

**West Northamptonshire Council**

**Internal Audit Annual Report & Opinion  
2021/22**

**Date Issued**

**June 2022**



## 1 Introduction

This annual report provides the required Head of Internal Audit and Risk Management (HIARM) Auditor's opinion for West Northamptonshire Council. It also summarises the activities of Internal Audit for the financial year 2021/22.

The Council is required by the Accounts & Audit Regulations 2015 to "to undertake an adequate and effective internal audit of its accounting records and of its system of internal control, taking into account public sector internal auditing standards or guidance". The Public Sector Internal Audit Standards (PSIAS) also require:

- The HIARM must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must also include a statement on conformance with PSIAS and the results of the quality assurance and improvement programme.

The audit opinion takes into account the range of individual opinions arising from risk-based audit assignments that have been reported throughout the year. An internal audit plan was developed and approved by the Audit & Governance Committee (16<sup>th</sup> June 2021) to provide independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas.

Alongside the delivery of the operational internal audit work, Internal Audit has met regularly with management to ensure any issues regarding performance can be highlighted and any necessary action taken to resolve these. No significant issues or concerns regarding the internal audit service have been raised to date.

This Annual Report and its Internal Audit Opinion has been discussed with the Executive Director of Finance (and Section 151 Officer). Further detailed findings, conclusions and recommendations in the areas covered by our internal audit plan are detailed within the progress reports and any individual audit assignment reports where these have been presented to the Audit & Governance Committee.

With the decision to close the shared service, the work that supports the annual opinion has been delivered to 31<sup>st</sup> March by the shared service and then completed by the new WNC in-house Internal Audit service to 31<sup>st</sup> May.



## 2 Annual Audit Opinion

The organisation (not Internal Audit) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit provides an independent and objective opinion to the organisation on the control environment and plays a vital part in advising the organisation whether these arrangements are in place and operating correctly.

In accordance with PSIAS, the HIARM is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). For the purposes of this report the shared service Chief Internal Auditor performed that role to 31st March 2022 and the WNC Interim Chief Internal Auditor from 1st April.

The annual opinion is supported through a risk-based plan of work to provide a reasonable level of assurance to the Council, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans. As such, it is one component of assurance that the organisation takes into account in producing its Annual Governance Statement.

### Annual Opinion

#### Overall opinion

In respect of the 12-month period ending 31 March 2022, the opinion of the Chief Internal Auditor on the adequacy and effectiveness of the Council's overall internal control environment, taking account of all available evidence, was **SATISFACTORY**. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

#### Basis for the opinion

The opinion reflects the context that WNC only commenced operation on 1st April 2021. Strong assurance relies upon stable systems operating over multiple financial periods. Given WNC has only been operational for 12 months and the Council's 2021/22 accounts have not yet been externally audited, a Satisfactory opinion is considered positive and should give confidence that assurance levels should increase as good control is evidenced through 2022/23 and 2023/24, i.e. over a 3 year period.

The following key factors identified from internal audit work and discussions with management were deemed to have impacted the effectiveness of controls and risk management during 2021/22:

- Some systems / services continued to operate throughout 2021/22 as individual, localised systems (rather than single, consistent WNC systems). Key examples include Council Tax, Benefits, Business Rates, Taxi Licensing etc.



- Operating different, local controls increases both the possibility that different standards of control are applied / required and variable compliance levels. The consolidation of localised processes under a single WNC approach is, rightly, planned over a 1-3-year programme.
- Control weaknesses highlighted from previous Internal Audit reviews including issues over Spreadsheet Import payments into ERP and journal authorisation processes continue to be addressed in the first 2-3 years of WNC operation.

#### Limitations to the Annual Audit Opinion

Due to the combined impact of Local Government Reorganisation, the Covid-19 pandemic, and the decision in the summer 2021 to close the shared IA service it is highlighted that constraints and pressures existed in respect of the services to be audited and the resources to audit them. Whilst a period of consultation took place on the transformation of IA to an in-house service this prevented the filling of vacant posts within the team.

To help alleviate some of these pressures, external resources were procured in January 2022 (BDO) to aid in the completion of the 21-22 audit plan. Internal resources were fully allocated to planned audits and other work was procured from BDO who scheduled their work for completion by 31st May. Despite this a number of audits from the original audit plan were deferred, as notified to the Audit & Governance Committee via IA Progress Update reports but these have been re-considered as part of the 2022/23 audit plan. It should also be noted that not all audits carried out have been fully completed by the end of May. A summary of the work we have performed and delivery against the plan is provided in section 3.

It should therefore be noted that the Annual Audit Opinion for the 2021/22 year is based upon the work completed from the approved planned programme of work and the opinion is limited to the assurances from that specific work.

### **3 Work undertaken during the year**

#### **Summary of assurances provided**

During the course of the year, we have conducted work to provide assurance over financial, governance and operational systems. Annex 1 summarises the assurance levels of each audit.

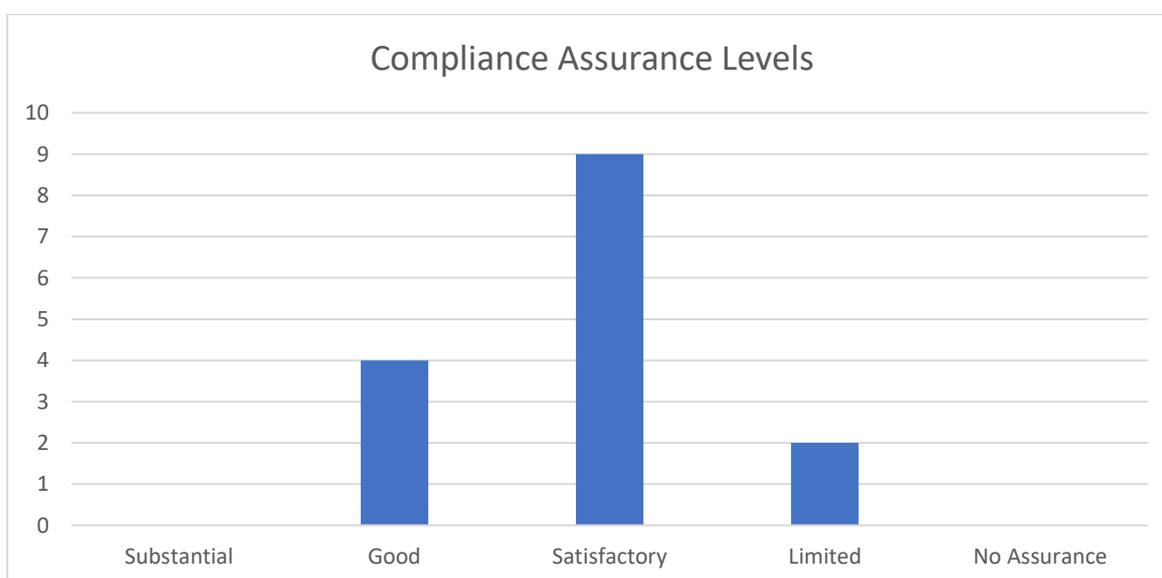
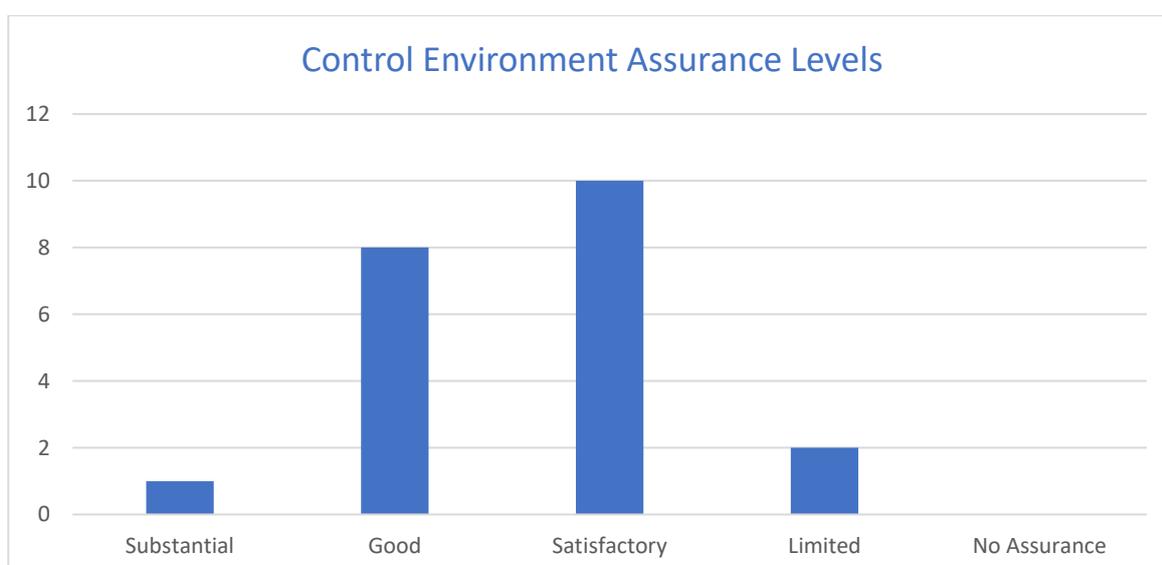
#### **Delivery of the plan**

The table below summaries the position on the Audit Plan as of 31st May 2022. This shows that 79% of the (amended) plan was either completed / at draft report stage or the fieldwork had been completed and a report was in preparation. Only nine audits remain in progress at various stages of completion. The cancelled / deferred audits equate to 29% of the original plan. A detailed list of all individual audits is set out at Annex A.



WNC AUDIT PLAN 2021-22	Original Plan	Cancelled / Deferred	Revised / Amended Plan	Final / Draft Report	Fieldwork Complete / Report in Prep	In Progress	Not Started
<b>Total Number of Audits</b>	<b>59</b>	<b>17</b>	<b>42</b>	<b>23</b>	<b>10</b>	<b>9</b>	<b>0</b>
			100%	55%	24%	21%	0%

That charts below provide a visual summary of the assurances levels for all audits completed (as at 28 Feb 2022). Although several audits have still to be completed the Committee should note that only two limited assurance opinions (provisional, as awaiting management response and finalisation of the report) have been issued to date, despite the ongoing challenges within service areas due to service transformation (both aggregation and disaggregation), the impact from the pandemic, and as the Council continues to develop and mature. The two limited assurance audits cover the areas of IT Disaster Recovery and Taxi Licensing. These will be reported to this committee in due course, once they have been finalised.





### Third party assurances

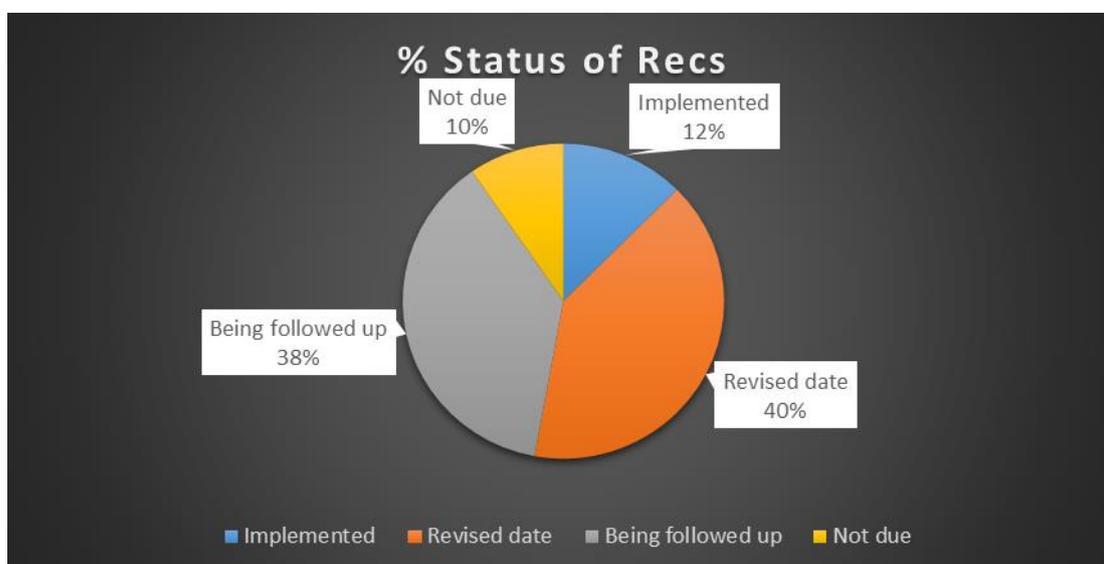
In arriving at the overall Annual Audit Opinion, reliance has not been placed on any third-party assurances. Now that the IA service is in-house it is recognised that further work is required to develop relationships with our partners in order to reduce any duplication of audit resources.

### Recommendation tracking

All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is monitored by Internal Audit and reported to the Audit & Governance Committee. No issues are highlighted where actions required to address significant control weaknesses was not taken by the agreed date when followed up.

As at the end of March 2022, 104 recommendations, including 63 brought forward from Sovereign Councils. Of these:

- 13 - are considered implemented since the update report to Committee in January.
- 42 - implementation is in progress with an update status comment provided as noted and / or a revised implementation date has been received and accepted.
- 39 - are being followed up at the time of reporting, with responses awaited from officers.
- 10 - the agreed implementation date has not yet been reached.



To provide transparency to the figures summarised above, it should be noted that those represented as implemented are based on information provided by management. Recommendations will only be considered fully implemented when they have been formally followed up and reviewed by Internal Audit. Therefore, there may be occasions where previously “implemented” recommendations may be added back into the Actions Tracker. Whilst Internal Audit closely monitors progress a judgement is made as to when best to undertake a formal follow up audit. Where the results of the follow up are not satisfactory, these are brought to the attention of this Committee based on the level of risk to the Council.

### Risk management

A specific audit of the Council’s corporate arrangements for risk management was undertaken during 2021/22. Although IA is awaiting management’s response to the draft report, the preliminary opinions are



Satisfactory for system design and Satisfactory for compliance, with Moderate organisational impact from the findings.

### Counter Fraud Work

Fraud cases referred to the service are risk assessed, to assess whether detailed investigations are merited or alternative options to progress matters are more appropriate. The summary outcomes of all cases is reported (within the Internal Audit Progress Update reports) to every meeting of the Audit & Governance Committee.

Details of specific active cases are not reported to the Committee (given the confidentiality / sensitivity of investigations). Where any active case is considered significant, the Executive Director of Finance (and Section 151 Officer) is formally informed and where appropriate the Monitoring Officer, the Chief Executive and the Chair of Audit & Governance Committee are briefed.

During 2021/22, one active case was considered potentially significant and is being progressed alongside Police investigations.

A total of 149 housing tenancy referrals (NPH), have been received and addressed by the Counter Fraud team during 2021/22. The outcomes from the team's work are detailed in the table below. (\*One case had both a RTB discount and a recoverable debt identified).

Category by Outcome	No of cases	Outcome	Notional Savings or discounts
Housing applications	25	Applications withdrawn, refused or downgraded.	£3240 each = £81,000
Housing properties	16	Properties recovered to be relet.	£93,000 each = £1,488,000
Right to Buy applications	3*	Applications cancelled properties remain as council assets.	£232,200 total of the three discounts withdrawn
Recoverable Debt	5*	Debt identified during housing investigations demonstrating value added.	£19,939.67 Housing Benefit recoverable overpayments and £78.24 CTR overpayments
Closed no financial outcome	93	Cases with no further action taken; advice given including 6 written warnings.	No savings or discounts identified
Failed risk assessment	7	Closed due to suitability or passed on to other organisations.	-
<b>Total</b>	<b>149</b>		<b>£1,801,200 notional savings, £20,017.91 recoverable debt<sup>1</sup></b>

A summary of other (non-NPH housing) cases referred to the Counter Fraud team and the outcomes achieved are shown below:

Fraud Type	No of Referrals	Outcomes
Blue Badge Misuse	7	<b>All Closed</b> - Risk assessed and referred on to Parking Services.
Parking	13	

<sup>1</sup> Cabinet Office National Fraud Initiative Estimated Outcomes Methodologies 20/21 Report



Finance	5	<b>4 Closed</b> 2 bank mandate attempts – no loss, 1 bank mandate loss – report issued, 1 card payment matter, no loss- report issued. <b>1 Open</b> - refund matter is under investigation
Housing & Council Tax Benefits	20	<b>All Closed</b> - Referred on to Department for Work and Pensions via SPOC (Single Point of Contact)
Housing	7	<b>6 Closed</b> - advice given and or referred to Housing Association organisations. <b>1 Open</b> - ongoing SNC application.
HR Staff Matter- School	1	<b>Open</b> - Matter logged and investigated by the school.
HR Staff Matter - Staff Conduct	1	<b>Open</b> - Draft report issued with service recommendations agreed with HR Business Partner.
Taxi Licensing	1	<b>Closed</b> - Investigated and briefing note issued. Police referral completed and separate audit is currently being completed.
C19 Business Support Grants	1	<b>Closed</b> - NFI post payment assurance review (Daventry) identified fraudulent applications. These are with National Investigation Service -NATIS forming part of a wider investigation. Payments totalled £9,501.00.
Grants	1	<b>Closed</b> - Allegations received have already been addressed by the service.

In addition, the Counter fraud team have progressed work on the National Fraud Initiative (NFI). This work has involved:

- **Single Person Discount data** has been extracted and uploaded to the NFI portal and work has started with the Revenues & Benefits Team to review matches as they are identified.
- **C19 2<sup>nd</sup> Phase Business Support Grants - Post Payment Assurance** - Data (for Daventry and Northampton) was extracted and uploaded on to the NFI portal in February. Matches will be available for review in April.

A Fraud Hub has also been set up to undertake more frequent matching of datasets that is currently provided by the NFI. Discussions have been ongoing with the Northamptonshire Pensions Service and for Daventry Housing Allocations to identify data for extraction and matching to detect instances for further review. To date, across the Northamptonshire Pension Fund, the hub has identified a total of 48 instances whereby pensions had continued to be paid when the individual had deceased. Had it not been for the data match intervention these payments would have continued.

Other outcomes from the NFI and more frequent matching of datasets via the Hub are detailed in the table below.

No of Matches	Description	Matches closed	Outcomes, following review of matched data
413	Pensions Gratuity to DDRI (Disclosure of Death Registration Information) - Deceased Persons	265	Actual payments and small Overpayments; £11,720.50. Cabinet Office Estimated Saving; £937,152.57
348	Pensions to Payroll	343	Five cases are being investigated further to confirm if abatement is applicable. (Recoverable overpayment)



28	Housing Benefit to Waiting list	28	No outcomes
12	Waiting list to Housing Tenants	9	No outcomes
32	Waiting list to waiting list	27	No outcomes
26	Waiting list to DDRI Deceased Pensions	19	17 errors - Cabinet Office Estimated Saving per case £3240 = £55,080.00
4893	Council Tax to Electoral Register	170	1 error £168.19
67	Council Tax Rising 18's	-	No outcomes
4346	Council Tax to other data	75	No outcomes
10,115		936	<b>Total Actual / savings; £11,888.69 Total Cabinet Office Estimated Savings; £992,232.57<sup>2</sup></b>

#### 4 Quality Assurance

All audits have been conducted in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), which includes evidenced review by senior management of all audit files and reports produced. There have been no issues of non-compliance with the PSIAS during the course of the year.

PSIAS requires that compliance with its provisions is externally assessed every 5 years. The last review for the shared service audit arrangement was completed in 2016, and confirmed the service complied with requirements. Since that time annual self-assessments, consistent with PSIAS also confirmed ongoing compliance. The planned 2021 external assessment was deferred in the light of the decision to close the shared service. Given the setup of the new in-house Internal Audit Service from April 2022 and the appointment of a new Head of Audit & Risk Management, it would seem reasonable for the IA service to have time to bed-in and for the new Head to determine the most appropriate time for an external review, in liaison with the Executive Director of Finance (and Section 151 Officer) and the Chair of the Audit & Governance Committee.

#### IA service improvements

The Internal Audit service uses an audit management system to plan, co-ordinate and process audit plans and assignments. Due to the termination of the Shared Audit Service, it was necessary for the in-house service to promptly manoeuvre and purchase its own system. Whilst delivery of the project in the timescale and climate was challenging, audit management together with support from the transformation team achieved successful delivery of the new system which went live from 1st April 2022.

Further improvements to providing a consistent and effective service to the Council will come once the new Head of Audit & Risk Management is in place.

#### Client satisfaction

No client satisfaction surveys were issued during the 2021/22. A decision of the Chief Internal Auditor. This matter will be rectified for 2022/23. In any normal year customer surveys are issued to Audit clients at the

<sup>2</sup> Cabinet Office National Fraud Initiative Estimated Outcomes Methodologies 20/21 Report



end of the audit assignments. Development of an annual survey to senior management and stakeholders such as Members of this Committee will also be considered.



**Individual Audit Assurances as at end of May 2022**

Assignment	Audit Status *	Completion # %	Assurance		
			Control Environment	Compliance	Org Impact
<b>2020/21 brought forward from NCC</b>					
Pensions Review	Final Report Issued	100%	Substantial	Good	N/A
General Ledger	Final Report Issued	100%	Good	Satisfactory	N/A
Bank Reconciliation	Final Report Issued	100%	Good	Good	N/A
<b>Plan 2021/22 - Q1</b>					
Government Procurement Card	Final Report issued	100%	Satisfactory	N/A	Minor
Key Policies and Procedures	Final Report issued	100%	Satisfactory	N/A	N/A
Consolidation of Key Records	Final Report issued	100%	Satisfactory	N/A	N/A
Establishment Checks	Final Report Issued	100%	Satisfactory	Satisfactory	N/A
Legacy Bank Accounts	Final Report Issued	100%	Satisfactory	Satisfactory	N/A
ERP IT User Access - Financial Control	Final Report Issued	100%	Good	Good	Minor
Payroll	Final Report Issued	100%	Good	Satisfactory	Minor
General Ledger	Final Report Issued	100%	Satisfactory	N/A	Minor
Bank Reconciliations	Final Report Issued	100%	Satisfactory	Satisfactory	Minor
Treasury Management	Final Report Issued	100%	Satisfactory	Satisfactory	Minor
Covid-19 Business Support Grants	Briefing Note Issued	100%	N/A - post payment review (assurance provided)		
Accounts Payable	Final Report Issued	100%	Good	Good	Minor
Income - AR Debt Raising)	Final Report Issued	100%	Good	Satisfactory	Minor
Year-End Accruals - Sovereign Councils	Complete	100%	N/A - pre-external audit review		
Accounts Receivable - AR Debt Recovery	Final Report Issued	100%	Satisfactory	Satisfactory	Minor
<b>Plan 2021/22 - Q2</b>					
Financial Decision Making (Scheme of Delegations)	Final Report Issued	100%	Good	N/A	Minor
Planning Applications Process	Fieldwork in Progress	60%			
Information Governance	Draft report being prepared	85%			
Council Tax	Draft report being prepared	85%			
NNDR Business Rates	Draft report being prepared	85%			
Corporate Health and Safety	Fieldwork in progress	25%			
<b>Plan 2021/22 - Q3</b>					
IT Disaster Recovery	Draft report issued, awaiting response	90%	Limited	Limited	Moderate
Financial Management - Budget Monitoring	Final Report Issued	100%	Good	N/A	Minor



Assignment	Audit Status *	Completion # %	Assurance		
			Control Environment	Compliance	Org Impact
Schools SFVS IA Questionnaire	Fieldwork in Progress	70%	N/A – results of review will feed into planned work on school audits in 2022/23		
Taxi Licensing	Draft report issued, awaiting response	90%	Limited	Limited	Major
Home to School Transport (ADDED)	Draft report being prepared	85%			
<b>Plan 2021/22 - Q4</b>					
Pension Fund Review	Draft report being prepared	85%			
Payroll Transactional Testing (ADDED)	Fieldwork in Progress	50%			
Housing Benefit and Council Tax Reduction	Draft report being prepared	85%			
Transformation from Safe and Legal to BAU	Draft report being prepared	85%			
WNC / NNC Partnership Liaising Arrangement	Fieldwork nearing completion	75%			
Corporate Procurement	Fieldwork nearing completion	75%			
Financial Management - MTFP	Draft report being prepared	85%			
Emergency Planning	Draft report being prepared	85%			
Contract Management - Parking	Fieldwork nearing completion	75%			
IT Systems Security - CareFirst	Fieldwork in Progress	25%			
IT Cyber Security Essentials	Fieldwork nearing completion	75%			
Leisure Services - Establishment management	Draft report being prepared	85%			
Corporate Risk Management	Draft report issued, awaiting response	90%	Satisfactory	Satisfactory	Moderate
<b>Plan 2021/22 - Cancelled / deferred / covered by other audits (as reported in progress update reports and considered as part of 2022/23 audit plan)</b>					<b>Committee Reported</b>
Legacy Debt Recovery					Jan 2022
Customer Services / Complaints Monitoring					Jan 2022
Home Improvement Grants					Jan 2022
GDPR - Record Retention Policy					Jan 2022
Land & Property - Sales & Acquisitions					Jan 2022
Sundry Income Cashflow					Jan 2022
Contract Management - Adult Residential Placements					Apr 2022
Adult Social Care Need Assessments					Apr 2022
Performance Management Framework					Apr 2022
Safeguarding Vulnerable Adults					Apr 2022
Social Lettings Agency - Guildhall Lettings Follow Up					Apr 2022
NPH - Client Monitoring Follow Up					Apr 2022
Contract Management - Highways Follow Up					Apr 2022



Assignment	Audit Status *	Completion # %	Assurance		
			Control Environment	Compliance	Org Impact
Asset / Property Management (incl inventories)			Apr 2022		
Children's Trust - Service Delivery Contract Monitoring			Apr 2022		
Housing Allocations			Apr 2022		
Planning - S106 Agreements			Apr 2022		

Grant	Audit Status *	Completion # %	Assurance
<b>Grant Verification Work</b>			
NCC Disabled Facility Grants 2020/21	Complete	100%	Assurance Given
NCC Local Authority Bus Subsidy (Revenue) Grant 2020/21	Complete	100%	Assurance Given
NCC Funding for Supported Bus Services (Revenue) Grant 2020/21	Complete	100%	Assurance Given
NCC + WNC Covid-19 Bus Service Support Grant Restart (CBSSG) 2020/21 + 2021/22	Complete	100%	Assurance Given
WNC Homelessness Prevention Grant 2021/22	Complete	100%	Assurance Given
WNC - Electric Vehicle Charge Points in Northamptonshire 2021/22	Complete	100%	Assurance Given

### Assurance Level Definitions

There are three elements to each internal audit review. Firstly, the CONTROL ENVIRONMENT is documented and assessed to determine how the governance is designed to deliver the service's objectives. IA then needs to test whether COMPLIANCE is evident in practice.

Finally, IA undertakes further substantive testing and/or evaluation to determine the ORGANISATIONAL IMPACT of weaknesses found. The tables below outline the criteria for assessing the above definitions:

Control Environment Assurance	
Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.



Compliance Assurance	
Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

Organisational Impact of Findings	
Level	Definitions
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.

Specifically for Grant certifications, definitions are used are as follows:

Opinion for Grant Certifications	
Level	Definitions
Assurance Given	The claim as certified was found to be in compliance with the grant conditions, subject to any observations reported.
No Assurance Given	The claim was not certified as it was found to be not in compliance with the grant conditions.

- \* Audit progress is measured within several stages
  - Not started (0%)
  - Planning stage / issue of Terms of Reference (5 to 10%)
  - Fieldwork in progress (10% to 85%)
  - Fieldwork complete / draft report being prepared or reviewed (85%)
  - Draft Report issued / considering or awaiting management responses (90%)
  - Final Report issued (100%)

# Progress is assessed as a percentage of the whole audit as indicated above.