

## LGSS Internal Audit Update – March 2019

### 1. Purpose

This report provides the Audit Committee with an update on work undertaken since the last report was considered in November 2018. It also outlines the planned LGSS internal audit coverage that will be undertaken on behalf of the Northampton Borough Council during 2019-20.

### 2. Background

Many financial activities transferred from Northampton Borough Council to LGSS during 2013-14 financial year. It was agreed with the S151 Officer and the Councils previous internal auditors that where LGSS have the responsibility to undertake the functions, LGSS Internal Audit would complete the assurance work, whilst the Councils internal auditors would continue to audit those aspects which remain in the direct control of the council.

### 3. 2018-19 Plan Update

A summary of planned / actual work for 2018-19 along with the status of such work is detailed in the table below.

Audit	Status	Planned / Actual Start Date	Control Environment Assurance	Compliance Assurance	Organisational Impact
Accounts Receivable	Final		Satisfactory	Satisfactory	Minor
Quarterly Balance Sheet Review	Fieldwork				
Housing Benefits	Planning	March 2019			
IT Application Review – Agresso		April 2019			

In terms of update:

1) **Accounts Receivable** – The key findings that support the level of assurance provided include:

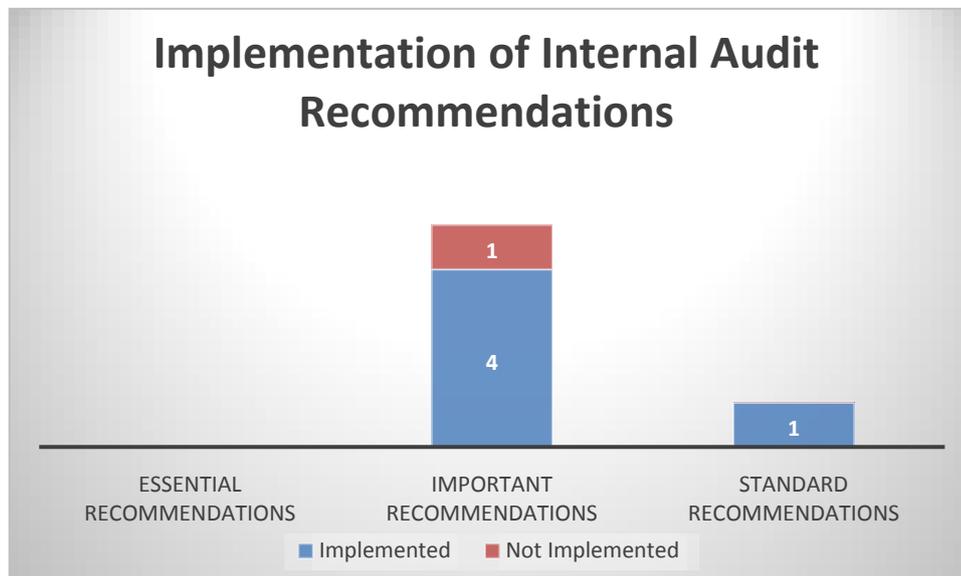
- In terms of debt recovery, the following issues were identified:
  - For debts pursued by the Debt Recovery Team, after the automatic reminder letters, a gap of seven weeks exists after the last reminder is generated before officers review the debt.
  - Inconsistent arrangements exists around how instalments arrangements are managed.
- In respect of write offs, our review highlighted that:
  - The financial limits defined for officers to approve write offs in procedures are not aligned to the value of invoices being generated in the Council.

- Procedural requirements around the need for specific officers to recommend debts for write off, and that the Chief Financial Officer or deputy should counter sign all write offs is not reflected in working practice.
- No evidence could be provided that information on outstanding debts were being routinely circulated to all stakeholders in the Council.

A copy of the agreed action plan for this audit is attached at Appendix two. This audit will be followed up in April 2019.

- 2) In developing and agreeing the 2018-19 plan, it was intended that all audits would be finalised by the end of March or early April 2019. Due to resource issues in the team, planned activity has been delayed. The resource issue has now been addressed although the impact of this is that work will not be completed until the end of May 2019, with the findings included in our annual report which will be presented to officers and the Audit Committee in June 2019.
- 3) **Follow Ups** – Follow up work has been undertaken on the following audits:
  - Council Tax
  - Business Rates
  - Accounts Payable

Within the November 2018 updated, we reported that 11 of the 18 recommendations made in these reports had been implemented. At the time of this report, one of the actions was not followed up as it is not due to be implemented until the end of March 2019. The results of follow up work assessing the implementation of the six remaining actions are detailed below.



We are pleased to report that only one action currently remains outstanding. This is being progressed and a revised implementation date of the end of March 2019 has been agreed. It should be noted that we have not followed up the 2017-18 review of Fixed Assets as it has also been agreed this review will be the subject of a formal follow up review in the 2019-20 plan as reflected in section four of the report.

#### 4. 2019-20 Plan

A three year audit plan was considered by the Audit Committee in September 2017 and has been subject to review on annual basis. The three year plan including planned coverage in 2019-20 plan is detailed below:

<b>Audit</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Accounts Payable			
Accounts Receivable			
Quarterly Balance Sheet Review			
General Ledger			
Treasury Management			
Council Tax			
Business Rates			
Housing Benefits			
Fixed Assets			
IT Agresso Review			
IT Northgate Review			
IT Academy Review			

**Duncan Wilkinson**  
**Chief Internal Auditor, LGSS**

## 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:

<b>Control Environment Assurance</b>	
<b>Level</b>	<b>Definition</b>
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.

<b>Compliance Assurance</b>	
<b>Level</b>	<b>Definition</b>
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.
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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:

<b>ESSENTIAL (E)</b>	<b>Important (I)</b>	<b>Standard (S)</b>
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: Accounts Receivable Review Action Plan**

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1.	<p><b>Unreconciled items on the suspense accounts</b>            Whilst the review of the two suspense accounts highlighted that timely action was generally taken to resolve unallocated income received, there were still a small number of transactions that had not been resolved despite the fact they were received prior to 2018.</p> <p><b>Risk</b>            Transactions not accurately reflected on the general ledger.</p>	<p><b>Standard</b>            Action taken to resolve these unreconciled items.</p>	<p>Exchequer Team Leader             March 2019</p>
2.	<p><b>Debt Recovery</b>            A review of processes along with sample testing on outstanding debts highlighted the following:</p> <ul style="list-style-type: none"> <li>For the majority of debts pursued by the Debt Recovery Team, other than automatic reminders, no contact is made by LGSS with the customer until at least 70 days after the invoice date. This includes a gap of at least seven weeks after the final reminder is generated before officers review the debt.</li> <li>Limited testing on debts in dispute found that on one case, whilst evidence existed that the Debt Recovery Team were chasing the relevant service for an update, no feedback had been received by the Service. Furthermore, no escalation process has been agreed to deal with cases where no progress has been made by the service in dealing with the dispute.</li> </ul> <p><b>Risk</b>            Untimely action resulting in older debts remaining unpaid.</p>	<p><b>Important</b>            LGSS in conjunction with NBC Officers to review debt recovery procedures to ensure that:</p> <ul style="list-style-type: none"> <li>Timely contact is made when debts remain unpaid after the automatic reminder letters have been issued.</li> <li>An escalation process is agreed for the Debt Recovery Team to raise cases where NBC services are not resolving disputes on a timely basis.</li> </ul>	<p>Revenue Manager /            Governance and Risk            Manager             March 2019</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3.	<p><b><u>Payment by Instalment</u></b></p> <p>In six cases considered as part of testing on debt recovery, instalment arrangements had been agreed although the procedure requiring that a financial assessment be undertaken to determine the payment plan had not been undertaken in any of the cases.</p> <p>Furthermore, we have established that instalment arrangements can be agreed by both LGSS Exchequer or the Debt Recovery Team although there are differences in approaches in the two areas, namely:</p> <ul style="list-style-type: none"> <li>• Whilst a formal agreement underpins the arrangements set up by LGSS Exchequer, there is no formal agreement in the Debt Recovery Team.</li> <li>• If the instalment payment is not received, in LGSS Exchequer, the automatic reminder letters starts again whereas in the Debt Recovery Team, they recommence recovery action from the status in place prior to instalments being agreed.</li> </ul> <p><b><u>Risk</u></b>            Non-compliance with agreed procedures.            Inconsistent process for dealing with customers.            Delays in income being received.</p>	<p><b>Important</b></p> <p>LGSS in conjunction with NBC Officers to review the arrangements covering instalment agreements to ensure requirements are clearly documented in procedures understood and that there is a consistent process in place.</p>	<p>Revenue Manager /            Exchequer Team Leader            / Governance and Risk            Manager</p> <p>March 2019</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
4.	<p><b><u>Write offs</u></b> Our review of the current process highlighted the following:</p> <ul style="list-style-type: none"> <li>• Procedural requirements around the need for specific officers to recommend debts for write offs and that the Chief Financial Officer or deputy should counter sign all write offs is not reflected in practice.</li> <li>• The financial limits defined for officers to approve write offs is not alligned to the value of invoices being generated in the Council or is consistent with limits in other local Councils.</li> </ul> <p><b><u>Risk</u></b> Write offs taking place without appropriate oversight by senior management.</p>	<p><b>Important</b> LGSS in conjunction with NBC Officers to review write off procedures to ensure requirements are clearly understood and that approval is obtained at an appropriate level within the Council.</p>	<p>Revenue Manager / Governance and Risk Manager</p> <p>March 2019</p>
5.	<p><b><u>Management Reports</u></b> Whilst a copy of the aged debt report is sent to the Chief Financial Officer on a monthly basis, no evidence could be provided that information on outstanding debts were being routinely circulated to all stakeholders in the Council.</p> <p><b><u>Risk</u></b> Lack of NBC operational management oversight over outstanding debts.</p>	<p><b>Important</b> LGSS in conjunction with NBC Officers to define reporting arrangements over outstanding debts and to ensure such information is communicated to all relevant services / officers / members.</p>	<p>Revenue Manager / Exchequer Team Leader / Governance and Risk Manager</p> <p>March 2019</p>