

Rossendale Borough Council

Internal Audit Service annual report for 2018/19



Rossendale Borough Council
Internal Audit Service annual report 2017/18

		Page
1	Introduction	2
2	Summary assessment of internal control	3
3	Key issues and themes	4
4	Implications for the annual governance statement	5
5	Organisational independence	5
6	Internal audit performance: completion of the internal audit plan	5
7	Quality assurance and improvement programme	5
Annex A	Summary of findings and assurance	7
Annex B	Findings arising from each audit completed during the year	12
Annex C	Audit assurance levels and classification of residual risks	19

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2018/19 and the key themes arising in relation to internal control, governance and risk management across the council.
- 1.2 In March 2018 the Audit and Accounts Committee considered and approved an internal audit plan for 2018/19. The work completed supports the overall opinion on the frameworks of governance, risk management and internal control.

The role of internal audit

- 1.3 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) require the head of internal audit to provide an opinion on the council's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based on the work the Internal Audit Service performed during 2018/19.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in the annexes below.

Interim progress reports

- 1.5 We have provided summaries of the individual audits completed in the year in progress reports to each meeting of the Audit and Accounts Committee. Audit reports will be provided to members if they wish.

Ruth Lowry
Head of Internal Audit
Rossendale Borough Council

2 Summary assessment of internal control

Overall opinion

- 2.1 I can provide **substantial** assurance overall regarding the adequacy of design and effectiveness in operation of the council's frameworks of governance, risk management and control.
- 2.2 In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year.
- 2.3 A summary of the assurance available from the audits we have undertaken during the year and more detailed notes of the findings arising from each are set out in Annex A and B. An explanation of the levels of assurance the Internal Audit Service provides is set out in Annex C.

The council's control framework

- 2.4 Our work has been organised in accordance with the Internal Audit Service's planning principles and an understanding of the council's controls at the start of the year, which was set out as follows:

A framework for governance, risk management and control				
Governance and democratic oversight				
Corporate governance framework			Democratic processes	
Business effectiveness				
Risk management	Performance monitoring and management		Organisational design	Working in partnership
Service delivery				
Customer services		Operations and environmental health		Business
Benefits administration	Revenue collection	Refuse collection and recycling	Parks and open spaces	Housing Regeneration
Leisure services		Street sweeping	Planning	Licensing
Service support				
Contract monitoring and management			Public interface	
Business processes				
Financial processes	ICT	Facilities management	Human resources	
Investment	Payroll	Procurement	Business continuity	

Summary of assurance provided by the Internal Audit Service

- 2.5 The following table summarises the assurances we provided on the 2018/19 audits which have contributed to our annual assurance opinion, including comparative figures from previous years. The figures exclude the procurement audit which was deferred to 2019/20. Please note the change in the assurance opinion methodology from 2018/19.

2018/19 assignments	Total	Assurance Opinion					
		Substantial	Moderate	Limited	None	Incomplete	Deferred
Governance/ democratic oversight	1	1					
Business effectiveness	0						
Service delivery	2	1	1				
Service support	3	1	1			1	
Business processes	12	8	3				1
Total	18	12	5	0	0	1	1

	Total	Full	Substantial	Limited	None
2017/18	18	1	16	1	0
2016/17	16	1	12	3	0

Management's responses to our findings

- 2.6 We have discussed the issues we raised during the year with service managers and members of the Senior Management Team. We agreed action plans and our work in 2018/19 indicates that the plans agreed in 2017/18 are largely being addressed, although some work is still ongoing.

3 Key issues and themes

- 3.1 Improved internal controls continue to operate effectively over the council's basic business processes. We gave no limited or lower assurance opinions and gave substantial assurance over most of the transactional systems audited, with the exceptions of payroll, information security and GDPR, debt management, IT system access and the environmental health service.
- 3.2 We have again given substantial assurance over the delivery of action to support implementation of the council's improvement plan, as effective governance arrangements continue to be embedded into day-to-day operations, particularly risk and performance management and decision making. We agreed with managers to defer the audit of procurement to 2019/20.

- 3.3 We followed up progress to implement actions arising from 2017/18 audits, and are satisfied that actions have been implemented or are being taken to address the risks identified. We had been concerned at delays in publishing revised contract and procurement rules, which needed updating to reflect changes to the scheme of delegation, European Union procurement limits and contract waivers, but revised rules were published in an updated Constitution in February 2019.

4 Implications for the annual governance statement

- 4.1 In preparing its annual governance statement the council should consider this annual assurance opinion in relation to its control environment, risk management processes and corporate governance. The council should therefore reflect the progress made in delivering the actions set out in the council's improvement plan, describing the impact of completed actions on corporate governance and its plans to implement the remaining actions.

5 Organisational independence

- 5.1 The Internal Audit Service has access to and support from the council's Senior Management Team and is able to operate independently within the organisation so is properly able to fulfil its responsibilities. In accordance with its charter the service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Senior Management Team and the Audit and Accounts Committee, but remain decisions for the head of internal audit. The head of internal audit and audit manager have direct access to and freedom to report in their own names and without fear or favour to all officers and members.

6 Internal audit performance: completion of the internal audit plan

- 6.1 We carried out audit work in the year in accordance with the audit plan submitted to and approved by the Audit and Accounts Committee in March 2018. Of 22 planned audits, including follow up work, we have completed 20. One has been deferred and one is in progress. We agreed audit findings with managers and have issued final reports for all audits. The 'Summary of Findings and Assurance' table at Annex A records the status, assurance opinion and comments for each audit. As set out at paragraph 2.5 above our assurance opinion is based on 18 full audit assignment reports, as in 2017/18. The 2018/19 audit plan includes follow up of progress to implement agreed improvement actions.

7 Quality assurance and improvement programme

- 7.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessment or internal assessment by others with

sufficient knowledge, and independent external review at least once every five years.

Type of review	Internal review		External review
	Ongoing	Periodic	At least 5-yearly
Frequency			
Audit assignment quality	✓		✓
Professional and operational framework		✓	✓

7.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review. All completed feedback questionnaires received from the council's managers in 2018/19 recorded 'good' or 'very good' satisfaction scores.

External review

7.3 An external quality assessment was undertaken by the Chartered Institute of Internal Auditors in November 2017. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, PSIAS and Local Government Application Note. Work continues to address the few matters raised to improve the operation of the service.

7.4 The Internal Audit Service can therefore say that its work has been in accordance with the International Professional Practices Framework, PSIAS and the Local Government Application Note.

Internal review

7.5 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and during the year a post-audit file review processes was also set out to test conformance with the service's working practices and the quality of work undertaken. The file reviews indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors, although some learning points have been drawn out and shared with the team

Annex A

Summary of findings and assurance

A.1 A summary of the assurance from each of the audits completed during the year is provided below. A longer explanation of the findings arising from each audit is set out in Annex C.

Audit	Status	Assurance	Summary findings/ comments
Governance and democratic oversight			
Improvement plan: 2017/18 follow up	Completed	Substantial	High-level strategies, policies and procedures are in place, including new performance and project management frameworks, or are to be refreshed. Actions on related audits have largely been implemented.
Business effectiveness			
Performance management: 2017/18 follow up	Completed	N/A	Three medium risk actions have been implemented. A low risk action will not be implemented due to resource constraints. A performance reporting template is in place and work is in hand to develop performance measures and indicators. Senior managers report performance to Overview and Scrutiny Committee, focusing on 'red' indicators.
Risk management: 2017/18 follow up	Completed	N/A	We confirmed all seven actions have been implemented, except for one aspect of a low risk action which the senior management team no longer considered to be necessary. A comprehensive list of projects is produced annually and is used to identify projects for reporting to Programme Board using a red/ amber/ green rating based on seven Key Status Reports.
Service delivery			
Environmental health service	Final Report	Moderate	We would have given limited assurance if service managers had not already been working to improve operational processes. There is clear strategic direction, resources have been recruited and private sector penalty enforcement, CCTV and prioritising prosecutions should help reduce environmental crime. These are not well recorded but transfer of data to UNIFORM should help address this. Public requests for action are administered efficiently and effectively and Idox maintains a record of reports and action taken. Eight medium and two low risk actions are due to be implemented by September.
Waste collection service	Final Report	Substantial	Waste collection is in line with policy and regulation. Routes are reviewed to ensure new properties are added. Operatives are trained, crews report issues from collections and vehicle location is monitored to identify delays. Complaints are managed effectively, including missed collections, although data is not up to date. Payments for charged services is properly charged and non-payment is pursued. Four low risk actions are due for implementation and we will follow them up shortly.

Rossendale Borough Council

Internal Audit Service annual report 2018/19

Audit	Status	Assurance	Summary findings/ comments
Licensing: taxis - follow up 2017/18 audit	Completed	N/A	Four medium and three low risk actions were implemented to expand use of the DBS service, remove applications not being progressed, report enforcement activity and record investigations. One medium action was not pursued following legal advice and a low risk action could not be implemented due to system access issues.
Licensing: alcohol sales – follow up 2017/18 audit	Completed	N/A	Four low and one medium risk actions, to improve management checks, were implemented.
Service Support			
IT system access	Final Report	Moderate	Data centres hosting systems and data storage are ISO270001 accredited. System access is well controlled through an approval process and prompt deactivation of redundant accounts. Network access controls provide assurance over wider system security. Other systems had no documented access procedures, ldox ownership was unclear, user requests and approvals were not recorded and there were too many super user accounts. There is no central list of systems and owners. Two medium and four low level risks were agreed and are due to be fully implemented by December 2019.
Revenues and benefits contract procurement	Completed	Substantial	The competitive tender process to renew the contract complies with EU regulations and contract and procurement rules. There was appropriate oversight by councillors and approval of the award decision. Bids were evaluated against financial resources, experience, specification and price and there was discussion of bids and moderation of individual scores to determine the successful bid. We confirmed that the highest scoring bidder was awarded the contract.
Project management	Fieldwork	Added on completion	This audit is in progress and testing is based on a small sample of projects, to assess compliance with the council's programme and project management framework.
Business Processes			
Information security/ GDPR	Final report	Moderate	Key roles are allocated but a shared Data Protection Officer role conflicts with operational roles and should be reallocated. Managers and members are trained and mandatory e-learning has been introduced. Policies have been drafted but not yet published, and the DPO should monitor compliance. Personal data processing audits are unclear. We agreed six medium and four low risk actions, due to be implemented by December 2019.
Business rates/	Final report	Substantial	NNDR multipliers are approved and input onto Northgate correctly. Annual bill amounts are calculated

Rossendale Borough Council
Internal Audit Service annual report 2018/19

Audit	Status	Assurance	Summary findings/ comments
NNDR			accurately and the database is reconciled weekly. Discounts and exemptions are supported by evidence and properties are inspected periodically. The debt recovery schedule, refunds and write offs are compliant with the debt management policy. We agreed no management actions but confirmed that of two medium risk actions from 2017/18 one was implemented and one superseded.
Housing benefits	Final report	Substantial	Claims and amendments eligibility is correctly assessed and they are processed promptly, supported by evidence. Claim quality is checked monthly and in quality reviews. System access is appropriately restricted. Housing benefit payments are reconciled correctly with appropriate separation of duties between service provider and exchequer services. We agreed no management actions but confirmed two medium risk actions raised in 2017/18 as implemented.
Council tax	Final report	Substantial	Council tax billing is accurate, and debt recovery, refunds and write-offs comply with policy. Discounts and exemptions are applied correctly and properties are inspected if necessary. There is effective oversight of banding, service performance and high value write-offs. We agreed no management actions and confirmed one low risk action raised in 2017/18 was not implemented as the Operational Board considered further reporting was unnecessary.
Income collection and banking	Final report	Substantial	Income is promptly receipted, recorded, banked and appropriately coded and posted to the general ledger. Monthly reconciliations are undertaken, and reviewed and approved by the finance manager. The bank reconciliation had a small recurrent imbalance of £33k during 2018/19 but the finance manager had satisfactorily resolved this before we reported. We raised one low risk action to address security arrangements, which was implemented.
Accounts payable	Final report	Substantial	Invoices are matched to purchase orders and goods receipt notes are received prior to payment. These are processed promptly but some are delayed if purchase orders or receipting is delayed. Account codes are correctly posted based on invoice description. Creditor control accounts are reconciled and failure to balance is resolved. New creditor amendments and records are supported by reasons and evidence. Expenditure is reported to Cabinet. Two low risk actions were implemented and one medium action from 2017/18 was superseded and two low risk actions were implemented.
Accounts receivable	Final report	Substantial	Procedures operate effectively including administration of the debtor database, invoicing, credit notes and cancellations and recovery and write off of debt in line with debt management policy. We agreed three actions due for implementation by December 2019. We also confirmed that of six low risk actions agreed in 2017/18 three were fully implemented, one was partially implemented and two were not implemented. We addressed the latter three actions in our recent debt management audit.
Debt management	Final report	Moderate	Processes to manage and monitor of overall debt, send automated recovery notification and write-off unrecoverable debt are operating effectively. However, polices need to be updated. We also identified

Rossendale Borough Council

Internal Audit Service annual report 2018/19

Audit	Status	Assurance	Summary findings/ comments
			a need for improvement in the management of debt in Legal Services and operational services. We agreed one medium and three low risk actions which are not yet due for implementation.
Payroll	Final report	Moderate	Payroll aligns to staff structure and payments are correctly calculated and processed. Exception reports are cleared prior to payment. BACS, control account and bank statement reports are matched to net pay. System access is appropriately restricted and procedure notes are in place. The assurance opinion reflects the need to retain evidence to support proof of identity and right to work. We agreed one medium risk action which has been implemented.
General ledger and budget	Final report	Substantial	The annual budget is approved and entered correctly onto the general ledger. Members receive regular reports to support budget monitoring, including explanations for variances. There is appropriate control over officer access permissions. Control accounts are regularly reconciled and input, supported by explanations and source documents. We agreed no actions and confirmed that a low risk action raised in 2017/18 was implemented.
Treasury management	Final report	Substantial	The Treasury Management Strategy and Annual Investment Strategy set out roles, responsibilities, regulations and best practice. Activity is undertaken in accordance with policy and investments and payments are authorised in line with delegated responsibilities. Performance is reported to Cabinet. We agreed one medium risk due to be implemented in December 2020 and confirmed that from 2017/18 one medium risk action was implemented and one low risk action superseded.
Procurement	Deferred	N/A	Not applicable.

Stage of audit process	Number	Percentage
Complete/ final report	20	91%
Draft report	0	
Progressing	1	4.5%
Not yet started	0	
Deferred	1	4.5%
Total number of audits	22	100.0%

Annex B

Findings arising from each audit completed during the year

Governance and democratic oversight

Improvement plan: 2017/18 follow up

1. We are satisfied that significant progress has been made to address the issues raised in the council's improvement plan. Its delivery was largely dependent on improving corporate arrangements in procurement, risk and performance management and decision making and democratic oversight. We carried out audits in these areas to assess the adequacy and effectiveness of controls, and agreed a number of further actions to support improvement. Subsequent follow up audits in 2017/18 and 2018/19 noted improvement across all areas. While some progress is still needed, particularly on procurement, most of the issues raised have been sufficiently addressed overall. These include:
 - High level strategies, policies and procedures are in place;
 - Processes supporting the scheme of delegation have been improved to promote clarity and consistency;
 - The performance management framework is being updated and there is quarterly reporting to Overview and Scrutiny Committee which includes risk; and
 - Project risk is managed through a new project management framework and risk-based selection of projects for reporting to Programme Board.

Business effectiveness

Performance management: follow-up of 2017/18 audit

2. We are satisfied that action has been taken to implement three medium risk actions raised. A low risk action, to reintroduce a 'celebrating success' dashboard, will not be implemented due to resource constraints. The performance management framework is being updated to include detailed performance management procedures and practice including officer and member responsibilities and data quality. Council priorities, objectives and success measures are included in the Corporate Plan and a quarterly performance report to Overview and Scrutiny Committee sets out progress with an overview of corporate risks. Service managers are aware that performance must be supported with records but an annual quality assurance certificate required to be signed by all managers were not requested in 2017/18. These will be reintroduced from 2018/19.

Risk management: follow-up of 2017/18 audit

3. Our 2017/18 audit report confirmed that the management of corporate risks is effectively controlled but gave limited assurance overall due to the need to improve the management of risks in lower value projects. Of seven agreed actions raised we confirmed that all were implemented.
4. A comprehensive list of projects is now produced annually, informed by information from project managers, and is used to identify projects that should be reported to Programme Board. The report 'dashboard' uses red/ amber/

green ratings to highlight specific project risks based on seven Key Status Reports, which are validated by senior managers liaising with project managers.

Service Delivery

Environmental Health Service – moderate assurance

5. Policies are being reviewed and in future should include air quality and private water supply. Performance statistics on air quality, food inspection and intervention and water inspection are not maintained as they are monitored by government agencies. Public Protection Unit (PPU) targets should be considered to assess the impact of enforcement activity such as fixed notice penalties, fly tipping reports and prosecutions. Public reports and the council response is recorded, informs risk-based inspection and managers monitor progress. A response is usually sent within a day and issues are addressed in 13 days on average against a service target of 50. This may indicate the target is not sufficiently challenging or that different types of activity need different targets.
6. Enforcement of environmental crime has been largely reactive but we acknowledge the need to focus limited resources on early removal of hazards. PPU priorities now reflect renewed focus on proactive enforcement through increased resource, private sector management of fixed penalties and prioritising prosecution cases with a high chance of success. There has been some proactive inspection of commercial catering premises but this has yet to be fully assessed. A 2017/18 food law service plan was approved by Full Council and progress against a risk-based inspection programme is reported to the Food Standards Agency. Most inspections are completed within the 28 day target or were low risk. Managers are recruiting to address expected backlogs.
7. An air quality action plan addresses two management areas to comply with statutory requirements. The Department for Environment, Food and Rural Affairs reported in 2018 that the plan lacked dates and targets, and it would be timely to update it as the Plan is over two years old and improvement action is addressed or overtaken. Private water supply sampling and risk assessment questionnaires were sent to residents in 2005 and this could be repeated. The council currently checks only commercial premises, in breach of regulations, and increased resources could be used on residential property. Notices are served where supplies are unfit to drink and action is taken to rectify the problem. Fees charged do not exceed the maximum permitted by the regulations.

Waste collection service – substantial assurance

8. Fortnightly collections are consistent with the statutory duty and the Lancashire Municipal Waste Management Strategy, which is being revised in light of the Government's new waste strategy. Collections are overseen through vehicle tracking and mobile phone contact. Separate household waste and recycling bins are provided, a collection guide/ timetable is published online and delivered to properties by hand. Operatives receive induction training to ensure procedures are understood and applied. The Operations Manager is a consultee on applications for new developments. Commercial and garden waste customers are correctly charged and added to collection routes. Payments have

largely been received although action is ongoing to recover some commercial debt. Commercial debt recovery sanctions are applied at the discretion of the Operations Manager and criteria are not recorded. Quarterly performance reports include waste and recycling performance indicators, to drive action to improve recycling rates.

9. Service requests and complaints are managed effectively, including action on missed collections, although data on re-collection times needs to be kept up to date. Service requests are increasingly received through social media but are not logged. The head of operations logs escalated service requests, with one outstanding request at December 2018.

Licensing: taxis: follow-up of 2017/18 audit

10. We followed up progress to implement five medium risk actions agreed during our 2017/ 18 audit, to expand use of the Disclosure and Barring Service (DBS), remove un-progressed applications, report enforcement activity and record investigations. Four medium and three low risk actions have been implemented: checks are being introduced to process license application refunds, more frequent driver checks will be made on the DBS update service, licenses under investigation will be highlighted on the system to avoid renewal and data on application numbers, performance and operational activity will be reported to Licensing Committee. The fifth action of retention of DBS certificates will not be implemented following legal advice and a low risk action could not be implemented as records could not be accessed on a redundant system.

Licensing: alcohol sales – substantial assurance

11. We confirmed that four low and one medium risk action, to record management assurance checks and outcomes, have been implemented.

Service Support

IT system access controls – moderate assurance

12. ISO 270001 accredited external data centres host council systems and data storage and the council take assurance over system security from the standards imposed. Policies address system access, but we agreed a stand-alone access control policy should be written to apply across council systems. We proposed network login pop-up reminders could be used for officers to confirm understanding of policies. No complete list of all council systems is maintained and not all have an allocated owner, making it difficult to evaluate all information security risk. Routing software procurement through the ICT Service could help ensure they are aware of and can advise on system purchases, but the ICT manager felt this may not work in practice.
13. Network access controls operate effectively, including approval and leavers. Super user access is restricted to ICT Service officers. As network access is required for 15 of the 18 IT systems network controls provide wider assurance over access to other systems. Evidence of access requests is inconsistently maintained but the planned introduction of an electronic document management system should improve this.
14. The Idox system is used by services including Licensing, Environmental Health and Corporate Services. Access requests are not recorded and 15 of 75

accounts had super user access, more than required to administer the system. Once an access control policy has been introduced, including super user access criteria, the number of super users should be reviewed.

15. Access controls for other systems operate informally and inconsistently. Requests and approval are not retained and system knowledge and understanding varied and was based on information security policy, which does not cover access controls. However, super user access is appropriately restricted and all systems but one had multiple access levels.

Renewal of revenues and benefits contract – substantial assurance

16. We provided assurance over the tender process to renew the council's largest single service contract, covering revenues and benefits services, customer contact, emergency out of hours and supporting ICT systems. There was appropriate oversight by councillors of the procurement process and approval of the selection decision. The Head of Finance reported to Cabinet (in September 2018) to consider the tender process, including background and options appraisal. The contract award proposal was reported to Full Council (in January 2019), which approved the award of the contract to Capita with effect from October 2019.
17. A competitive tender process was adopted following options appraisal and the tender was advertised in the Official Journal of the European Union, as required by EU regulation. The procurement process was appropriate to contract size, led by the Head of Finance and a small internal team. A consultant advised on the specification. Bids were evaluated in a two stage process covering financial resources and experience and specification and price. The Internal Audit Manager attended the meeting where specification scores were reported and consolidated with financial scores, and confirmed that there was appropriate discussion of bids and moderation of individual scores to arrive at an overall score, which was recorded. We confirmed that the bidder with the highest score was awarded the contract.

Business Processes

Information security and GDPR – moderate assurance

18. The Legal Services Manager/ Monitoring Officer is the Senior Information Risk Owner (SIRO). She and the IT manager are joint Data Protection Officer (DPO), and we consider that the compliance aspects of these roles conflict with officers' responsibilities under GDPR. The DPO role should therefore be allocated to another officer, possibly in Legal Services. A key DPO role is to monitor internal GDPR compliance but this was not happening and further action was needed to identify processing activity, to check compliance with GDPR and policy and identify the need for change.
19. Policies have been reviewed and updated and a data protection policy is in draft, but had not been approved. GDPR training was given to managers and there is guidance on the Intranet. Mandatory e-learning was to be rolled out for all staff in December. Guidance on GDPR implications for new contracts is published and existing contracts should be reviewed for compliance.
20. Information audits, to map organisational data flows, record some required information, including where consent is the legal basis for processing, but not

all. The format led to confused responses, for example one service recorded 'Yes' and 'No' against a number of questions. There is a dedicated email to report data breaches but they cannot be reported on the Intranet or website.

Key financial systems

21. The council's financial controls are generally well established and operate effectively. Actions from our previous year's audits were largely implemented and we raised further actions to address minor errors and compliance lapses.

Business rates/ NNDR – substantial assurance

22. NNDR multipliers are approved and input on Northgate correctly. Annual bill amounts are calculated accurately and the database is reconciled weekly to Valuation Office (VO) reports. Discounts and exemptions are supported by evidence and properties are inspected periodically. The debt recovery schedule, refunds and write offs comply with debt management policy. We followed up implementation of two medium risk actions from our 2017/18 audit, confirming the first is implemented and the second superseded:
 - VO reports are now reconciled.
 - Members stated they do not require reports on monitoring of these debts.

Housing benefits – substantial assurance

23. Eligibility for housing benefit claims and requests for amendment is assessed prior to being awarded, and claims are supported by evidence and processed promptly. Claim quality is sample checked monthly and the Service Assurance Team (SAT) monitor quality. System access is appropriately restricted and requires staff to sign a declaration of interest. Payments are reconciled correctly with appropriate separation of duties. We confirmed that two medium risk actions from our 2017/18 audit were implemented:
 - Officers with Northgate system access now sign declarations of interest.
 - Access to Northgate is appropriately restricted.

Council tax – substantial assurance

24. The council tax billing procedure is accurate, and debt recovery, refunds and write-offs are processed in compliance with debt management policy. Discounts and exemptions are applied correctly and properties are inspected periodically where applicable. The Service Assurance Team and members have effective oversight of council tax bands, service performance and approval of high value write-offs. We followed up implementation of one low risk action from our 2017/18 audit, to report outstanding debt as a performance indicator to the Operational Board. However, the Board considered that existing reporting arrangements were sufficient.

Treasury management – substantial assurance

25. The Treasury Management Strategy Statement (TMS) details the council's investment policy including restrictions on investment activity. The Treasury Management Policy and Practices (TMP) document outlines roles and responsibilities relating to treasury management. External advice is taken on

treasury management. Cash flow forecasting is undertaken regularly and surplus cash is identified. Investments are made in accordance with TMS requirements. Access restrictions to the payment system is appropriately restricted and investments and payments are authorised appropriately.

Payroll – moderate assurance

26. Payroll data agrees to staff structure and deductions and expenses are paid correctly and evidenced. Exception reports are reviewed and approved prior to payment and BACS, control account and bank statement reports are matched to net pay. We were concerned that evidence of proof of identity and right to work in the UK was not routinely retained. We were told this should be reviewed at interview and copies are taken once an appointment has been confirmed, but this has not happened for most new starters. The Home Office require employers to retain evidence of an employee's right to work for two years after they have left employment. System access is restricted and permissions are based on roles and responsibilities. Exit interviews and leavers' checklists were completed in all but one case.

Accounts payable – substantial assurance

27. Access permissions and approval limits on creditor's module are appropriately restricted and are appropriate to roles though evidence supporting access requests did not always support access held. Requests for changes of bank details held on the system should be validated by a second officer prior to being actioned, but evidence was not always retained. There is adequate and appropriate segregation of duties between responsibility for purchasing, invoice processing and payment. We agreed an action in our accounts receivable audit report to review all user access.
28. General ledger accounts codes were posted to the appropriate category of expenditure based on the invoice description. Creditor control accounts are reconciled weekly. Payments are generally processed promptly although some were delayed as purchase orders and receipts were not promptly raised by requisitioners. There was some use of retrospective purchase orders which undermines procurement controls and increases the risk that incorrect invoices are raised and payments to suppliers are delayed. Quarterly expenditure reports are submitted to Cabinet on budget spend, with an explanation of variances.

Accounts receivable – substantial assurance

29. The debtor database is effectively administered through procedures for invoicing, credit notes and cancellations. Debt monitoring and reporting supports senior manager and member scrutiny. Recovery is effectively managed and was largely pursued in line with policy, which is due for review. Legal Services record and monitor progress with debt recovery cases though we agreed minor administrative changes. Meetings should be held between Legal Services and Exchequer Services to ensure debts are actioned. Services frequently fail to respond to requests for evidence or to suspend services provided to debtors which unnecessarily add to overall debt.

Debt management – moderate assurance

30. Sundry debt and local taxation debt management policies should be revised to correct minor inaccuracies. In some case prompt recovery action had not been taken or cases could not be found, and Legal Service's monitoring record could be revised to better track and manage cases, and reconciled to outstanding debtors on Civica. Allocating cases R/A/G priority could also better target resources. Exchequer Services and Finance periodically monitor and review service debt but have to prompt services to address outstanding issues. Recovery in some cases was delayed as services had not taken effective action or had responded late to queries. This may have resulted in unnecessary write offs. Action agreed on previous audits for regular meetings with services and escalation to senior managers has not been effective.

General ledger, budget setting and monitoring – substantial assurance

31. The general ledger is well managed and maintained through appropriate controls. The 2018-19 budget was reviewed by Overview and Scrutiny Committee and Cabinet, approved by Full Council, and set up accurately on the general ledger. Regular budget monitoring reports are produced and reviewed by officers and members, including explanations for variances. Reconciliations of payroll, creditors and debtors take place and are overseen by managers, and control account balances match the general ledger. Journals are made correctly and supported by satisfactory evidence, which is retained. System access to update the general ledger is appropriately restricted. Control accounts are regularly reconciled and supporting evidence is available for journals input to the system.

Income collection and banking – substantial assurance

32. Income is reconciled daily to the general ledger and bank reconciliations are undertaken monthly, and are reviewed and approved by the finance manager. The cash at bank reconciliation showed a small recurrent imbalance of £33k which the finance manager had been monitoring and, prior to reporting, had identified £26k and attributed the remaining £9k to a 2017-18 year-end error. Arrangements to cover absence mean access to the safe is not effectively controlled.

Annex C

Audit assurance levels and classification of residual risks

Assurance

The assurance we can provide over any area of control falls into one of four categories as follows:

Substantial assurance: the framework of control is adequately designed and/or effectively operated overall.

Moderate assurance: the framework of control is adequately designed and/or effectively operated overall, but some action is required to enhance aspects of it and/or ensure that it is effectively operated throughout.

Limited assurance: there are some significant weaknesses in the design and/or operation of the framework of control that put the achievement of its objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/or operation of the framework of control that could result in failure to achieve its objectives.

Risks

We categorise the issues we raise in the context of the residual risk to which the service is exposed. The agreed actions are therefore defined as 'extreme', 'high', 'medium' or 'low' in relation to the residual risk they are designed to address and fall into the following categories:

Extreme residual risk: critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

Medium residual risk: failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable*