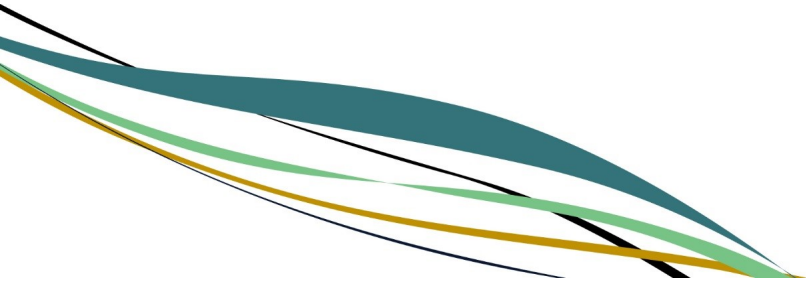


Internal Audit Service

Internal Audit Report - Assurance *Opinions on Systems Administered by* *LGSS 2017-18*

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1. INTRODUCTION

- 1.1 Many financial activities transferred from Northampton Borough Council to LGSS during the 2013-14 financial year. It was agreed with the S151 Officer and the council's internal auditors (PwC) that where LGSS have the responsibility to undertake the functions, LGSS Internal Audit would complete the assurance work relating to LGSS functions, whilst PwC would continue to audit those aspects which remain in the direct control of the council. This approach has been used each year and we have worked with PwC to plan and undertake our work to enable us to provide the assurance opinions, whilst minimising duplication of work.
- 1.2 The 2017/18 plan was considered by the Audit Committee in September 2017.
- 1.3 This report summarises the findings from work carried out in 2017-18 along with outlining the plan of audit work in 2018-19.

2. Overview and Key Findings 2017-18

2.1 Audit Coverage 2017-18

- 2.1.1 The three year audit plan considered by the Audit Committee in September 2017 is detailed below:

Audit	2017-18	2018-19	2019-20
Accounts Payable		X	
Accounts Receivable			X
General Ledger			X
Bank Reconciliations		X	
Treasury Management			X
Council Tax	X		
Business Rates	X		
Housing Benefits		X	
Fixed Assets	X		
IT Audit System Review			
- Agresso	X		
- Northgate		X	
- Academy			X

- 2.1.2 During the year the IT Assurance Manager has left the organisation, which created a short-term resource issue in terms of our IT audit arrangements. In discussions with officers, it was agreed that in order to manage the impact of this issue, the review of Agresso would be deferred to 2018-19 and replaced with a review of Accounts Payable in 2017-18.

2.2 Summary of Key Findings

- 2.2.1 The status and outcome of our audit work in 2017-18 is attached in the table overleaf. The assurance levels are based upon the definitions in Appendix one.

Audit	Status	Control Environment Assurance	Compliance Assurance	Organisational Impact
Council Tax	Final	Good	Satisfactory	Minor
Business Rates	Final	Good	Satisfactory	Minor
Fixed Assets	Ongoing			
Accounts Payable	Final	Satisfactory	Good	Minor

2.1.2 A summary of the findings of these reviews are detailed below.

2.1.3 Council Tax - The level of assurance primarily reflects our findings in relation to the administration of discounts / exemptions in that our review highlighted the following:

- When a discount / exemption has been awarded, an event date should be recorded to remind the Council Tax Officer to review the discount / exemption at a later date. Testing highlighted a number of instances where no event date had been recorded.
- An annual plan to review specific exemptions has been developed but reviews had not been completed in line with timescales reflected in the plan.
- A targeted review of exemptions by Internal Audit highlighted that in 17% of cases, public information was obtained which Council Tax were not aware of. This included:
 - Four cases where properties had been sold after the exemption had been awarded.
 - In respect of exemption F, 14 instances were identified out of a sample of 35 where probate had been awarded and Council Tax were not aware of this.

As a result of this information, Council Tax have raised revised bills of £8,400 in 2017-18 for these cases.

It should be noted that across the other key areas considered as part of this review, controls were found to be operating effectively with only a small number of minor issues identified.

A copy of the agreed action plan for this audit is attached at Appendix two.

2.1.4 Business Rates - The level of assurance reflects our findings in relation to the administration of business rates in the following areas:

- A review of reliefs and exemptions identified the following:
 - For each relief / exemption category, there was no single reference point or procedure note detailing the circumstances when the relief / exemption can be requested and the evidence required to support an application.
 - When a relief / exemption has been awarded, a diary date should be recorded to remind the Business Rate Officer to review the relief / exemption at a later date. Testing highlighted a number of instances where no diary date had been recorded.

- When a relief / exemption has been awarded, testing highlighted a number of instances where either the property was not visited or a series of planned visits were not arranged.
- A process has been agreed to review empty property exemptions. This process commenced in February 2017 and whilst the process is to review these exemptions on a six monthly basis, our review found that the second review commenced in November 2017 rather than in August 2017 as planned and at the time of the audit, the November 2017 review had still not been completed.
- In terms of debt collection, whilst a liability order allows the Council to take action including start insolvency proceedings, our review identified debts on Academy which do not meet the write-off criteria that should proceed to the final enforcement stages, but currently no evidence could be found that this was taking place.

It should be noted that across the other key areas considered as part of this review, controls were found to be operating effectively with only a small number of minor issues identified.

A copy of the agreed action plan for this audit is attached at Appendix three.

2.1.5 Fixed Assets – This audit has been delayed as the team responsible for maintaining the Council’s Fixed Asset Register have prioritised work on attempting to resolve issues arising from the 2016-17 accounts and as a consequence, 2017-18 activity had not been included in the register. Discussions with senior officers in the Council has resulted in a decision to continue with the review so that a full understanding of the system can be obtained. This work is currently ongoing at the time of this work and once the review has been completed, a summary of the findings will be reported to the Audit Committee

2.1.6 Accounts Payable - The level of assurance reflects the following key findings:

- Whilst the scope of our review was limited to activity undertaken by LGSS on behalf of the Council, in evaluating working practices that LGSS operate to, we have not been able to establish that these have been formally agreed between LGSS and the Council. In particular, our review has highlighted the following weaknesses in current working practices:
 - There is little control in place over the use of new suppliers by the Council.
 - Tolerance levels set to resolve price differentials between the order and invoice value are (a) not adequately defined to take account of the range of invoice values processed by the Council and (b) are set at a relatively high value for a price difference to be processed without budget holder approval.
- Testing of bank account amendments found that paperwork to support amendments made could not be located and as a result, we were unable to evidence the checks undertaken to validate the request as genuine. Furthermore, whilst evidence was found that management checks had been undertaken of activity through the supplier masterfile, this did not define the number of checks undertaken and what they involved.
- Only two reconciliations between Accounts Payable and the General Ledger had taken place during 2017-18 and neither reconciliation had been subject to management review.

A copy of the agreed action plan for this audit is attached at Appendix four.

- 2.1.7 The findings from these reviews will be followed up in 2018-19 and reported to management and the Audit Committee.

3. 2018-19 Internal Audit Plan

- 3.1 In consultation with the interim Chief Financial Officer and the Governance and Risk Manager, the planned audit coverage as outlined in 2.1.1 has been reviewed to ensure resources reflect the priorities of the Council. As a result, the following reviews have been agreed for 2018-19:

- Housing Benefits
- IT Audit System Review of Agresso
- Accounts Receivable
- Quarterly Balance Sheet Reviews – This is a new review which will include elements of coverage that would normally be considered in reviews of Bank Accounts Reconciliations and General Ledger.

Appendix One: How Internal Control is reviewed

Each Internal Audit review has three key elements. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.

However, controls are not always complied with, which will in itself increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This enables Internal Audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Finally, where there are significant control environment weaknesses or where key controls are not being complied with, further substantive testing is undertaken to ascertain the impact these control weaknesses are likely to have on the organisations' control environment as a whole.

To ensure consistency in reporting, the following definitions of audit assurance are used:

Control Environment Assurance	
Level	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Satisfactory	There are 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	Definition
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant

	errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact	
Level	Definition
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

When assessing findings in the Management Action Plan, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found. For ease of reference, we have used the following system to prioritise our recommendations, as follows:

ESSENTIAL (E)	Important (I)	Standard (S)
Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss. The improvement is critical to the system of internal control and action should be implemented as quickly as possible.	Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss. The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.	The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently. Management should implement promptly or formally agree to accept the risks.

Appendix Two: Council Tax Review Action Plan

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1	<p><u>Exemption Monitoring – Follow up Action</u> When a discount / exemption has been awarded, an event date should be recorded to remind the Council Tax Officer to review the discount / exemption at a later date. Testing of discounts / exemptions awarded identified six instances where no event date had been recorded.</p> <p><u>Risk</u> Lost income as exemptions awarded that customers are not entitled to.</p>	<p>Important To review procedures to gain assurance that all exemptions have an event date is recorded.</p> <p>To ensure that the planned annual review of discounts and exemptions take place.</p>	<p>Revenues & Benefits Operations Manager</p> <p>30/06/18</p>
2	<p><u>Exemption Monitoring – Annual Review</u> An annual review plan has been developed to review all exemptions. Based on discussions with the Council Tax Team Leader, it was acknowledged the review had not been completed in line with the agreed timetable although this work was in progress.</p> <p><u>Risk</u> Lost income as exemptions awarded that customers are not entitled to.</p>	<p>Important To ensure that the planned annual review of discounts and exemptions take place. Evidence to be recorded of delivery and QA testing completed to demonstrate effectiveness.</p>	<p>Revenues & Benefits Operations Manager</p> <p>30/05/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3	<p><u>Exemptions – Properties Sold</u> In four cases, the properties had been sold after the exemption had been awarded.</p> <p><u>Risk</u> Lost income as exemptions awarded that customers are not entitled to.</p>	<p><u>Important</u> To update records for the four cases highlighted.</p> <p>To review current monitoring procedures to consider the risk that properties are sold and notification has not been received by Council Tax. This could involve using such tools as Zoopla and other public records. These cases will either be reviewed by individual review date, or by annual review, depending on the individual circumstance of each case.</p>	<p>Revenues & Benefits Operations Manager</p> <p>Immediate / 30/03/18</p>
4	<p><u>Exemption F Monitoring</u> 14 instances were identified where probate had been awarded and Council Tax were not aware of this. We believe this is primarily due to the fact that Council Tax do not routinely check records held by the Probate Office to gain assurance that the exemption remains valid.</p> <p><u>Risk</u> Lost income as exemptions awarded that customers are not entitled to.</p>	<p><u>Essential</u> To update records and review exemptions for the 14 cases highlighted.</p> <p>To revise the procedure for monitoring exemption F, to include detail and depth of investigation, and making full use of checks on records held by the Probate Office and other public records. These cases will either be reviewed by individual review date, or by annual review, depending on the individual circumstance of each case.</p>	<p>Revenues & Benefits Operations Manager</p> <p>Immediate / 30/03/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
5	<p>Write Offs A review of five write offs in 2017-18 to the value of £8,281 highlighted that the email approving the write off had not been retained.</p> <p>Risk Approval of write offs cannot be verified.</p>	<p>Important To review the current process, to implement practices that clearly demonstrate the cases corrected and by whom.</p> <p>To retain evidence to support approval of write offs.</p>	<p>Revenues & Benefits Operations Manager</p> <p>Immediate / 30/03/18</p>
6	<p>Refunds Refunds are not always repaid through the same mechanism as the payment was made. In two cases for refunds of £692.28 and £177.77 respectively, payments were made using a credit card and a refund was made by the Council by cheque based on a request from the client for the alternative method.</p> <p>Risk Fraudulent payments resulting in lost money to the Council.</p>	<p>Important To ensure that refunds are made to the same mechanism as the payment was made, unless the customer has specifically requested an alternative, which will be subject to tests on reasonableness and money laundering.</p> <p>To review and re-issue clear procedures on the refund process, that cover guidance on the above. To provide training through 1:2:1s, team meetings, and the classroom environment, as appropriate to individual needs. Evidence to be recorded of delivery and QA testing completed to demonstrate effectiveness.</p>	<p>Revenues & Benefits Operations Manager</p> <p>Immediate</p>

Appendix Three: Business Rates Review Action Plan

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1	<p><u>Tax Base Reconciliations</u> The Business Rates team reconcile the cumulative RV of properties on the Academy System to the VO list. However this reconciliation does not include the number of properties as whilst the VO lists include properties with zero rateable values, the Academy System does not record such properties.</p> <p><u>Risk</u> Lost income as properties may come back into use as the Council / Valuation Office are unaware of this.</p>	<p>Standard Business Rates to include all NDR properties (including properties with a zero RV) on Academy and ensure the reconciliation considers both the number of properties and cumulative RV. This will be achieved by undertaking:</p> <ul style="list-style-type: none"> • A reconciliation of those properties considered “place-cards” as being valid, properties with no end date, and RVs which the VOA has reduced to zero, or moved to the central list. • Implement a monitoring process for properties with “zero” RVs. • Implement a monitoring process for properties reduced to zero by the VOA. 	<p>Corporate Recovery & Business Rates Manager</p> <p>30/06/18</p> <p>31/07/18</p> <p>31/07/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
2	<p><u>Annual Billing Process Checks and Balance</u> Whilst evidence could be found on Academy that for the 2017-18 billing process, all differences compared with 2016-17 had been resolved or could be explained, an Academy System report which summarises this review was not retained and could not be recreated during the audit.</p> <p><u>Risk</u> Errors / differences investigated and cleared during the annual billing testing process cannot be verified.</p>	<p>Standard</p> <p>The Balancing Hub report highlighting the errors / differences during the main billing process, should be retained with confirmation of how the differences have been satisfied as correct.</p>	<p>Corporate Recovery & Business Rates Manager</p> <p>01/03/19</p>
3	<p><u>Guidance Notes</u> For each relief / exemption, there was no single reference point or procedure note detailing the circumstances when the relief / exemption can be requested and the evidence required to support an application.</p> <p><u>Risk</u> Incorrect procedures followed.</p>	<p>Important</p> <p>Business rates should establish guidance notes for each NDR relief and exemption category which details when the relief / exemption can apply and the evidence required. This has been recognised in the Service Improvement Plan, which also includes establishing best practice.</p>	<p>Corporate Recovery & Business Rates Manager</p> <p>30/09/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
4	<p><u>Exemption Monitoring – Diary Date</u> When a relief / exemption has been awarded, a diary date should be recorded to remind the Business Rates Officer to review the relief / exemption at a later date. Testing of 24 relief / exemptions awarded identified 18 instances where no diary date had been recorded.</p> <p><u>Risk</u> Lost income as relief / exemptions awarded that customers are not entitled to.</p>	<p>Important To review procedures to gain assurance that all relief / exemptions awarded have a diary or follow up date recorded.</p> <p>To ensure that the appropriate review of reliefs and exemptions takes place.</p>	<p>Corporate Recovery & Business Rates Manager</p> <p>30/06/18</p>
5	<p><u>Exemption Monitoring – Property Visits</u> When a relief / exemption has been awarded, the property should be visited either within a 3/6 month period and / or a series of visits be arranged. Testing of 24 relief / exemptions awarded identified 19 instances where the property was not visited and / or a series of planned visits was not arranged.</p> <p><u>Risk</u> Lost income as relief / exemptions awarded that customers are not entitled to.</p>	<p>Important To review procedures to gain assurance that properties are visited and / or a series of visits are arranged on all relief / exemptions awarded where appropriate.</p> <p>To ensure that the planned annual review of reliefs and exemptions take place. Evidence to be recorded of delivery and QA testing completed to demonstrate effectiveness.</p>	<p>Corporate Recovery & Business Rates Manager</p> <p>30/06/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
6	<p>Property Exemption - Six Monthly Review A process has been agreed to review empty property exemptions. This process commenced in February 2017 and whilst the process is to review these exemptions on a six monthly basis, our review found that:</p> <ul style="list-style-type: none"> Whilst the initial review took place in February 2017, the second review commenced in November 2017 rather than in August 2017 as planned. At the time of the audit, the November 2017 review had still not been completed. <p>Risk Lost income as exemptions are awarded that businesses are not entitled to, or billing the right person, at the right time due to delay.</p>	<p>Important To review the current arrangements in light of the issues identified. To consider whether a more timely, or appropriate, arrangement for reviewing individual properties (i.e. especially high value properties) would be beneficial rather than a six monthly review process. This given that most exemptions are for a three month period, bills are issued automatically, the review could be more effective as part of the recovery process.</p>	<p>Corporate Recovery & Business Rates Manager 30/06/18</p>
7	<p>Business Rates Collection Whilst a liability order allows the Council to take action including start insolvency proceedings, our review identified debts on Academy which do not meet the write-off criteria that should proceed to the final enforcement stages, but currently no evidence could be found that this was taking place.</p> <p>Risk Income not collected.</p>	<p>Important Whilst there are recovery practices in place, consistency, frequency of review, appropriateness and cost effectiveness of recovery action needs to be delivered. The recovery timetable to be widened to ensure the appropriate focus is on the latter stages of the recovery process.</p>	<p>Corporate Recovery & Business Rates Manager 31/07/18</p>

Appendix Four: Accounts Payable Review Action Plan

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1	<p><u>New Supplier Set Up</u> There is little control before a new supplier is set up on Agresso as (a) any Council officer can request this and (b) no checks are undertaken to demonstrate that the supplier offers value for money perspective or that an existing contracted supplier already provides the same goods / service as the new supplier.</p> <p><u>Risk</u> No control over suppliers used. Value for money is not achieved through using the supplier. Goods / Services already provided through an existing Council contract.</p>	<p><u>Important</u> To review the current procedure for setting up a supplier in conjunction with senior officers at NBC.</p>	<p>Exchequer Team Leader</p> <p>30/06/2018</p>
2	<p><u>Changes to Supplier Bank Account Details</u> Testing of five changes to supplier bank details in 2017-18 highlighted that no the paperwork could be located to support the amendments made and as a result we were unable to evidence the checks undertaken to validate the request as genuine.</p> <p><u>Risk</u> Inappropriate amendments to supplier bank accounts have taken place.</p>	<p><u>Essential</u> To gain assurance that the five bank account amendments were based on requests from the supplier or Council Officers.</p> <p>To ensure that appropriate paperwork is maintained to demonstrate that any changes to suppliers bank account details can be traced back to a documented request as well as demonstrating the checks undertaken to validate the request as genuine.</p>	<p>Exchequer Team Leader</p> <p>30/06/2018</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3	<p><u>Independent review of Supplier Masterfile Activity</u> Whilst weekly reports of activity through the supplier masterfile are annotated that checks have been undertaken by the LGSS Exchequer Team Leader, the number of checks and what they involved are not recorded.</p> <p><u>Risk</u> Checks undertaken do not identify a fraudulent or inaccurate amendment to a suppliers bank account details being made.</p>	<p>Important To define in a procedure, the review process undertaken by the Exchequer Team Leader to gain assurance that activity through the supplier masterfile is processed accurately and based on a genuine request.</p> <p>To annotate on the weekly report the results of checks undertaken by the Exchequer Team Leader.</p>	<p>Exchequer Team Leader</p> <p>30/06/2018</p>
4	<p><u>Tolerance Levels</u> Tolerance levels between the order and invoice value are set at £100 which is a relatively high value without the need for budget holder approval. Further, the use of just a financial value does not allow the difference to take account of the invoice value.</p> <p><u>Risk</u> Loss of income as errors in supplier invoicing not considered.</p>	<p>Important To review the current procedure covering tolerance levels in conjunction with senior officers at NBC.</p>	<p>Exchequer Team Leader</p> <p>30/06/2018</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
5	<p><u>Accounts Payable to General Ledger Reconciliation</u> Whilst we were advised that a monthly reconciliation should be undertaken, testing found that only two reconciliation had taken place covering the financial year 2017-18 and in neither case had the reconciliation been subject to management review.</p> <p><u>Risk</u> Errors not identified and resolved on a prompt basis</p>	<p>Important The reconciliation will be undertaken on a monthly basis and will be subject to management review.</p>	<p>Business Systems Improvement Manager</p> <p>Immediate</p>