

LGSS Internal Audit Update – July 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

The status and outcome of our audit work in 2018-19 is attached in the table below. The assurance levels are based upon the definitions in Appendix one.

Audit	Status	Control Environment Assurance	Compliance Assurance	Organisational Impact
Accounts Receivable	Final	Satisfactory	Satisfactory	Minor
Balance Sheet Review	Final	Satisfactory	Minor	Minor
Housing Benefits	Draft*	Good	Good	Minor
Agresso IT Application Review	Ongoing			

**This audit was still at draft report stage at the time of writing this report but the emerging opinions / are included.*

In terms of update:

3.1 Balance Sheet Review - The level of assurance reflects the following key findings:

- No documented procedures to support the bank / control account reconciliation processes, although it should be noted that overall, the lack of procedures has not impacted on the task of completing reconciliations.
- No defined list of control accounts is held by the Council.
- No assurance is provided to NBC that reconciliations carried out by LGSS are completed on a timely basis.

- Our review of the various bank and control accounts highlighted that whilst overall effective arrangements were in place supporting this activity, action was required to deal with unrepresented cheques over six months old and dated unreconciled transactions.

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

3.2 Housing Benefits - The level of assurance reflect our finding that overall we have found there are robust processes in place covering activities considered within the scope of this review, based around a framework of:

- All new staff go through a structured training programme. Furthermore, bespoke training / guidance is also developed and delivered to ensure existing staff are kept up to date with any relevant changes to the rules or new legislation relating to Housing Benefit.
- A comprehensive suite of procedures exist covering housing benefit activity.
- Unlike most Council services, the quality and accuracy of work undertaken by Revenue and Benefits is not assessed at the decision stage by means of independent review / approval, but instead by a Quality Assurance (QA) Team. The key purpose of the work of the QA Team is to ensure that appropriate levels of accuracy are being achieved, both overall by the Housing Benefits service as well at individual employee level.

However, the review has highlighted a small number of weaknesses around aspects of the control framework in place, namely:

- Procedural documentation covering the work of the Quality Assurance Team is out of date.
- Our review of the work of the Quality Assurance Team highlighted the following:
 - Random monthly checks had not been completed consistently throughout 2018-19. In discussions with the Revenue and Benefits Team Leader, he indicated that the level of checks undertaken can reduce when work on the annual subsidy is taking place, although any checking that is not undertaken during this period is either caught up or replaced by high risk checks identified during the subsidy audit.
 - Whilst additional checks are undertaken when accuracy issues are identified, the level of checks are not reduced even when officers demonstrate high accuracy for a number of months.
 - The checks do not cover Discretionary Housing Payments and our work identified errors in sample testing in this area.

3.3 Agresso IT Application Review - Following consultation on the findings of audit work completed as at the end of May 2019, with the Chief Finance Officer and the Governance & Risk Manager, the original agreed scope of the review of the Agresso system was extended. The work was in progress at the time of writing and it is anticipated to be completed to draft report stage at the second week of July 2019.

4. 2019-20 Plan Update

As well as the 2018-19 plan, work has commenced on the 2019-20 plan that was considered by the Audit Committee in March 2019. Details are attached in the table overleaf along with an indicative start date for all audits in 2019-20.

Audit	Status	Planned / Actual Start Date	Control Environment Assurance	Compliance Assurance	Organisational Impact
Quarterly Balance Sheet Review	Planning	July 2019			
General Ledger		December 2019			
Treasury Management		November 2019			
Fixed Assets	Planning	June 2019			
IT Northgate Review		September 2019			
IT Academy Review		January 2020			

Update on this work will be reported to the Audit Committee during 2019-20.

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:

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.
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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:

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: Balance Sheet Review Action Plan

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1.	<p><u>Procedural Guidance</u> No procedural guidance has been provided to Internal Audit by any departments / service covering the operation of bank / control account reconciliations. It should be noted that the lack of procedures has not impacted on the task of reconciling both bank and control accounts.</p> <p><u>Risk</u> Poor working practices.</p>	<p>Important To develop operating procedures to support the completion of bank and control reconciliations.</p>	<p>Compliance and Improvement Manager, LGSS / Human Resources (HR) Manager / Strategic Finance Business Partner / Revenue and Benefits Technical Manager Financial</p> <p>August 2019</p>
2.	<p><u>Schedule of Control Accounts</u> In undertaking the review we found that no defined list of control accounts was held by the Council.</p> <p>Additionally, there is no evidence of any oversight by NBC officers that reconciliations carried out by LGSS are being completed on a timely basis.</p> <p><u>Risk</u> Control accounts may not be subject to review. Issues over the completion of such reconciliations are not identified by NBC.</p>	<p>Important To develop a schedule defining:</p> <ul style="list-style-type: none"> • A list of control accounts reconciliations required. • Responsibility for completing and reviewing these reconciliations. • The regularity of such reconciliations. <p>To agree a mechanism to provide assurance to NBC that all control account reconciliations undertaken by LGSS are being completed in line with expectations.</p>	<p>Strategic Finance Business Partner</p> <p>July 2019</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3.	<p><u>Unpresented Cheques older than six months</u> The March 2019 Primary Operating bank account reconciliations included 11 cheques older than six months despite the fact that these are unlikely to be honoured by the bank.</p> <p><u>Risk</u> Non-reconciled items are not cleared in a timely manner.</p>	<p>Standard To ensure timely action is taken to deal with unpresented cheques older than six months old.</p>	<p>Exchequer Team Leader, LGSS</p> <p>Immediate</p>
4.	<p><u>Unreconciled transactions</u> Across the range of payroll control accounts, the review highlighted that there were 25 transactions equating to £21k from prior to 2018-19 that remain unreconciled.</p> <p><u>Risk</u> Unreconciled items not identified / cleared on a timely basis.</p>	<p>Important Prompt action is taken to resolve the unreconciled items.</p>	<p>HR Manager</p> <p>July 2019</p>
5.	<p><u>LGSS Finance Reconciliations</u> A review of reconciliations undertaken by LGSS Finance highlighted the following:</p> <ul style="list-style-type: none"> Rent Reconciliation (IBS to Agresso) – This reconciliation highlighted various issues including (a) no pattern over how regularly the reconciliation was completed and (b) the fact that only the year end reconciliation is subject to management review. Whilst the reconciliation has been completed, this has not yet been reviewed. The annual Business Rates ICON / Capita to Agresso reconciliation has not yet been completed as at the end of April 2019. <p><u>Risk</u> Reconciliations not completed on a timely basis.</p>	<p>Important To review arrangements supporting the rent reconciliation to ensure it completed on a regular basis and subject to timely management review.</p> <p>To complete the outstanding:</p> <ul style="list-style-type: none"> - ICON / Capita to Agresso; and - IBS to Agresso <p>reconciliations as a matter of urgency.</p>	<p>Strategic Finance Business Partner</p> <p>31/07/2019</p>