

The Highland Council

Resources Committee – 25 November 2015

Agenda Item	19
Report No	RES/110/15

Internal Audit Reports

Report by Director of Finance

Summary

This report informs Members as to the objectives and findings of seven Audit Reports presented to the Audit and Scrutiny Committee on 30 September 2015, and updates them on progress against each of the resulting Plans.

1. Background

1.1 Reports are as follows:-

- Online Payments
- General Ledger
- Non Domestic Rates – Billing and Collection
- Council Tax – Billing and Collection
- Treasury Management
- Housing Benefit Payment 2014/15
- Matters Arising from the Statement on Internal Control 2014/15

1.2 The seven Audit Reports above are attached as appendices to this report.

1.3 All reports, together with the Action Plans, have been considered by the Audit and Scrutiny Committee at its meeting on 30 September 2015, and are presented now to the Resources Committee for consideration.

2. Report 1: Online Payments

2.1 The overall audit opinion is that there is Reasonable Assurance that the system is broadly reliable. Some areas of weakness have however been identified.

2.2 The report makes five recommendations, all classed as medium priorities. Two of these actions have already been completed, with the target date for completion of the final action of 31 March 2016.

2.3 The audit is a helpful reference towards the successful delivery of a key transformational change, and the issues raised will make a positive contribution to further developments.

2.4 All recommendations have been accepted and are either complete, or due for completion, by 31 March 2016.

3. Report 2: General Ledger

- 3.1 The overall audit opinion is that there is Substantial Assurance that there are effective systems and controls in place to ensure the completeness and accuracy of the data held.
- 3.2 The report does however highlight some areas where further improvement could be made. There are five recommendations; three are classed as medium priority and two low priority.
- 3.3 All recommendations have been fully implemented.

4. Report 3: Non Domestic Rates – Billing and Collection

- 4.1 The overall audit opinion is that there is Substantial Assurance that the system is operating satisfactorily with appropriate controls in place for the billing and collection of sums due.
- 4.2 The report does make recommendations to ensure that ongoing reliefs remain valid, and improvements to the system are made in relation to access controls. There are four recommendations, all classed as medium priorities.
- 4.3 All recommendations have been accepted and are either complete, or due for completion, by 30 November. One recommendation, relating to the pursuit of arrears, is an ongoing activity.

5. Report 4: Council Tax – Billing and Collection

- 5.1 The overall audit opinion is that there is Substantial Assurance that the system is operating satisfactorily with appropriate controls in place for the billing and collection of sums due.
- 5.2 The report makes one recommendation to review the refunds policy with a change to the process of endorsing and authorising refunds.
- 5.3 This recommendation has been completed.

6. Report 5: Treasury Management

- 6.1 The overall audit opinion is that there is Substantial Assurance that there is sound governance in place and that the procedures followed provide assurance that transactions are necessary and accurate.
- 6.2 The report makes two recommendations; one is classed as medium priority and one low priority.
- 6.3 The medium priority recommendation, relating to updating the Policy Statement will be actioned by 29 February 2016, following a report to the next meeting of this Committee. The other (low priority) recommendation is complete.

7. Report 6: Housing Benefit Payments 2014/15

- 7.1 The overall audit opinion is that there is Substantial Assurance that the system for processing Housing Benefits is operating as expected and is considered reliable.
- 7.2 The report identified two issues where recommendations were made; one classed as medium priority relates to processing errors and has been addressed through sharing the experience with staff. The other (low priority) recommendation is due for completion by 31 January 2016.

8. Report 7: Matters Arising from the Statement on Internal Control 2014/15

- 8.1 This report is an important factor in consideration of the Annual Governance Statement that is included as part of the Council's Annual Accounts.
- 8.2 The overall audit opinion is that there is Substantial Assurance that the Council's systems of internal control are generally reliable.
- 8.3 The report makes three recommendations where compliance with established policies and procedures could be strengthened. Two are assessed as medium priority, and one as low grade priority.
- 8.4 All recommendations have been fully implemented.

9. Implications

- 9.1 There are no specific Resource, Legal, Equalities, Climate Change/Carbon Clever, Risk, Rural or Gaelic Implications arising from this report.
- 9.2 Internal Audit reports are an essential part of strong governance and financial management. The recommendations contained in the reports further enhance existing practices.

Recommendation

Members are asked to consider the findings of the Audit Reports and note the actions being taken to implement the recommendations.

Designation: Director of Finance

Date: 11 November 2015

Author: Derek Yule

Background Papers: None

INTERNAL AUDIT FINAL REPORT

FINANCE & CORPORATE DEVELOPMENT SERVICES

ONLINE PAYMENTS REVIEW

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1. INTRODUCTION

This audit reviewed management of online payments made to the Council. The online forms on the Council's website for capturing customer payments are currently planned for upgrade with a new software solution to provide a more user-friendly process for customers' using mobile devices. This work is being managed within the new Payments Project under the Corporate Improvement Programme [CIP] Digital First which includes a number of initiatives to develop and encourage increased use of online services. The programme has projected targets for increased transactions online by April 2017 to improve service delivery and to provide financial savings in line with the vision defined in Scotland's Digital Strategy, Scottish Digital Future - Delivery of Public Services. Progress of the replacement forms for online payments is included in this review.

Customers logging onto the Council website to make payments online are directed towards a secure bureau service site managed under a third party arrangement. This is designed to secure and protect customers' payment card data details in line with the Payment Card Industry Security Standards Council [PCI-DSS] requirements.

Payments submitted via this secure bureau service are reported in the Council's income management system and daily reconciliations are completed by the Revenues Team to ensure all income is accounted for and agrees with the income figures reported in bank statements. The Team also clears the income suspense account.

Excluded from the scope of this review are online payments made not directly through the Council's own website but via another collection process then forwarded through a gateway portal. These include

- Planning fees collected through the national e-planning site
- Payments through Highlife Highland
- Payments collected by Council Service Centre agents and processed through the Customer Relationship Management system's link to the Axis Paye.net portal

Also excluded are online forms for customer services other than payments, such as reporting items and making general enquiries.

The review was carried out as part of the 2014-2015 audit work plan.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) The agreed terms with third party providers of online payments for the Council provide for security and service support are in line with Council business requirements
- (ii) Adequate controls are in place to manage risks for web based financial transactions
- (iii) Council customers are provided with security assurance for making online payments and a helpline for managing queries
- (iv) Payment data is reported and reconciled timeously within Council income streams and accounts.

3. SCOPE, METHOD & COVERAGE

The audit examined usage of online payments by the Council's customers, processing by the Finance Revenues Team and service level agreements with third party suppliers, including security accreditations and documentation provided for the Digital First Programme. This programme replaced the Customer Contact Transformation [CCT] with a focus on Digital Inclusion and the Digital First agenda.

The review referred to standards and best practice including PCI-DSS standards, Standards of Digital by Default Service and project management methodology.

Interviews with officers included the CIP Digital First Project Manager, Finance Service Revenues Manager and ICT Services Project Officers.

4. MAIN FINDINGS

The main findings of the review, referenced to the above review objectives, are as follows:

4.1 Security and Third Parties

The first objective was achieved in all of the areas reviewed. Capita, the third party provider of the secure Payments Managed Service and online forms for making payments has accredited certification for managing credit and debit card transactions securely in line with PCI-DSS and provides the application for the current online payment forms. There is also an agreed Service Description with ICT Services provider, Fujitsu Services, setting out service deliverables, service support and agreed volumes in place, utilising the third party's 24 hour internet payments managed service for Income Receipting and Payments.

The planned new online forms supplier, Firmstep, has provided ISO27001 certification valid to 20/03/2017 for the Information Security Management System that supports software as a service provision and protects customer information. This supplier plans to use a third party to host its infrastructure and has provided security policy and controls documentation for this in advance.

In the event of website failure, or planned maintenance outages, a Council holding page owned by supplier, Jadu, can be loaded for business continuity. This provides alternative telephone numbers for contacting the Council by phone including the Council's Service Centre.

4.2 Controls for Web Transactions

The second objective was partially achieved in the areas reviewed. The Digital First Project Manager attended ICT Development Board meetings where vulnerability and penetration testing items have been discussed. Therefore, there is an awareness of good practice requirements to carry out penetration testing on applications that have web facing interfaces and manage sensitive personal data.

However, the following issues are raised in respect of the project work to replace the online payment forms for improved web based financial transactions as this has experienced delays and increased costs.

- 4.2.1 The CIP Programme Manager reported a shortfall in savings status against targets for Digital First at Resources Committee in Feb 2015 with progress at 'Amber' status. Project delays were reported as being partly due to delays in technology

delivery issues which impacted on the Council's targets to achieve savings, estimated at £55,000 of the total target of £155,000. The remaining £100,000 related to Customer Services Review which was deferred by agreement at full Council.

This followed the previous Customer Contact Transformation [CCT] Project, which reported 'Amber' status through delays with the functionality of the online forms solution and installation of integration software in 2014. An alternative solution was then sourced.

The Lessons Learned report for the first online forms project recommended consideration of the different methodologies used for engaging with supplier for ICT work for the best outcome – for example fixed price, request for service, or a time and materials quote.

ICT Services reported that the Request for Service [RFS] process with the current ICT contractor for new services has no defined Service Level Agreement to manage time taken following the acceptance of a quote. There is no financial penalty attached to completion of an RFS. There is also no direct access by Council project management officers to contractors' resources to manage any gaps towards project completion.

- 4.2.2 The workshop held for the first project to develop standalone online forms in January 2014, which later transformed in the Digital First Programme in 2015, was not attended by Finance Service representatives at the start, even although online payments were included in this project specification for improving forms to be more mobile friendly. The Digital First Project Manager reported that Finance Service officers have been consulted on the latest CIP project developments.

There is potential risk of non-compliance to payment card standards and the Council's Financial Regulations if new online forms for making payments are progressed without continuous Finance Service input.

- 4.2.3 Online forms for making payments are found under the Council webpage - Popular Tasks 'Pay for a service'. The link to the Scottish 'myaccount' service on the Council website under the Customer Services page – 'Your online account' which went live in April 2015 did not have the facility for customers to pay for services online during the review period.

The new software solution for re-writing current online forms had still to be tested during this review, therefore, evidence of procedures for producing them were not available.

The additional requirement for in-house customisation of the new forms by Fujitsu Services to give customers access to view their balances prior to paying Council Tax and rent creates new risks. These include continued responsibility for managing the customised product and maintenance costs, continued reliance on the code provider, plus potential issues with patch management and security. Risks of customisation include reduced reliability of patch management controls; increased Council responsibility as updates or patch for that software published by the manufacturer will not take into account modifications that have been made; dependence on provider of bespoke work for updates; these may increase costs.

- 4.2.4 No evidence was found of ICT Services having completed a risk assessment needed to ascertain risks and requirements for penetration testing of the Council's new online payment forms. ICT Governance had approved corporate procedures and responsibilities for vulnerability and penetration testing for applications in February 2015, but no risk assessment work specifically for the Council's online payment forms was found.

4.3 Customer Services for online payments

The third objective was achieved in all of the areas reviewed. Customers are advised of terms and conditions at the start, with expected payment deduction times for customer accounts and surcharge fees if they use a credit card to pay bills. Customers can pay part or all of an invoice online and refunds can be provided where an overpayment has been made. There are contact details for queries in the event of customers requiring assistance - a contact postal address, a phone number and email address. The Council Service Centre provides a helpline for managing queries by phone. Security of card payment data submitted online includes encryption protection during transfer by the provider of secure online payments services on behalf of the Council. This provider is certified by Visa and MasterCard as a Payment Card Industry Data Security Standard (PCI DSS) payment processor.

The Council's Customer Services Assessment Report for Customer Service Excellence in July 2014 found the increased number of services that can be paid on line for Council Services and the fuller range of payment options for other services was welcomed by the public.

4.4 Reporting and reconciliation of online payments

The fourth objective was mostly achieved in the areas reviewed. Daily reconciliation procedures for internet payments were carried out by Revenues Team; the two stage reconciliation process matched batch totals across systems and also against daily banking figures. A check on the Axis income error suspense account at year end March 2015 found that the account was cleared with a nil balance.

4.4.1 However, the procedures notes for managing income payments and clearing Axis income error suspense account were not updated for the new Financial Management Information System [FMIS] by the Revenues Team. It is understood that the Team's priority was to work towards go-live of this new system in April 2015 and that internal management processes were evolving before these notes could be completed. The risk of potential loss of knowledge resulting from this is offset through a number of officers being aware of the processes currently being undertaken, in Revenues Team, Finance Systems Administration Team and ICT provider Fujitsu Services.

5. CONCLUSION

The review found volumes of income processed averaged at over £0.6m income per month during 2014-15. Customers utilised the online payment facility on the Council's website most during 2014 – 2105 for one off payments for Council Tax and rents. These income figures illustrate the proportion of customers who take advantage of the flexibility of ways to pay the Council, choosing to make single payments, compared to signing up to regular instalment options for these recurring invoices. This underlines the importance of building flexibility into the payments strategy. Improving provision of digital options for services also supports moves towards the wider national digital agenda.

Procedures were found to be in place for areas tested in two of the four review objectives. Five recommendations are made, all at medium priority grade based on the findings above. Two of these actions have already been completed. The target date for implementation of the final action is 31/03/16.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

7. ACTION PLAN

The Action Plan contains 5 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	5
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		5

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	AGREED	IMPLEMENTATION	
						RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	<p><u>Digital First progress and costs:</u> Corporate Improvement Programme's [CIP] Project Manager reported increased costs against the budget and progress at 'Amber' status in respect of the project work to replace the online payment forms for improved web based financial transactions.</p> <p>Project delays were reported as partly through delays in technology delivery issues which impacted on the Council's targets to achieve savings.</p>	<p>A) To ensure understanding and management of risk from any further delays which impact on the council's targets to achieve savings, the Digital First Project Manager should continue to update the ICT Governance Board and Committee if any further changes occur as soon as they become apparent, in line with good project management</p> <p>B) The 'Lessons learned' and recommendations from the first project Customer Contact Transformation should be applied to the new Digital First Projects. For example, when engaging with contractors, consideration should be made as to whether a fixed price project, RFS or time and materials quote is the best method to use to achieve the required result</p> <p>C) For future contracted out ICT project work, if an RFS has to be raised for contractors, where</p>	<p>A) Update provided to ICT Development Board</p> <p>B) Lessons learned applied and will be reviewed at end of project</p> <p>C)For future ICT contracts, consideration will be given to a suitable</p>		Digital First Project Manager	30/09/15
						Digital First Project Manager	30/09/15
						ICT Re-provision Manager	31/03/16

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
			<p>possible it would be helpful to incorporate Service Level Agreement [SLA] detail such as timetable and expected quality standard of work expected, design and technical input requirements, service credits or financial penalties for not meeting completion time / quality standards set. This should be considered for post ICT re-provision</p> <p>D)Post ICT re-provision, for future contracted out ICT project work with smaller budgets where the size of the RFS cannot absorb contracted out project management costs, consideration should be made to request that Council ICT Project Managers be given access to the suppliers' resources as required to complete the project</p>	<p>SLA to cover RFS performance</p> <p>D) ICT project guidance will be amended to suggest that Council project managers consider the buying in contractor technical resources on a day rate where possible and appropriate. This may be of particular use for small technical work packages within Council-run ICT projects</p>	ICT Operations Manager	31/03/16
4.2.2	Medium	<p><u>Finance involvement and Online Forms Project</u></p> <p>Finance Service officers were not included in the January 2014 workshop held for the CCT Project for Online Forms which later became part of Digital First Programme. In 2015 the CIP Project Manager reported that there was regular contact between CIP and the Revenues Manager regarding online forms</p>	Finance Service expertise should always be included in development of new processes for payments including online forms	Implemented. Revenues Manager has regular updates from CIP Team and attends necessary review meetings	Digital First Project Manager and Revenues Manager	30/09/15 Complete

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.3	Medium	<p><u>In-house development of online forms</u></p> <p>A) Current online forms for making payments are on the webpage 'Popular Tasks' Pay for a service. New online form software was being used to develop new online forms by CIP, with Fujitsu Services contracted to carry out additional customisation to provide detail of account balances for rents alongside the standard forms. This is not currently available online but can be provided at Service Points where customers have face to face contact with Council officers with access to systems such as Council Tax and Housing. The add-in is intended to provide information to customers on what they are due to pay and will also assist Council Service centre agents when they respond to phone enquiries and payments</p> <p>B) No procedure notes have been written for reference on how the forms have been set up as this work is not complete</p>	<p>A) To manage risks of customisation, such as reduced reliability of patch management control, increased Council responsibility for modifications, dependence on provider of bespoke work for updates and potential increased costs, continuous monitoring and reporting should be made to the Project Board as in 4.2.1 above.</p> <p>The Standards of Digital by Default Service¹ should be referred to for Digital First project development, including the criteria for understanding user needs when designing and producing new digital processes</p> <p>B) As the online forms are refined and completed, procedure notes for reference on these should be maintained to reduce reliance on key individuals</p> <p>C) Confirmation of security of Firmstep payment integration project would assist in providing assurance</p>	<p>A) Risks and issues are discussed at every meeting of the Digital First Project Board</p> <p>Incorporated into forms design standards</p> <p>B) Documentation for forms is produced automatically by the software. All project team members and Digital Services staff are proficient in interpreting this documentation</p> <p>C) Firmstep have been emailed to request confirmation</p>	Digital First Project Manager	30/09/15
					Digital First Project Manager	30/09/15
					Digital First Project Manager	30/09/15

¹ Digital by Default Service Standards are found at www.gov.uk/service-manual/digital-by-default version date June 2015

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.4	Medium	<p><u>Website security, vulnerability and penetration testing:</u> No evidence was found of ICT Services having completed a risk assessment to ascertain the risks and requirements for penetration testing of the new online forms</p> <p>ICT Governance has approved in principle procedures and responsibilities for Vulnerability and Penetration Testing for Applications and some assurance has been provided for the Firmstep product</p>	<p>The CIP Project Manager and ICT Services should continue to be aware of the potential requirement for vulnerability and penetration testing as best practice and act on this as required as new forms are developed</p> <p>Government cyber security guidance and top tips² should be considered. These include –</p> <ul style="list-style-type: none"> - assessing risks to the organisation's information assets from a cyber-attack should be a regular agenda item for the Board - continuous vulnerability assessment and remediation, to acquire, assess and take action on new information in order to identify vulnerabilities, remediate and minimise any opportunity for potential attack 	ICT Services will follow the policy agreed at the ICT Development Board in February 2015 to carry out a risk assessment of the system. This risk assessment will determine whether any further vulnerability or penetration testing is required	ICT Operations Manager	31/10/15
4.4.1	Medium	<p><u>Axis error suspense account procedures:</u> The internal procedures notes for managing income payments and clearing the Axis income system error suspense code have not been updated for the new FMIS system by the Revenues Team.</p>	The procedures notes for managing income in Axis error suspense should be updated to incorporate the new FMIS system processes as these are defined	Procedures now in place	Revenues Manager	31/08/15 Complete

² Cyber Security guidance updated 2015 at www.gov.uk/government/uploads/system/uploads/attachment_data/file/395716/10_steps_ten_critical_areas.pdf

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	IMPLEMENTATION		
					AGREED	RESPONSIBLE OFFICER	TARGET DATE
		It is understood that the Team's priority was working towards go-live of the new FMIS and that processes are still evolving in July 2015. Therefore, the final agreed process and responsibilities have still to be defined and recorded					

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

GENERAL LEDGER

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review of the Highland Council's General Ledger system. All financial transactions are recorded on the General Ledger and the annual statement of accounts is derived from the data held within it.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) There is an adequate control framework over access to and operation of the General Ledger.
- (ii) Controls are in place to ensure the structure of the chart of accounts cannot be modified without the correct authorisation.
- (iii) Data is input to the General Ledger from subsidiary ledgers in a consistent and timely manner and is complete, accurate and valid.
- (iv) Amendments made to the data held within the General Ledger (i.e. journals) are complete, accurate and valid.
- (v) Outputs from the system are complete, accurate and valid and are produced in a consistent and appropriate format in a timely manner.

3. SCOPE, METHOD & COVERAGE

The audit reviewed the systems and controls in place to ensure the completeness and accuracy of the General Ledger and tested their effectiveness in areas of system access, changes to the chart of accounts, system interfaces and reconciliations, journal entries and outputs from the system. Transactions in respect of the financial year 2014/15 were sampled.

The audit was undertaken as part of the 2014/15 audit plan and external audit will look to place reliance on the work carried out.

4. MAIN FINDINGS

The main findings of the review, referenced to the above review objectives, are as follows:

- 4.1 This objective was partially achieved. Out of a sample of 30 active Oracle General Ledger users, access and authorisation rights were found to be appropriate in terms of the duties performed and post held. The number of users with administration/ super-user access rights was reasonable and is restricted to the Principal Accountant (Accounts & Central Services) and users from the Finance Systems Administration Team (FSAT) and Fujitsu. As per Section 6 of the ICT User and Network Access Control Policy, access rights are reviewed annually by Service Finance Managers.
 - 4.1.1 Where read-only access was required i.e. Internal and External Audit, 7 out of 12 users had additional access rights which would allow them to make changes to data held within the General Ledger. However, there was no evidence found to demonstrate that these users had made any changes to the General Ledger.
 - 4.1.2 Out of a sample of 30 Council leavers, General Ledger access had been terminated in all but 2 cases. A 'Finance System Deletion Form' should be completed by line managers and submitted to FSAT for every Council leaver. On receipt of the form, FSAT carry out the necessary checks and terminate access to systems as necessary. As a secondary check, FSAT review a monthly report of Council leavers and terminate access to systems as necessary. In the 2 cases where access had not been terminated, both officers had left the Council in March 2015 but the relevant form had not been submitted to FSAT by the line manager.

Access would have been terminated following the monthly check by FSAT but this was not done for the period March 2015 due to the change of Council financial system from Oracle to Integra.

4.2 This objective was partially achieved. FSAT are responsible for carrying out changes to the chart of accounts and should only do so on receipt of a standard request form which has been authorised by a Service Finance Manager or 'Deputy'.

4.2.1 A sample of 16 amendments to the chart of accounts was examined. A request form, authorised by either a Service Finance Manager or Principal Accountant, had been submitted to FSAT in 14 cases. In the remaining 2 cases the form had been submitted by an Accountant or a Principal Accounting Technician, who were considered to be appropriate authorisers by FSAT, and therefore the changes were accepted. The forms also incorrectly stated that they had been authorised by the Service Finance Manager. As the form was submitted and effectively authorised by the same officer, there was no secondary check done to ensure that this change was valid or appropriate.

4.3 This objective was substantially achieved. A sample of 16 monthly payroll uploads to the General Ledger were tested and in all cases they had been carried out in line with the prescribed timetable. For each upload, supporting documentary evidence was retained by FSAT and details were recorded on a control sheet accurately.

A number of reconciliations are carried out by the Central Services Finance Team to ensure that the data input into the General Ledger from subsidiary ledgers is accurate and a control spreadsheet is maintained to evidence this.

4.3.1 4 reconciliations were selected for review and all had been performed in accordance with the prescribed timetable, were supported by appropriate documentary evidence and had been electronically signed off by an appropriate officer. However, the control spreadsheet had not been updated in 1 instance to reflect that the reconciliation had been checked and signed off. A daily Accounts Payable reconciliation was re-performed and the results confirmed that it had been performed correctly and all key figures could be verified to the supporting information.

Suspense accounts are reviewed and cleared either monthly, quarterly or annually, either as part of the reconciliation process mentioned above or by the Principal Accountant (Accounting & Central Services) as part of the year-end closedown process. All suspense accounts were clear at end of financial year 2014/15.

4.4 This objective was substantially achieved. A sample of 30 processed journals was reviewed and all had been raised by an appropriate officer, (either a member of the Service Finance Team or an Administrative Assistant with a requirement to raise journals as part of their duties). All had been raised for a valid reason and supporting evidence had been retained where applicable.

Out of a sample of 30 active Oracle users with access rights to create journal entries within the General Ledger, 21 no longer had a requirement to do so in the course of carrying out their duties. However, as part of the move to Integra at the start of financial year 2015/16, access to create journals has been restricted to Finance Service Teams and a small number of trusted individuals with a known requirement to raise journals. Therefore the number of users with access to create journal entries has been greatly reduced and is now far more restricted. As

part of the annual review of access rights carried out by Service Finance Managers (as per Section 6 of the ICT User and Network Access Control Policy), access rights to create journal entries will be revalidated and removed if necessary.

4.5 This objective was substantially achieved. Exception reports are produced on a monthly basis by the Central Services Finance Team and distributed to an appropriate officer within the relevant Service for review. A control spreadsheet is maintained to evidence this.

4.5.1 However, not all of the monthly exception reports produced were listed on the control spreadsheet and therefore assurance could not be given that all relevant reports had been run.

It was confirmed that all opening General Ledger balances for the financial year 2014/15 had been agreed to the closing balances for 2013/14 and were therefore stated correctly in the ledger at 1 April 2014.

5. CONCLUSION

Overall there are effective systems and controls in place to ensure the completeness and accuracy of data held within the General Ledger but there are some areas where controls could be further improved. There is a robust process in place for making changes to the chart of accounts but there is a lack of clarity regarding who should authorise such changes. Once this has been confirmed with all relevant parties, changes should only be accepted when authorised appropriately. Whilst reconciliations are completed regularly and exception reports are run monthly, accurate and up to date control spreadsheets should be maintained to evidence this.

There are a total of 5 recommendations in this report; 3 are classified medium and 2 as low priority grades. 2 of the low grade and 2 of the medium grade recommendations have been completed with the remaining medium grade recommendation due to be implemented by 31/07/15.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

7. ACTION PLAN

The Action Plan contains 5 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	3
Minor issues that are not critical but managers should address.	Low	2
Total recommendations		5

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Low	Where generic (read-only) access was required to the General Ledger, 7 out of 12 users had additional access rights which would allow them to make changes to data held i.e. create journal entries.	Access rights for those with a requirement for read-only access (Internal and External Audit) should be checked on Integra and amended accordingly.	Integra checked and all audit users are enquiry only with the exception of appropriate budget holders in Internal Audit.	Finance Systems & Change Manager	Complete
4.1.2	Low	Out of a sample of 30 Council leavers, General Ledger access had been terminated in all but 2 cases. This was because 'Finance Systems User Deletion Forms' had not been submitted by line managers to FSAT. A secondary monthly check carried out by FSAT of all leavers would normally have picked this up but the check was not carried out for the month of March 2015 due to the move from Oracle to Integra.	All line managers should be reminded of the need to submit a 'Finance User Deletion Form' to FSAT in a timely manner for all leavers.	E-mail issued to council managers from FSAT to remind them of the requirement to complete form for all leavers.	Finance Systems & Change Manager	Complete
4.2.1	Medium	In 2 out of the 16 changes to the chart of accounts sampled, the request form had not been authorised by the Service Finance Manager or the Principal Accountant.	Chart of accounts changes should only be accepted following receipt of a request form authorised by a Service Finance Manager or Principal Accountant. This should be stated clearly on the request form and all Service Finance Teams should be informed.	Form to be amended and instruction to be issued to all finance managers to remind them of the procedure.	Service Finance Manager (Accounts & Central Services)	31/07/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1	Medium	The reconciliation control sheet for 2014/15 was found to be incomplete and was not up-to-date.	The officers responsible for undertaking reconciliations should be reminded to keep the reconciliations control sheet up to date.	Finance Team (Accounts & Central Services) to be reminded to keep the reconciliations control sheet up to date.	Service Finance Manager (Accounts & Central Services)	Complete
4.5.1	Medium	The exception report control sheet for 2014/15 was found to be incomplete as it did not list all of the exception reports which are run.	All exception reports run should be recorded on the control spreadsheet. It should be stored on a shared drive and updated by all officers responsible for running exception reports.	Finance Team (Accounts & Central Services) to be reminded to record all reconciliations on control sheet and control sheet to be saved on shared drive.	Service Finance Manager (Accounts & Central Services)	Complete

CONFIDENTIAL

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

NON DOMESTIC RATES – BILLING AND COLLECTION

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review of billing and collection of Non Domestic Rates (NDR). The audit was undertaken as part of the annual plan for 2014/15.

Non Domestic Rates are controlled by the UK Government. Rates due are calculated by the rateable value of a property and applying the annually set 'multiplier' also known as the 'rate poundage'.

The Highland Council's role is to bill and collect the rates due, and to administer rates relief. For the financial year 2014/15, as at 25/05/15, the Council has collected £113.3m of the £116.6m due which equates to a collection rate of 97.18%, slightly down on the preceding year's 97.61%.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll.
- (ii) Bills are correctly calculated (including discounts and reliefs etc.) for all relevant properties.
- (iii) Only valid amendments are made to the billing system.
- (iv) Payments received are promptly processed and correctly posted to ratepayers' accounts.
- (v) Write offs, cancellations, and refunds are properly controlled.
- (vi) Arrears follow up procedures are properly controlled.
- (vii) There are robust arrangements in place for the prevention and detection of fraud in relation to Non Domestic properties.

3. SCOPE, METHOD AND COVERAGE

The audit examined the key controls in place over the valuation and billing arrangements for Non Domestic properties. This included the raising and amendment of liability; ensuring that payments were promptly processed and accounted for; that write-offs and refunds were controlled and debt recovery procedures were adhered to.

The audit examined transactions during the financial year 2014/15 and Audit Scotland will place reliance upon the Internal Audit work undertaken.

4. MAIN FINDINGS

The main findings of the review, referenced to the above review objectives, are as follows:

- 4.1 This objective was achieved as all relevant data from the valuation roll is promptly and correctly transferred from the assessment roll to the Council's Council Tax system. Weekly updates are received from the Assessor listing new or deleted properties, changes to rateable value (RV), or change of property owner. These are actioned, reviewed, signed off, and retained. In addition, on an annual basis prior to annual billing, the Assessor's property valuation roll and the Council's NDR databases are reconciled, with mismatched items investigated and rectified.
- 4.2 This objective was substantially achieved in that:

NDR system parameters within the Revs & Bens system are updated annually by the Finance System Administration Team (FSAT) and checked and signed off by the NDR section.

A sample of 30 different types of reliefs was reviewed and these:

- were supported by a signed application form (where applicable);
- had been correctly calculated;
- were reviewed in accordance with the prescribed frequency.

In addition, the prescribed checks and procedures had been adhered to and there was evidence that these had been checked by management.

- 4.2.1 However, Rural Rate Relief had been awarded on a property with a RV more than £17,000, the upper limit on qualification for this type of relief. A further review of all 924 properties with Rural Rate Relief identified a further 2 properties that no longer qualified as their RV had been amended taking it above the limit. This had resulted in £83,783 of relief being wrongly awarded over a 5 year period.

All new exemptions, discounts and void properties are identified on a monthly basis and details passed to the Visiting Officers, who should arrange visits in the most effective way possible in considering the Council's geography. Void properties are inspected to ensure they are vacant and any that are not are reported and appropriate action is taken by the NDR Section.

- 4.3 This objective has been partially achieved in that:

- 4.3.1 The Revs & Bens system cannot produce a control access report listing all active users and their access rights and FSAT provided a copy of their control report which is in an excel format. However, this only lists the "senior" access rights and audit testing found 2 entries which did not match the actual access rights of the user. It was established that this report is predominately used for managing the number of licences and forming the basis of the annual access check for managers. This does not comply with the ICT User and Network Access Control Policy which states that *"System Owners should maintain an up-to-date register of all users and their level of access (including third parties and guest/visitors)"*.

- 4.3.2 Not all current user groups within the Revs and Bens system are defined within the "System Access Control Policy for Northgate Revenues & Benefits and Civica ECDM system" document. The omitted groups include "Scan & Index", "Assessor", "Subsidy", and "Policy & Development".

- 4.3.3 A small number of users within Policy & Development had access profiles for Civica ECDM which allowed them to amend other user's access rights. This resulted in a number of discrepancies between user's actual profile and that recorded on the FSAT record, as they were not notified of these amendments. Restructuring in 2015/16 have meant that this responsibility has been removed from Policy & Development with all aspects of system management now residing with FSAT.

- 4.4 This objective was fully achieved as there are daily reconciliations between the cash collected and bank statements, and monthly reconciliations between cash receipts and the financial ledger. The reconciliations were performed correctly and undertaken in accordance with the prescribed frequency.

There is a dedicated suspense account for all unallocated NDR receipts and all transactions are reviewed within a week and cleared.

- 4.5 This objective was fully achieved as there is a sound system whereby unrecoverable debts are authorised for write-off on a monthly basis by the Head of Revenues and Business Support in accordance with the Council's Scheme of Delegation.

Refunds were correctly calculated and authorised by an appropriate officer, cancellations had been properly actioned, and all of these were processed in accordance with the prescribed procedures.

4.6 This objective was partially achieved as:

4.6.1 The prescribed timetable for the pursuit of arrears was not completely adhered to as there have been delays in moving outstanding debts to the summary warrant stage. This was as a result of the re-organisation of the Sheriff Courts which led to delays occurring between November 2014 and March 2015. The recovery process has been tightened up for 2015/16 and this has been reflected in an updated Recovery Procedure.

However, reports on arrears, aged debt analysis and totals from ratepayers' accounts were produced in accordance with the prescribed frequency.

4.7 This objective was substantially achieved as there are sound arrangements in place for the prevention and detection of fraud.

4.7.1 However, there is scope to improve the process for the award of some reliefs. The initial application form for Mandatory and Discretionary relief does contain a standard declaration and warning, which requires the applicant to declare that the information given on the form is complete and accurate, and that if this is not the case or they fail to report a change which may affect their relief, they may be prosecuted. Where Mandatory or Discretionary relief was awarded these are reviewed every 3 years for which there is a separate review form which must be completed by the applicant. However, this does not include the declaration and warning which is in the application form.

5. CONCLUSION

Overall, the NDR system is operating satisfactorily with appropriate controls in place for the billing and collection of sums due. However, there is a need to ensure that on-going reliefs awarded are still valid following changes made to Rateable Values. In addition, there are some system issues that need to be addressed with regard to maintaining an up-to-date register of all users and their level of access, ensuring that the access levels for the different groups of staff are included within their control policy and that changes to access profiles are only amended by authorised officers.

A total of 4 recommendations have been made; all are classified as medium priority. 1 of the recommendations has been completed, another recommendation with 3 actions is part-completed, and for another recommendation the management agreed action is ongoing. All recommendations are due to be implemented by 30/11/15.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that

7. ACTION PLAN

The Action Plan contains **4** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	4
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		4

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	3 properties were identified as receiving Rural Rate Relief even though their rateable values were in excess of the upper qualification limit of £17,000. This had resulted in £83,783 of relief being wrongly awarded.	Where Non Domestic accounts are subject to a change in rateable value or other amendment, officers should check to see if there were any other reliefs awarded and whether there is still ongoing entitlement to these or if these should be revised.	Staff have been reminded to check relief entitlements and amend accordingly when RV's are subject to alteration.	Rating Officer	Completed
4.3.1 – 4.3.3	Medium	(i) The ICT User & Network Access Control Policy requires that System Owners should maintain an up-to-date register of all users and their level of access. The Revs & Bens system is unable to produce an access control report. A manual spreadsheet is maintained by FSAT but this does not fully record access rights, as its main purpose is to enable a check on the number of licenced system users.	An up-to-date register of all users and their level of access should be compiled. In addition, the system supplier should be asked if the next system upgrade can provide access control reporting functionality. This could be pursued by way of user groups or other forums available.	User list to be updated. Investigation shows that Business Objects now provides this option.	Finance Systems & Change Manager Finance Systems & Change Manager	31/07/15 Completed

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1 – 4.3.3 (cont.)		(ii) Not all current user groups within the Revs and Bens system are defined within the System Access Control Policy for Northgate Revenues & Benefits and Civica ECDM system document.	The Access Control Policy should be reviewed and updated to reflect current working practices and the different user groups who use the system.	Application security under review including review of the Access Control Policy.	Finance Systems & Change Manager	30/11/15
		(iii) Differences were detected between the actual user access rights and and that recorded on the FSAT spreadsheet for 9 Civica ECDM users, meaning the ICT User & Network Access Control Policy was not being adhered to.	The control access list should be updated and regularly reconciled to the system control access report.	User list to be updated .	Finance Systems & Change Manager	31/07/15
4.6.1	Medium	There were delays in the issue of some summary warrants. However, this was primarily due to re-structuring of the Sheriff's Court, over which the Council had no control. However, this can have a detrimental effect as the longer a debt is uncollected the less likely is that it will be paid, affecting the overall collection rate.	The pursuit of arrears should be monitored to ensure that the revised timetable for 2015/16 is adhered to.	Agreed.	Revenues Manager	Ongoing
4.7.1	Medium	Where mandatory or discretionary relief has been granted, this decision needs to be reviewed every 3 years. However, unlike the initial application, the review form completed by the applicant does not contain the standard declaration or warning which states "It is an offence to give false information" and that if the applicant gives "information that is wrong or not complete or fail to report a change, which may affect my relief, I may be prosecuted".	The mandatory and discretionary review forms should be reviewed and amended to include the necessary declaration and warning.	Agreed.	Rating Officer	30/11/15

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

COUNCIL TAX – BILLING AND COLLECTION

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review of billing and collection of Council Tax. The audit was undertaken as part of the annual plan for 2014/15.

For the financial year 2014/15, as at 25/05/15, the Council has collected £98.5m of the £103.2m due in Council Tax on 114,266 properties, which equates to 95.50% collection rate, the same rate as the preceding year.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) There is an adequate control framework in place governing the operation of the council tax billing and collection system.
- (ii) All taxable properties are identified and accurately recorded.
- (iii) All persons liable for council tax have been identified and all discounts, benefits, exemptions and allowances have been correctly recorded to comply with statutory requirements.
- (iv) Council tax bills are raised accurately and in a timely manner.
- (v) Income is recorded correctly within individual's accounts.
- (vi) Arrears are identified promptly and pursued.
- (vii) All write offs are valid and authorised.

3. SCOPE, METHOD AND COVERAGE

The audit examined the key controls in place over billing and collection arrangements for council tax properties. This included the raising and amendment of liability; that payments are promptly processed and accounted for; that write-offs and refunds are controlled and authorised; and that prescribed debt recovery procedures were adhered to.

The audit examined transactions during the financial year 2014/15 and Audit Scotland intend to place reliance upon the Internal Audit work undertaken.

4. MAIN FINDINGS

The main findings of the review, referenced to the above review objectives, are as follows:

- 4.1 This objective was fully achieved as all there are as there are satisfactory policies and procedures in place for Council Tax, which can be accessed by officers from a shared drive.
- 4.2 This objective was fully achieved in that:

Weekly amendments notified by the Assessor to the Valuation Roll are actioned on the Revs & Bens system weekly. The Assessor's Valuation Roll and the Council's billing system are reconciled annually prior to annual billing.

The process and clearing of a number of exception reports found that these are assigned to various Area Finance offices that deal with them regular and prompt basis.

Properties declared void or those considered high risk are inspected by the Visiting Officers to confirm their status.

4.3 This objective was fully achieved in that:

All 28 reliefs reviewed were found to be supported either by a signed application form or in the case of discounts on second homes suitable qualifying evidence.

All amendments made to Council Tax accounts as a result of single occupational discounts being applied, were supported by a signed discount form.

4.4 This objective was fully achieved in that annual and amended bills are raised in a timely manner and also there are sound controls over each billing run which ensure bills extracted matches the number printed and that this matches the number issued and pulled.

4.5 This objective was partially achieved in that:

4.5.1 The Refund policy is contradictory as to whether refunds under £500 require to be authorised and by whom. For refunds over £500, the current policy requires that these have to be both endorsed and authorised which is reflected within the Revs & Bens system and is considered excessive and inefficient. Officers have welcomed the opportunity to streamline the refunds approval process.

4.5.2 2 of 25 refunds reviewed had been incorrectly authorised by a Senior Exchequer Assistant; as both refunds were for more than £500 this requires the approval of Assistant Team Leader or above.

There are daily reconciliations between the cash collected and bank statements, and monthly reconciliations between cash receipts and the financial ledger. The reconciliations were performed correctly and undertaken in accordance with the prescribed frequency.

4.6 This objective was fully achieved as the prescribed timetable for the pursuit of arrears was found to be adhered to. The process was further streamlined with special arrangements to pay arrears with individual tax payers ceasing as of 01/04/15. Failure to pay at final notice stage now leads directly to warrant stage.

4.7 This objective was fully achieved as there is a sound system whereby unrecoverable debts are authorised for write-off on a monthly basis by the Head of Revenues and Business Support in accordance with the Council's Scheme of Delegation.

5. CONCLUSION

Overall, the Council Tax system is operating satisfactorily with appropriate controls in place for the billing and collection of sums due. The only issue identified relates to the process for the approval of refunds as the current refunds policy is contradictory regarding the approval of refunds under £500 and the process is considered unduly excessive for refunds over £500.

One recommendation has been made and is classified as medium priority. This recommendation has been partially completed with the final part due to be completed by 31/10/15.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that

7. ACTION PLAN

The Action Plan contains **1** recommendation as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		1

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.5.1	Medium	The Refund policy is contradictory as to whether refunds under £500 require to be authorised and by whom. Refunds over £500 are required to be both endorsed and authorised. This is considered excessive and inefficient.	The Refunds policy should be reviewed and the approval process clarified and streamlined.	Policy to be amended and endorsed stage removed.	Revenues Manager	31/10/15
4.5.2		2 of 25 refunds reviewed had been authorised by a Senior Exchequer Assistant which an inappropriate grade of officer, as the refund was over £500 and should have been authorised by at least an Assistant Team Leader	Officers should be reminded that refunds are to be authorised by an appropriate officer as set in the Refunds policy.	Email reminder issued to staff.	Service Delivery Manager	Completed 24/07/15

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

TREASURY MANAGEMENT

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1. INTRODUCTION

This audit was undertaken as part of the 2014/15 annual plan and records the findings of a recently completed audit in respect of Treasury Management.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) Borrowing and lending transactions are in accordance with the Council's statutory powers and approved policy and strategy.
- (ii) Annual borrowing requirements and daily balances are properly estimated.
- (iii) Borrowing and lending transactions are properly controlled.
- (iv) Loan repayments and interest are paid on the due dates and in respect of valid loans.
- (v) Deposits and interest are recalled/repaid on the due dates.
- (vi) Borrowing and lending transactions are correctly recorded in bank accounts, the financial ledger, and other subsidiary records (e.g. registers).

3. SCOPE, METHOD AND COVERAGE

The audit examined the key controls operated for Treasury Management and reference was made to CIPFA's Treasury Management Code of Practice (2011 edition). The audit examined transactions in relation to the financial year 2014/15 and External Audit intend to place reliance on the work carried out.

4. MAIN FINDINGS

The main findings of the review, referenced to the above review objectives, are as follows:

- 4.1. This objective was substantially achieved as appropriate procedural instructions (the Treasury Management Practices) are available to all relevant staff, and these were recently reviewed in December 2014 by the Treasury Accountant. However, there was an issue with evidencing that segregation of duties could be demonstrated for all transactions undertaken (see section 4.3.1 below). The Council's Financial Regulations covers the relevant procedures and states that it has adopted the CIPFA Code of Practice. The borrowing strategy (Treasury Management Strategy Statement and Investment Statement for 2014/15) was scrutinised by the then Finance, Housing and Resources Committee and approved by Council.

- 4.1.1 However, the Treasury Management Policy Statement (TMPS) has not been updated to reflect the 2011 edition of the CIPFA Code of Practice. The current TMPS, reported to the Resources Committee on 28/11/07, contains the majority of expected elements of the Code of Practice but, does not include the following in that:

- Section 6, Paragraph 2 of the Code of Practice quotes "..., and any financial instruments entered into to manage these risks". The Council's TMPS states that "... the analysis and reporting of treasury management activities will focus on their risk implications for the Council", whilst not including any financial instruments entered into to manage these risks.
- Under Section 6 it states "The policy statement should also include the organisation's high level policies for borrowing and investments". The Council's TMPS only details the lending criteria.

These points were instead incorporated within the annual Treasury Management Strategy Statement and Investment Statement 2014/15 which, as required by the

Code of Practice, documents future Treasury limits, borrowing requirements, borrowing strategy and annual investment strategy.

- 4.2. This objective was fully achieved as projections of daily balances are prepared by an appropriate officer and reviewed by a more senior officer. Annual projections were not reviewed as part of this audit.
- 4.3. This objective was substantially achieved as there is segregation of duties between dealing, and recording and verification of deals, access to the Logotech system is restricted to the appropriate staff whose access levels are commensurate with their duties. In addition, there is evidence of the cross-checking of transactions to the written confirmation of the deal received from the other party.
- 4.3.1 However, records held did not clearly evidence the segregation of duties between the daily broking and the confirming of transactions to the Logotech system for 8/30 transactions reviewed.
- 4.4. This objective was substantially achieved as the Logotech system records loan repayments and interest due dates. All staff within the Treasury Management Team can make changes to counterparty standing data which includes bank accounts details and applicable interest rates. However, checks of counterparty standing data to transaction details is undertaken at the outset of the deal and also before approval is given by Senior Management to transfer funds.

The Treasury team are reviewing use of the Logotech system to use more functionality or possible alternatives to the Logotech system in order to improve the efficiency and transparency of processes. There may also be the possibility of using electronic checking rather than the present practice of initialling paper copies as evidence of checks.

- 4.5. This objective was fully achieved as the Logotech system records details of all deposits and interest to be recalled/ repaid on a daily basis. This information is reviewed and cross checked daily by an appropriate officer. From the 30 broking sheets (used to record the daily broking activity) sampled there was evidence that an appropriate officer confirmed that any repayments due were received in full and on the correct date.
- 4.6. This objective was fully achieved as the Logotech system is reconciled to the financial ledger on a monthly basis. The reconciliations are signed and dated by the preparer and reviewed by a senior officer. Public Works Loan Board and Broker invoices are reconciled by appropriate staff and supported by the appropriate paperwork. There are appropriate arrangements in place for the back up of the Logotech system and contingency arrangements mean that the system data is held externally by the Treasury Advisers and can be accessed through their online systems.

5. CONCLUSION

This audit found that sound governance is in place with regards to Treasury Management, and that the procedures followed by Treasury Management staff provide assurance that transactions are necessary and accurate. There are 2 recommendations made as a result of this audit consisting of 1 medium and 1 low grade priority.

The recommendations have been accepted by management, with the low grade action having been completed. The remaining action is due to be completed by the end of February 2016.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control

weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

7. ACTION PLAN

The Action Plan contains **2** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	The Treasury Management Policy Statement requires to be updated in line with the most recent CIPFA Code of Practice.	The Treasury Accountant should update the Treasury Management Policy Statement to include details of any financial instruments entered into to manage risks and high level policies for borrowing and investments. The Policy Statement should then be submitted for scrutiny by the Resources Committee and then approved by Council.	The Treasury Accountant will update the Treasury Management Policy Statement to include these and put to Resources Committee alongside the Treasury Management Strategy Statement and Investment Statement in February 2016.	Treasury Accountant	29/02/16
4.3.1	Low	For 8/30 transactions, records held did not clearly evidence the segregation of duties between broking and confirming transactions to the Logotech system.	The Treasury Management Team should amend their procedures so that the individual performing the independent check of broking to the Logotech system, records their initials as evidence of the check.	Agreed. The Treasury Management team will initial as evidence of Logotech check.	Treasury Accountant	Complete

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

HOUSING BENEFIT PAYMENTS 2014/15

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1. INTRODUCTION

The review of the award and payment of Housing Benefits (HB) is undertaken on an annual basis on behalf of Audit Scotland. The review uses their worksheet called HB COUNT (count once, use numerous times) to test the awards calculation and classification. This process was designed by the Accounts Commission and has a specific module developed for use by auditors in Scotland.

Audit Scotland intends to place reliance upon the Internal Audit work undertaken and this will form part of their grant certification work on the HB Subsidy claim for 2014/15. At their request, the audit work also included a review of the uprating of the Revs & Bens system parameters for 2015/16.

For the financial year 2014/15 Housing Benefit payments totalled £49.8 million.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) Benefits are awarded to valid applicants only; claims are accurately assessed and benefit is calculated and classified in accordance with the relevant Regulations and DWP rates.
- (ii) The system parameters in relation to Housing Benefits for 2015/16 have been correctly uprated in accordance with DWP Circulars HB A18/2014 and A2/2015.
- (iii) The agreed actions arising from the previous audit report on Housing Benefit Payments 2013/14 (HDB03/001) issued on 27/08/14 were satisfactorily actioned by management.

3. SCOPE, METHOD & COVERAGE

The audit tested a sample of 20 claims to entitlement and reviewed all transactions related to each claim which affected subsidy in the financial year 2014/15, i.e. initial claim (or continuing), amendments and terminations. The sample included 10 Rent Allowance and 10 Rent Rebate claims. The audit also reviewed the 2015/16 annual uprating of system parameters to verify this was in accordance with the DWP's uprating circulars.

4. MAIN FINDINGS

The main findings of the review, referenced to the above review objectives, are as follows:

- 4.1. This objective was substantially achieved as 18 out of 20 claims examined had been accurately assessed and calculated in accordance with the Regulations and DWP rates. All claims reviewed were supported by a signed benefits claim form held on the Civica Electronic Content Document Management (ECDM) system.

However, there were 2 claims where errors had been made:

- 4.1.1 In case number 133564 the claimant was in employment for part of the year. Whilst the calculation of earned employment income was in accordance with HB Regulations, one of the five payslips was misread by the officer processing the claim, resulting in a minor overpayment of benefit of £0.15 for the period 26/05/14 to 29/06/14.
- 4.1.2 In case number 16194 the rent used in the HB entitlement calculation for the period 01/04/14 to 15/02/15 included a garage which is an ineligible cost. This resulted in an overpayment of housing benefit of £236.62. As this overpayment arose as a result of a Local Authority error, it is not recoverable from the

claimant. This claimant moved to a new address on 16/02/15 and the correct benefit was paid from this date onwards.

- 4.2 This objective was substantially achieved as all parameters within the Benefits system, other than the exception below, had been increased by the amounts or percentages set out in the DWP Uprating Circulars. The Policy and Development Team's evidence trail was comprehensive and clear in demonstrating that the annual uprating had been fully and correctly applied.
- 4.2.1 The only issue related to a set of capital disregard parameters applicable to claimants who had received an ex-gratia payment as a consequence of imprisonment by the Japanese during the Second World War. These were set-up in 2001 when the initial legislation came into force, but have not been uprated to reflect changes in the lower capital limits made since then. However, these parameters apply to a very small number of individuals across the United Kingdom and there was no impact on the Council as there were no such claimants.
- 4.3 This objective was fully achieved as all the agreed actions arising from the previous audit report on Housing Benefit Payments 2013/14 (HDB03/001), issued on 27/08/14, were satisfactorily actioned by management.

5. CONCLUSION

Overall the system for the processing of Housing Benefits is operating as expected and is considered reliable. Case testing revealed that whilst all details are verified and evidence retained, input errors led to 2 overpayments of benefits although one was for a minor amount. There is also a need to ensure that all parameters are identified before the uprating process takes place to ensure that the information is complete.

There are a total of 2 recommendations in this report, 1 medium priority grade and 1 at low priority grade. Both of these have been accepted by management and 1 action has already been completed with the other to be addressed by 31/01/16.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied. The levels of assurance and their definitions can be found at Appendix 1.

7. ACTION PLAN

The Action Plan contains 2 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1 – 4.1.2	Medium	Errors were detected in 2 out of the 20 cases reviewed. In 1 case misreading of a payslip led to a very minor over-payment of benefit. In the other, gross rent rather than net eligible rent was used in the benefit calculation resulting in an overpayment of £236.62.	Processing clerks should be reminded to double check figures input as one the errors identified resulted from an input error. Where there is doubt as to the correct treatment for any element of the benefit entitlement calculation, reference should be made to the relevant guidance and regulations.	Details of the two cases have been shared with the Revenues teams and both are down to human error. No further action is required.	Service Delivery Manager	Completed
4.2.1	Low	Whilst the overall process of uprating the system parameters was satisfactory, there was an omission for the capital disregard applied to former prisoners of war. In this case the lower capital disregard limits for 6 parameters have not been uprated for a number of years. There is no impact upon any subsidy claims since the lower limits changed, as the Council has not had any qualifying claimants.	Appropriate checks should be put in place to ensure that the annual uprating process identifies all active parameters and that this information is complete before the relevant uprating is applied.	We note that no cases were affected by this. The uprating process responsibility has since passed to the Finance Systems & Change Team as part of a restructure. There will be a review of the uprating process and it has also recently been announced that there will be no uprating for most working age benefits for the next four years from April 2016.	Finance Systems & Change Manager	31/01/16

CONFIDENTIAL

**INTERNAL AUDIT
FINAL REPORT**

HIGHLAND COUNCIL

MATTERS ARISING FROM THE STATEMENT
OF INTERNAL CONTROL 2014/15

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1. INTRODUCTION

In order to inform the Head of Audit & Risk Management's annual Statement of Internal Control, work was undertaken to examine the systems of internal control operated within Highland Council. This consisted of:

- (i) A high level review of the system of internal control by way of an evidence-based checklist comprising six key areas:
 - Control environment.
 - Identification and evaluation of risk and control objectives.
 - Information and reporting.
 - Control processes.
 - Monitoring and corrective action.
 - Assessment of whether the key controls have been applied during the year.
- (ii) A review of the key controls operated within those financial systems which were not subject to a detailed audit review during the year (Creditors, Debtors & Budgetary Control). The areas examined included:
 - Financial procedures and guidance issued to staff;
 - Segregation of duties;
 - User access levels and appropriateness;
 - System backups and security of data.

A sample of transactions was also selected for detailed testing to verify that the controls were operating as expected. This sample covered the Council, Pension Fund and organisations which use some or all of the Council's financial systems (Assessor's Department, High Life Highland, NHS Highland and HITRANS).

Separate audits of the General Ledger, Income and Payroll systems were undertaken for 2014/15 and these have been reported separately.

- (iii) A follow-up review to ensure that the agreed actions arising from the previous audit report have been satisfactorily implemented by Management.

2. SCOPE, METHOD AND COVERAGE

Details of the procedures in operation were ascertained by enquiry of officers within the Highland Council and review of documents published on their website.

The audit testing covered the financial year 01/04/14 – 31/03/15.

3. MAIN FINDINGS

The main finding of the review was that the systems of internal control were reliable. However there were some matters identified where action could be taken by management to improve the internal controls as follows:

3.1 Internal Control Checklist

No material issues were identified beyond those identified within the 2014/15 Annual Report and Statement on Internal Control.

3.2 Review of key controls

The key controls were found to be operating satisfactorily and the only issues were noted below.

3.2.1 Creditors

A sample of twenty four creditor invoices was selected for examination, the following issues were found where Financial Regulations had not been complied with:

- two invoices were not supported by an official order: one related to the supply of furniture, the other, healthcare supplies;
- two purchases were not supported by the required number of quotes as outlined in Contract Standing Orders;
- two orders did not contain a sufficient level of detail to clearly identify the record of goods required, and in addition, these orders could not be matched to the corresponding invoices;
- in two cases, the approved stationery and IT suppliers were not used.

Lastly, as required by Financial Regulations, segregation of duties was demonstrated in all cases except for one where the order was issued and the delivery note was received by the same individual.

3.2.2 Debtors

A sample of twenty nine debtor invoices was selected for examination and the following issues were found where Financial Regulations had not been complied with.

- ten invoices were not issued within the specified timescale;
- thirteen invoices did not contain sufficient detail concerning the date of supply:
- two invoices contained only a general description of supplies and lastly,
- one invoice was raised unnecessarily for a recycling bin as bins may be ordered in advance by telephoning the Council's Service Centre.

Ten cancelled invoices were selected for examination of which five replacement invoices were issued. However, the replacement invoices were not correctly cross-referenced to provide cancellation (credit memo) details on the original and/or replacement invoice. In this regard:

- three were not cross-referenced to both the original and the replacement invoice;
- two original invoices did not contain details of replacement invoice.

This point was also raised in the previous Matters Arising from the Statement of Internal Controls report for 2013/14 which was issued on 11/11/14. In response, the Income & Recovery Manager agreed to remind officers within all Services of the need to comply with Financial Regulations. Despite this reminder being issued on the same day as the audit report, officers have failed to comply with this.

Lastly, two credit memos were raised by the same officer who raised the original invoice and as such, segregation of duties could not be demonstrated.

3.2.3 Budgetary Control

A sample of six quarterly Committee reports was examined. The budgetary control process is operating satisfactorily. However, for one, there were issues with the completeness and accuracy of the information reported to the Council's Community Services Committee on 06/11/14, as no explanation was provided regarding an £200k overspend and, in addition, the level of detail provided in the report was less than the amount of detail provided in previous Committee reports.

3.3 Follow-up of management agreed actions

The Highland Council's Matters Arising from the Statement of Internal Controls, 2013/14 report was issued on 11/11/14. This report contained 1 medium and 2 low grade recommendations which were accepted by management, all of which have been fully implemented.

4. CONCLUSION

This review has concluded that the Highland Council's systems of internal control were generally reliable. However, as detailed in the main findings above, there are areas where compliance with established policies and procedures could be strengthened. There are a total of 3 recommendations in this report, 2 assessed as medium priority and 1 as low grade priority. All recommendations have been accepted by management, with the last agreed actions to be completed by 30/09/15.

5. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is a generally a sound system, there are areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

6. ACTION PLAN

The Action Plan contains **3** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		3

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1	Medium	<p>From a sample of twenty four creditor invoices examined, a number of issues were identified where the requirements of Financial Regulations had not been met:</p> <ul style="list-style-type: none"> two invoices were not supported by an official order; two orders were not supported by the required number of quotes; two orders did not contain sufficient detail and could not be matched to corresponding invoices; in two cases approved suppliers were not used. segregation of duties could not be demonstrated for one transaction where the purchase order was issued and the delivery note was received by the same individual. 	<p>All officers involved in purchasing goods and services are reminded of the need to comply with Financial Regulations and associated guidance notes to ensure that:</p> <ul style="list-style-type: none"> invoices are supported by an official order; the required number of quotes are obtained; orders contain sufficient details, including prices; contract suppliers are used; segregation of duties are observed for all financial transactions. 	An email will be issued to reiterate the need to comply with Financial Regulations & associated guidance notes.	Director of Finance	30/09/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.2	Medium	<p>From a sample of twenty nine debtor invoices, a number of issues were identified where the requirements of Financial Regulations had not been met:</p> <ul style="list-style-type: none"> • ten invoices were not issued within the specified timescale; • thirteen invoices did not sufficiently detail the date of supply, and two invoices contained only a general description of the items supplied; • one invoice was raised whereas the goods could have been ordered and paid for at the time through telephoning the Council's Service Centre; • two invoices and the subsequent credit memos were raised by the same officer. • five replacement invoices were not cross-referenced correctly; three were not cross-referenced to both the original and replacement invoice, and two original invoices were not cross-referenced to the replacement invoice; 	<p>The need to comply with Financial Regulations and associated guidance notes should be reiterated to all staff involved with the raising and cancellation of debtor invoices. In particular the need to ensure that:</p> <ul style="list-style-type: none"> • invoices are raised within the time periods defined within Financial Regulations; • the date of supply and a detailed description of the goods provided are sufficiently detailed on the invoice; • goods supplied are paid for in advance; • segregation of duties are observed for all financial transactions. • replacement invoices are cross-referenced to provide the cancellation (credit memo) details; 	<p>An email will be issued to reiterate the need to comply with Financial Regulations & associated guidance notes.</p> <p>Email issued to all staff to make them aware of the issues.</p>	<p>Revenues Manager</p> <p>Revenues Manager</p>	<p>Completed 14/09/15</p> <p>Completed 14/09/15</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.3	Low	From a sample of six quarterly Council Committee reports, one did not contain sufficient explanatory detail, in particular, details were not provided concerning a significant reported overspend.	Financial Regulations should be amended to include a suitable paragraph concerning the need to provide sufficient explanatory detail, particularly with regard to reporting significant adverse or favourable variances in revenue monitoring reports.	The informal arrangements to provide explanations on significant variances will be included in the next review of Financial Regulations	Head of Corporate Finance	30/09/15