

WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

28TH JULY 2021

Report Title	Predecessor Council Internal Audit 20-21 Annual Reports
---------------------	--

Annex A – NBC BDO
Annex B – DDC In House
Annex C – SNC CW Audit
Annex D – NCC Shared Service

1. Purpose

1.1. The purpose of this report is to summarise the 2020/21 Annual Internal Audit Reports giving opinion on the adequacy of the systems of control for Northamptonshire County Council (NCC), South Northants District Council (SNC), Northampton Borough Council (NBC) and Daventry District Council (DDC).

2. Recommendations

2.1. It is recommended that the opinions be noted and that the key issues highlighted in each report be considered as part of the 2021/22 Internal Audit and External Audit programmes of work.

3. Issues and Choices

3.1. Report Background

3.1.1. The Audit & Governance Committee (AGC) was established as a standing committee of Council to discharge certain non-Executive functions including those set out within the Accounts and Regulations 2015.

3.1.2. An Audit Committee is required to deliver the core responsibilities defined by the Accounts and Audit Regulations (2015). Key statutory and best practice requirements in this area include:

- Accounts and Audit Regulations 2015
- Cipfa 2018 Local Authority Guidance for Audit Committees
- Public Sector Internal Audit Standards

- Local Government Application Note

3.1.3. The 20-21 Annual Audit Opinions inform the Annual Governance Statement for predecessor Councils but also provide essential intelligence to both inform the Internal Audit 21-22 plan of work and provide key specifics and context for the AGC to consider items throughout the year. The Annual Reports also provide the essential summary of Internal Audit work that meets the above legislative and best practice requirements.

3.1.4. In respect of the four Councils:

- Northampton Borough Council was audited by BDO in 20-21. The NBC Annual report is attached in full at Annex A.
- Daventry District Council was audited by the in-house service. The DDC Annual report is attached in full at Annex B.
- South Northants Council was audited by CWAudit. The SNC Annual report is attached in full at Annex C.
- Northamptonshire County Council was audited by the shared service. The NCC Annual report is attached in full at Annex D.

3.1.5. The different services apply slightly different assurance categories as summarised below (and the detailed definitions are included within the full reports:

Council	Assurance Categories (Highest First)
NBC (BDO)	Substantial Moderate Limited No Assurance
DDC (In-House)	Full Substantial Limited Minimal
SNC (CWAudit)	Full Significant Moderate Limited No Assurance
NCC (Shared Service)	Substantial Good Satisfactory Limited No Assurance

3.2. Issues and Choices

3.2.1. The full reports are provided at Annexes A-D. These are summarised below:

Northampton Borough Council

3.2.2. The opinion was provided by BDO on 25th March to their Audit Committee in advance of the year end, but BDO have not indicated any change to that opinion.

3.2.3. BDO concluded 'a **Limited** Opinion on the overall arrangements for governance, risk and control'

3.2.4. BDO also highlighted key issues as:

'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.'

3.2.5. Limited reports listed in the annual report include:

- Northampton Partnership Homes (Controls Moderate / Effectiveness Limited)
- Climate Emergency (Limited / Moderate)
- Capital Projects (Limited / Limited)
- Social Lettings Agency (Limited / Limited)
- NPH Health and Safety (Limited / Limited)
- Safeguarding (Moderate / Limited)

The issues highlighted above have been considered and where appropriate incorporated into the 1st draft 21-22 Audit Plan E.g. the NPH Client Management audit (20 days)

Daventry District Council

3.2.6. The DDC Head of Audit concluded 'it is my opinion that the overall adequacy and effectiveness of the Council's control environment is assessed as giving a **Full to Substantial Assurance**'

3.2.7. The Head of Audit also highlighted that

'During the financial year no audits received a "minimal assurance" opinion and no matters remained outstanding from the Annual Audit Review for 2019/20. However, matters of corporate significance and worthy of highlighting in this report are as follows:

- **Service Inventories** - arising from the Creditors & GPC audit.
During the year Finance Officers track spend on certain accounts and send quarterly reminders to service areas to add relevant items to their office inventory. Whilst making enquiries regarding this action we identified that service area inventories had not been requested or submitted to the Corporate Custodian in 2020/21, due to the lockdown happening in March 2020. Further enquiries established that most team / service inventories had not updated their inventories in the last 12 months.

A significant increase in spend on office and IT equipment, the majority for home or mobile working, has been observed during the year on GPC card spend. As many of the items purchased by service areas are small portable items, for example laptops, webcams, cameras, monitors, etc., there is a risk that they will not have been recorded as required by the Inventory Office Instruction and as per Financial Regulations (ref: 12. Inventories and Assets), and items may be lost to the business, more so considering the move to the new authority. Although IT Services acknowledged that they would have records of equipment purchased they in no way maintain any record on its future whereabouts.

This matter was also considered a breach of the Constitution and was reported to the Monitoring Officer (and Chief Financial Officer) on 25/03/2021 for their consideration / response. The Monitoring Officer acknowledged the breach but given the little time left before vesting day and an expectation that that at some stage West Northamptonshire Council would likely follow up on the issue, he was only able to issue a message to service and senior management to strongly encourage them to get the inventories up to date at the earliest opportunity. A similar message was also issued by the Corporate Custodian for inventories to be updated by the end of April.

- **Debt Recovery - Council Tax, Business Rates & Sundry Debtors** - Our audit plan routinely includes annual audits of these financial areas. Although our evaluation of controls and testing remained unchanged from previous audits providing good assurance, we were unable to test the effectiveness of the arrangements for the recovery of debt through to legal / enforcement action because of the pandemic and the economic slowdown, understandably affecting people's ability to pay.

During the year and largely affected by the periods of lockdown, no reminders, final notices, or summonses were issued for Council Tax and Business Rates, and beyond the initial reminder stages for sundry debtors all further recovery action was put on hold. Nationally, enforcement agent's activities were curtailed, and all Court hearings were suspended by the Magistrates.

Analysis undertaken nationally has seen a sharp increase in tax arrears with council tax for 2020-21 reportedly at £4.4bn, an increase of 25% on the previous year, and business rates at £2.5bn, a rise of 75% on the £1.4bn reported by the MHCLG in 2019/20.

From a control and management perspective the resultant backlog in arrears in normal times would be a significant task to get back on track but given the formation of the new unitary council and the change this has brought about, resourcing and effectively managing the way forward will need to carefully be considered. In respect of sundry debtors, it is understood that legacy debt remains within the same IT systems that were administered by the sovereign councils and for the time being this will remain the case, whilst new unitary debt is being managed by an external shared service arrangement administered by Cambridgeshire County Council. Therefore, management will have to maintain existing practices and processes. From an audit perspective Members can be assured that this aspect is receiving our attention as part of a schedule of financial work in the first part of the financial year agreed with the Section 151 Officer.'

The issues highlighted above have been considered and where appropriate incorporated into the 1st draft 21-22 Audit Plan E.g. the Accounts Receivable (20 days) and Council Tax / NDR audits (35 days).

South Northants Council

3.2.8. CWAudit reported 'My overall opinion is that **significant** assurance can be given that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.'

3.2.9. 'Some key financial audits were not completed during the year including Council Tax, Business Rates and Benefits, mostly because of the unavailability of staff focussed on Pandemic priorities.'

3.2.10. Limitations to the Head of Audit Opinion was reported as

'Due to the combined impact of LGR and the Covid-19 pandemic on staff resources and availability, the Council requested that we suspend the work we were doing on the following audits before it was possible to complete sufficient testing to provide an audit opinion:

- Council Tax*

- Business Rates*
- Benefits*

*Also suspended on client request for 2019/20 audits.

In addition, we were not provided with the source documentation we requested for the Partnerships audit and were therefore unable to complete this audit.

It should therefore be noted that the Head of Internal Audit Opinion for the 2020/21 year is based upon the work we have been able to finalise and report upon, recognising that the above limitations in scope and coverage have impacted upon our ability to complete the planned programme of work.'

The issues highlighted above have been considered and where appropriate incorporated into the 1st draft 21-22 Audit Plan E.g. Council Tax / NDR and Benefits audits (predecessor systems still in place).

Northamptonshire County Council

3.2.11. The shared service reported that 'In my opinion the Council's framework of governance, risk management and management control is **Satisfactory**. For the most part key governance and risk management arrangements have been maintained

3.2.12. Covid19 has and continues to provide significant challenges to control processes and the audit of them. Audit work throughout 2020/21 has taken into account these issues and pressures, with appropriate measures put in place to ensure continued assessment of the control environment.'

3.2.13. Key issues highlighted were:

'During 2020/21 there were 5 audit reviews where the opinion was a "limited" assurance opinion against the system design or compliance with system controls. This compares to 7 in 2019/20. These audits were reported to Committee during the year and the number of recommendations raised and their categories were as follows:

Audit	No. of Essential Recommendations	No. of Important Recommendations
IT software Licenses	0	6
Spreadsheet Import Payment Interfaces	3	0
Government Procurement Cards	2	1
General Data Protection Act	0	4
Children's Services Complaints Management	0	3

The issues highlighted above have been considered and where appropriate incorporated into the 1st draft 21-22 Audit Plan E.g. General Ledger, GPC and GDPR audits.

3.3. Issues affecting all Councils

- 3.3.1. Various Covid 19 grants received from the Government across the Councils will need to be tracked and verified to ensure that the funds have been used in accordance with grant conditions, to achieve the desired effects and to minimise possibility of having to repay funds. With the closure of the County Council and formation of the unitary Councils, there is scope for grants not being properly identified/allocated.
- 3.3.2. The focus on getting to a safe and legal position for the new unitary Councils impacted on the Internal Audit work across all Councils.
- 3.3.3. The Annual Opinions provided above considered those issues in determining those opinions.

4. Implications (including financial implications)

4.1. Policy

- 4.1.1. None.

4.2. Resources and Risk

- 4.2.1. The consideration of 20-21 Audit Opinions by necessity requires a not insignificant resource to fully consider the highlighted issues. These are included within the 21-22 Audit Plan and should not create any additional financial pressures beyond the approved Internal Audit budgets.

4.3. Legal

- 4.3.1. None

4.4. Equality and Health

- 4.4.1. None

**Report Author: Duncan Wilkinson
Chief Internal Auditor**