.</li> </ul>
Self-isolation Grant	-	-	-	N/A	N/A	This was a review of government guidance for self-isolation grant received. It was an advisory and small compliance review with all recommendations accepted and acted upon.
Health and Safety NPH (draft report)	2	1	-	Limited	Limited	This report is currently in draft and with officers for comment. The significant issues in the report relate to those specified in the NPH Management Agreement report above, ie a lack of mutual understanding as to the required health and safety reporting from NPH to NBC.

Safeguarding (carried over from 2019-20).	2	4	2	Moderate	Limited	<p>Overall we concluded that the Council has a Moderate control design for the management of safeguarding. Policies around referring and monitoring safeguarding were robust, as were safe recruitment policies for staff and volunteers. The Council also provided reasonable levels of training to staff via the Psittacus e-learning modules. Agreements with partners and contracts with service providers included adequate consideration of safeguarding, requiring the contractors to undertake DBS checks of their staff in some instances.</p> <p>However, there was significant non-completion of the e-learning training modules and where they are completed it took an average of more than 80 days to complete the modules from the point at which they were assigned to staff. Furthermore, actions identified and taken based on the results of the Section 11 survey are inadequate and documentation was not in place and/or inaccessible to evidence the vetting of volunteers.</p> <p>This leads us to conclude that control effectiveness is currently Limited.</p>
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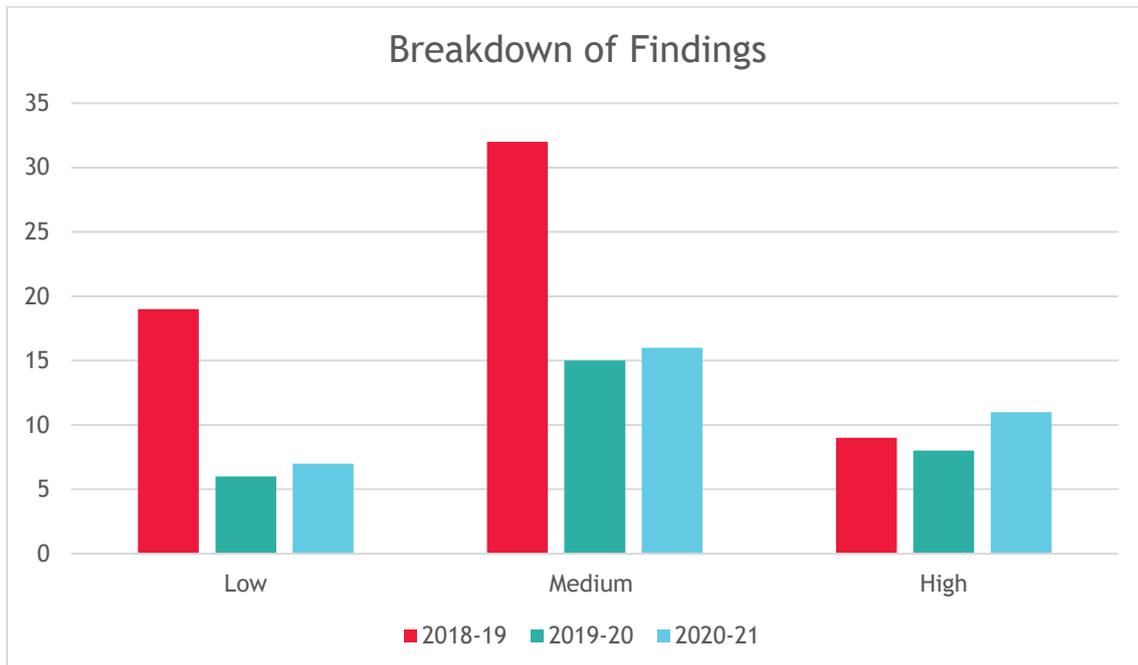
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# SUMMARY OF FINDINGS

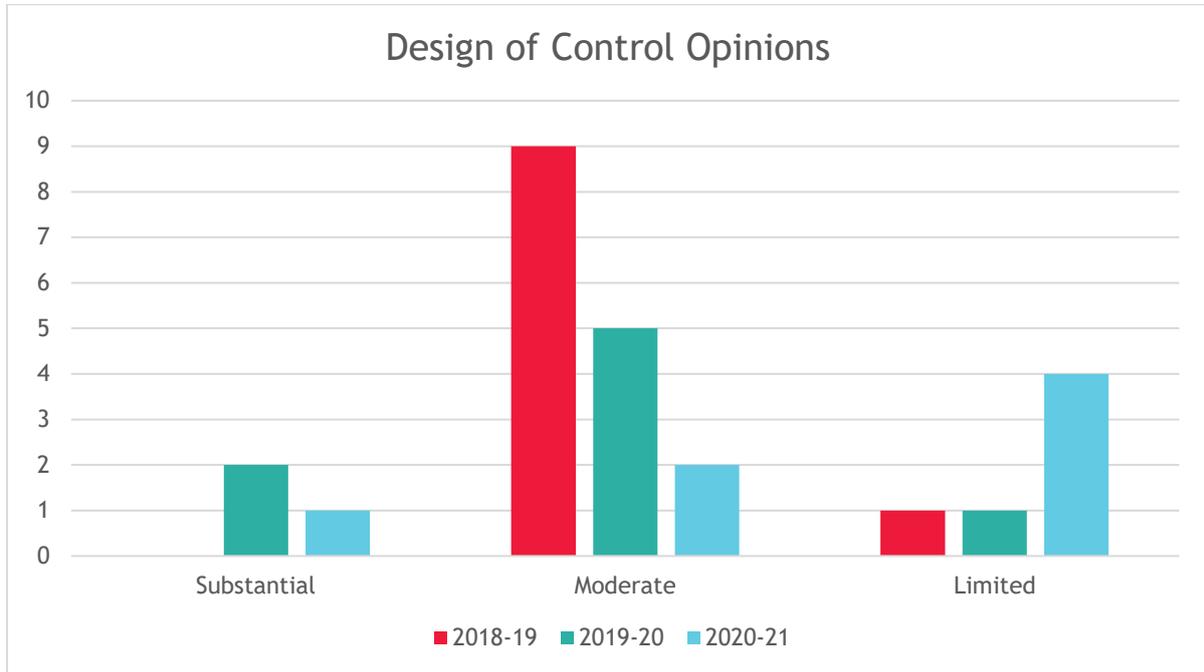
## RECOMMENDATIONS AND ASSURANCE DASHBOARD

The chart shows a summary of our recommendations for 2020-21; it also shows the summary based on the previous two year's work.

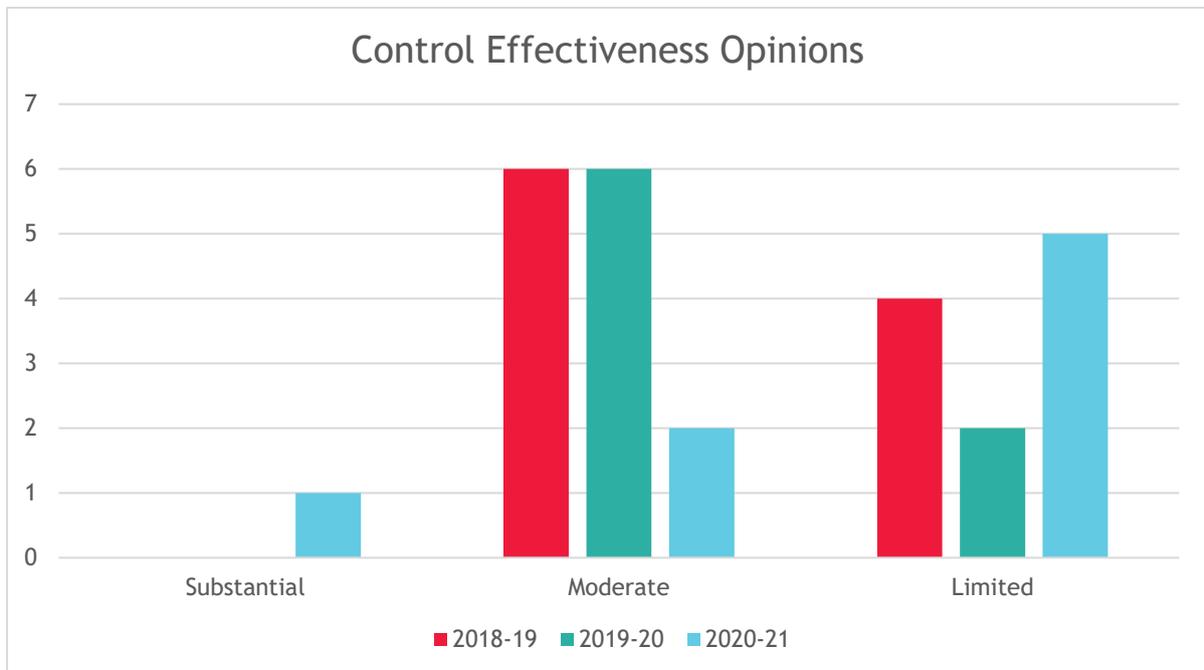
It can be seen that the total number of recommendations has increased from 29 last year to 33 this year. Whilst there has been fewer high findings this year this is also in part to fewer reviews being conducted this year. The chart does show that this year there were more high findings compared to medium and low findings which has not previously occurred.



The below chart outlines the split of Opinions for the Design of Control from 2018-19 to 2020-21. There is a clear increase in 2020-21 of Limited Opinions with more this year than the previous two years combined. There is however one Substantial Opinion this year which is a positive.



The below chart outlines the split of Opinions for Control Effectiveness from 2018-19 to 2020-21. For the first time we have issued a Substantial for Control Effectiveness which is very positive. However, we have also issued five reports with a Limited Opinion which is more than the previous two years combined.



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## ADDED VALUE



### CONSISTENT QUALITY STAFF

We have kept the same key personnel team throughout the contract and last year. We have deliberately prioritised those staff assigned to the Council to ensure staff who have previously received good feedback were redeployed



### RESPONSIVENESS

At the outset of the Covid-19 pandemic we supported the Council in their review of business grants prior to distribution. This involved us quickly deploying a large volume of staff working each day and weekends over April and May 2020. We also conducted a short notice review of the self-isolation grant



### BENCHMARKING AND BEST PRACTICE

We delivered a training session to the Audit Committee on good governance in 2020. We also provided benchmarking and sector analysis in our reports for example, in the Climate Emergency Report we provided examples of good practice strategies

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## KEY THEMES



### GOVERNANCE AND OVERSIGHT

In a number of reviews there is a theme of the Council not having effective arrangements to oversee performance and see through actions. For example, the two reviews relating to oversight of NPH identify control weaknesses where the Council do not have sound arrangements to ensure they discuss, escalate and act upon performance. This was also identified in the safeguarding review where actions were identified as being outstanding for over two years from internal reviews conducted by the Council. Similarly with the social lettings review we found the initial objectives of the agency were not being tracked and reported against effectively. The theme here is that some fundamental elements of governance and oversight were not operating effectively.



### FOLLOW UP AND SOME MANAGEMENT ENGAGEMENT

We recognise that in a year when the Council is moving towards Unitary status that completing all actions and management engagement may become more challenging - coupled with the challenges of the pandemic. This being said, there are some long standing actions outstanding as reported in our March 2021 Follow-Up Report. Furthermore there were instances of engagement with management not being effective resulting in reports taking longer than expected to close. These reports also contained high findings which means the Council did not act upon these as soon as they could have.

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# BACKGROUND TO ANNUAL OPINION

## Introduction

Our role as internal auditors to Northampton Borough Council is to provide an opinion to the Board, through the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12 month period from 1 April 2020 to 31 March 2021 was carried out in accordance with the internal audit plan approved by management and the Audit Committee, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

## Scope and Approach

### Audit Approach

We have reviewed the control policies and procedures employed by Northampton Borough Council to manage risks in business areas identified by management set out in the 2020-21 Internal Audit Annual Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with Northampton Borough Council management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

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The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

### **Reporting Mechanisms and Practices**

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

### **Management actions on our recommendations**

The management actions to our recommendations were largely adequate however, with some instances of being inadequacy. Whilst management responses were received for all reports issued there were three reports where this took a particularly long time (multiple months) for responses to be received namely: capital projects, safeguarding and climate emergency. Furthermore, in some reports such as safeguarding despite being informed that robust actions plans would be developed and provided in the management responses we received short responses stating 'Agreed'. This provides less confidence to us as a service that management are committed to the recommendations and have thought through the implications to implement the recommendations. Through wider discussion with management it also became apparent that despite the Council Sponsor approval the report for final that the final report position agreed may not have always been collectively agreed by management which undermines the 'buy-in' for reports and subsequent commitment to complete recommendations. These conclusions do contribute to our overall Opinion.

### **Recommendations follow-up**

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

All outstanding recommendations from 2018-19 are deemed complete and with those from 2019-20 having received a reasonable response for subsequent steps to be taken. For recommendations from 2020-21 due to the delays in some reports moving to final as highlighted above, whilst we have conducted a follow-up in March 2021 the Council will not have had sufficient time to close these which reinforces the importance of agreeing reports more promptly as it allows time within the year to demonstrate adequate follow-up.

### **Relationship with external audit**

All our final reports are available to the external auditors through the Audit Committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

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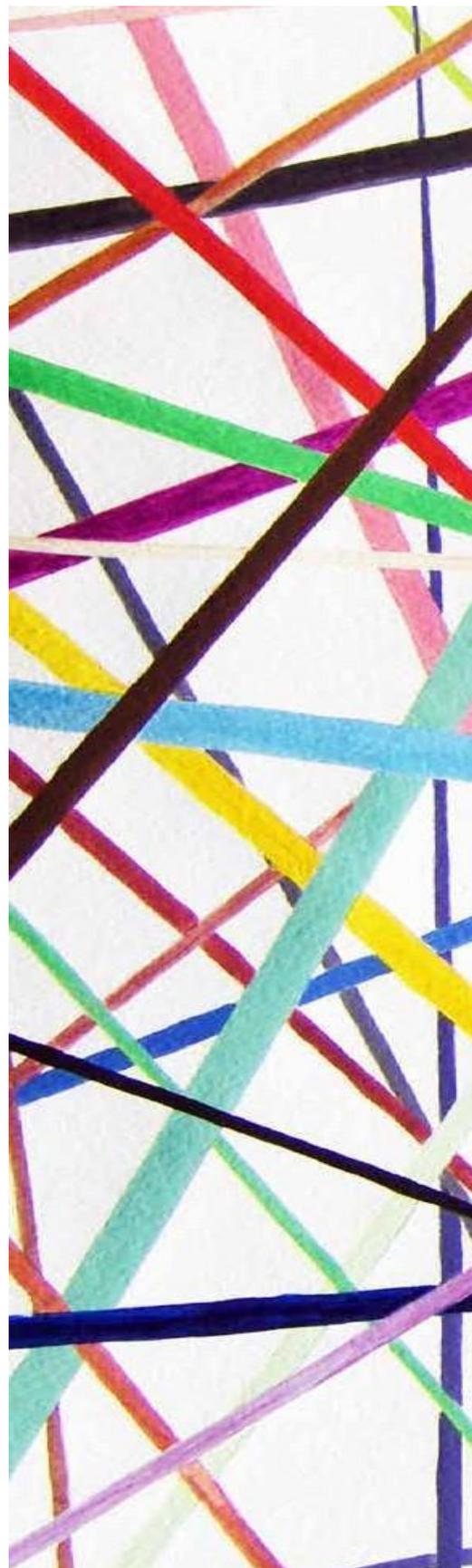
## Report by BDO LLP to Northampton Borough Council

As the internal auditors of Northampton Borough Council we are required to provide the Audit Committee, and the Director with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides Northampton Borough Council with **Limited** assurance which means we do believe that there are major weaknesses in the internal control system for the areas reviewed in 2020-21. The statement of assurance is not a guarantee that all aspects of the internal control system are limited. The statement of assurance should confirm that, based on the evidence of the audits conducted, there may be signs of material weaknesses in the framework of control.

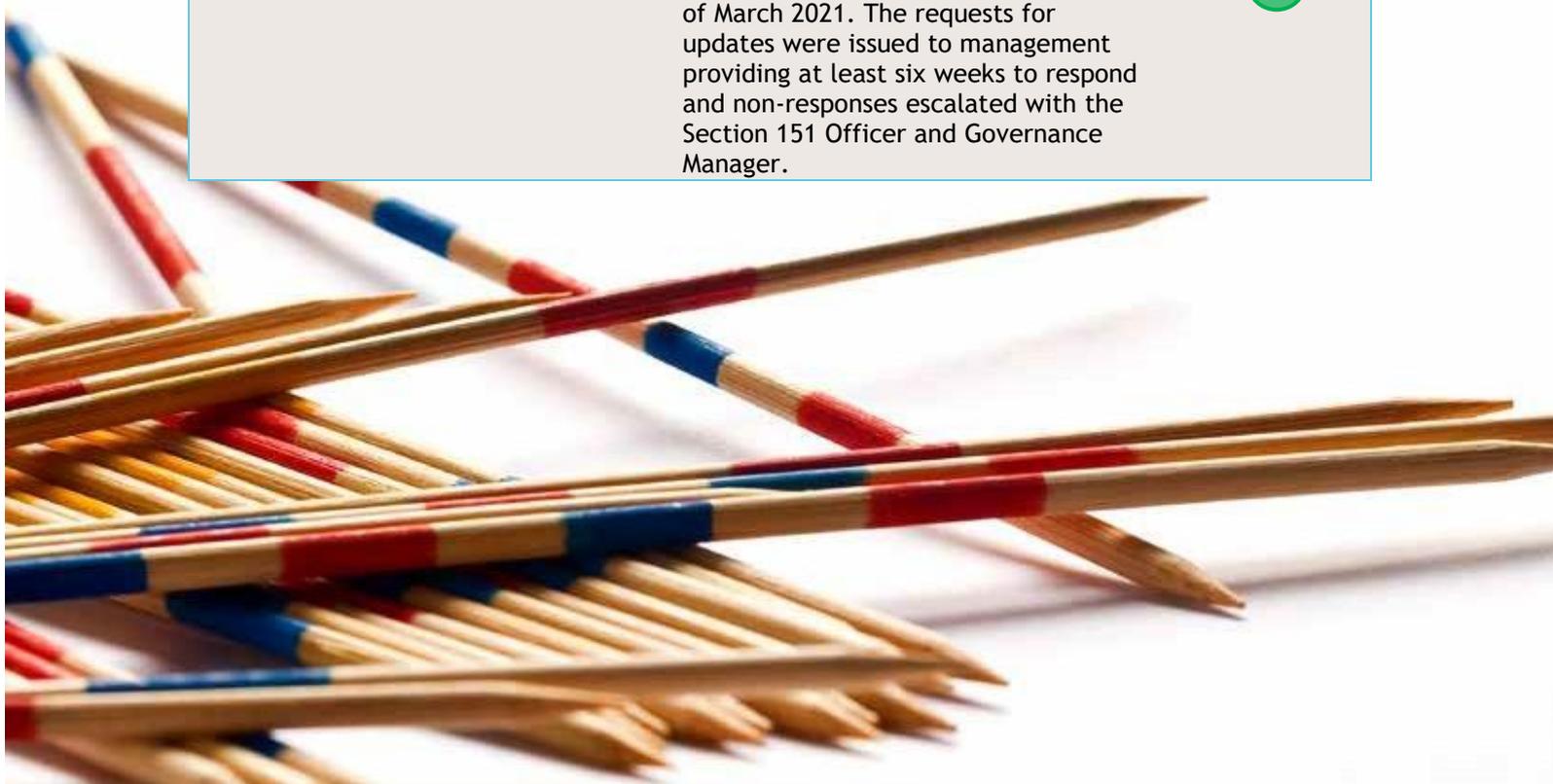
In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2020-21
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to Northampton Borough Council including from LGSS
- Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work.



# KEY PERFORMANCE INDICATORS

Quality Assurance	KPI	RAG Rating
Quality of Work	Feedback from our reviews were positive - this comes from email and verbal feedback. We have not been able to obtain survey feedback this year due to the large volume of reports coming towards the end of the year in part due to the pandemic and the plan starting later and also due to delays in management responses. However we have not received any negative feedback and in contract meetings feedback has continued to be positive.	
Responsiveness of Service	We have responded to deadlines and adapted to the COVID19 pandemic by engaging with the Council to re-arrange reviews and support the processing of business grants. We supported due diligence on applications at short notice for the 2,407 grants received totalling £30.34 million.	
Completion of Audit Plan	We have completed and finalised all reports as per the Audit Plan and issued our Opinion in March 2021 as expected.	
Follow-up Recommendations	We have followed up on all recommendations due prior to the end of March 2021. The requests for updates were issued to management providing at least six weeks to respond and non-responses escalated with the Section 151 Officer and Governance Manager.	



# APPENDIX 1

## OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
<b>Substantial</b> 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b> 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b> 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b> 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.



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