

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019

Title of report	EXTERNAL AUDIT RECOMMENDATIONS PROGRESS REPORT
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Purpose of report	To approve the External Audit Plan for 2017/18
Council priorities	Value for Money
Implications:	
Financial/Staff	Implementation of recommendations made by the External Auditor in respect of the audit of the 2017/18 accounts is being undertaken utilising existing resources.
Link to relevant CAT	None
Risk Management	Implementing recommendations made by the external auditor in a timely manner mitigates risk.
Equalities Impact Screening	Not applicable
Human Rights	No direct implications.
Transformational Government	No direct implications.
Consultees	None
Background papers	None
Recommendations	THAT MEMBERS NOTE THE PROGRESS MADE

1.0 BACKGROUND

- 1.1 At its meeting on 10 October 2018 the Committee approved the annual statement of accounts and received the external auditors (KPMG LLP) ISA260 report containing the auditors intended audit opinion, findings, key issues and recommendations. The ISA260 report also included the council's managerial response to recommendations. In presenting the management responses, the Head of Finance committed to updating members towards the end of the financial year in respect of progress against these recommendations.
- 1.2 The audit process for the 2017/18 accounts has now concluded. KPMG LLP issued their audit certificate on 11 January 2019 and the associated Annual Audit Letter is presented to the committee this evening, as part of a separate report, for information.
- 1.3 A total of five recommendations were made by the external auditors in respect of 2017/18. At the time of issuance of the ISA 260 report, the council had fully implemented one of the five recommendations relating to the 2016/17 audit of accounts, with one recommendation superseded.
- 1.4 The table at Appendix A details the recommendations and management responses as laid out in the ISA 260 report along with a progress update as at February 2019.

Progress against external audit findings and recommendations of the 2017/18 Annual Accounts

ISA 260 Report 2017/18 – Key Issues & Recommendations

Priority Rating	Risk	Issue & Recommendation	Management Response	Update
1	2	<p>BACS Authorisation</p> <p>Our audit work identified a lack of evidence to confirm that one BACS payment had been authorised out of our sample of five.</p> <p>Risk</p> <p>There is a risk that BACS payments are made without appropriate authorisation.</p> <p>Recommendation</p> <p>The Authority should ensure evidence is retained for all BACS payment transactions.</p>	<p>Internal testing with regard to this issue has identified that the unauthorised payment was an anomaly.</p> <p>A revised authorisation process for signing off payments was implemented in June 2018 to mitigate any further occurrence of this issue. Responsible Officer Head of Finance and Section 151 Officer Implementation Deadline Implemented June 2018.</p>	No further update – recommendation implemented June 2018.
2	2	<p>Payroll and capital system password configuration</p> <p>The payroll and capital applications are not currently configured to enforce strong password security requirements. This is despite the fact that capital, and certain payroll system users, access the applications through a web-based interface that can be accessed externally.</p> <p>Risk</p> <p>There is an increased the risk of inappropriate access to, or amendment of, Authority data.</p>	<p>Reconfiguration to enforce stronger password security requirements on the payroll and capital systems will be undertaken and implemented by November 2018.</p> <p>Responsible Officer</p> <p>HR Analyst (Payroll system) Finance Team Manager and Deputy Section 151 Officer (Capital system).</p> <p>Implementation Deadline November 2018</p>	<p>Implemented.</p> <p>Both the capital and payroll applications have been reconfigured to enforce stronger password security.</p>

		<p>Recommendation</p> <p>The payroll and capital applications should be configured to enforce stronger password security requirements.</p>		
3	2	<p>Reliance on third party software</p> <p>The Authority operates a number of software packages that are hosted by an external third party, including payroll and capital systems. Management were unable to provide adequate assurances in support of our audit in relation to the controls operated by the third party service organisations.</p> <p>Risk</p> <p>Without adequate oversight of the controls operated by third party outsourcers, insufficient controls may be in operation to ensure the ongoing protection of the confidentiality, availability and integrity of the Authority data stored within these systems.</p> <p>Recommendation</p> <p>We recommend that the Authority takes steps to gain assurance over the controls operated by third party outsourcers, for example through obtaining and inspecting an appropriate report for the service provided.</p>	<p>As a further security measure, the Council has closely scrutinised and reconciled its payroll and capital data processes for 2017/18 and can confirm that there have been no issues.</p> <p>All new 3rd party externally hosted software procurement includes a security element and requirement from the supplier, including a yearly PEN (Penetration test) and controls operated report. This is written into the procurement ITT. The report is sent to the IT department Security Officer and IT Manager to ensure compliance and any vulnerability issues classified as high or critical are reviewed and resolved.</p> <p>A review to test the validity of this will be undertaken by March 2019.</p> <p>For historic hosted systems, predating this approach, where there are not existing controls in place to follow up on the controls operated by the vendor or PEN testing to</p>	<p>Implemented.</p> <p>All existing 3rd party hosted software suppliers have sent through their latest PEN (penetration) test results. These have been reviewed by the IT Manager and all are compliant to best practice. The security summary reports for each supplier are available on request. Some suppliers had to be chased several times in order to obtain the details. All suppliers have been told that the IT Manager will be requesting PEN (penetration) test results for review on a yearly basis in a timely manner.</p> <p>The ICT Team plan for 2019 and going forwards has a BAU task, to review all 3rd party hosted, PEN test results and 3rd party access controls on a yearly basis to ensure any high and critical risks in 3rd party software is made visible to the business and is remediated. The ICT monthly performance report will be updated to reflect the review period.</p> <p>All new 3rd party externally hosted software procurement includes a security and 3rd party access control element and requirement from the supplier, including a yearly PEN</p>

			<p>ensure compliance, IT Team Manager will ensure that there is a yearly control audit and PEN test conducted. The report is forwarded to the service area product owner and IT Manager for review and action.</p> <p>Responsible Officer IT Team Manager Implementation Deadline March 2019</p>	<p>(penetration test), 3rd party controls report. This is written into the procurement ITT, where ICT systems are involved. The report is sent to the IT department, Security officer and IT Manager to ensure compliance and any vulnerability issues classified as high or critical are reviewed and resolved. For example the new housing system customer portal, PEN test results were reviewed recently and captured as part of the Housing ICT system, project governance process.</p> <p>This process is being enhanced further by providing an "ICT Technical Requirements" document to the Procurement team, which can be included in procurement activities where ICT systems are involved. This allows the procurement process to capture all the standard ICT technical and operations requirements, including, 3rd party hosting requirements, 3rd party access controls and Security requirements, as a standard offering. This document is currently being revised and will be finalised on the 7th March 2019. A copy of this is available upon request.</p>
4	3	<p>Review of the appropriateness of user access</p> <p>The Authority does not currently undertake a periodic review to assess the ongoing appropriateness of user access for the payroll and ledger</p>	<p>Improvements have been made to the system access review process for the ledger application following last year's recommendation. However, further improvements in respect of the timeliness of the reviews have been</p>	<p>Implemented.</p> <p>HR process implemented to review user access levels on a quarterly basis.</p> <p>As part of this review, checks will be undertaken on administrator,</p>

		<p>applications.</p> <p>Risk</p> <p>This increases the risk that users may retain access that is no longer required to support their job role.</p> <p>Recommendation</p> <p>We recommend that a periodic exercise is undertaken to review the appropriateness of user access to payroll and ledger systems. The exercise should include consideration of the ongoing appropriateness of access rights, with a record retained that includes details of any changes made</p>	<p>acknowledged and a new process was implemented in July 2018 which allows for timely access modification/revocation based on centralised communication of staffing changes. A further quarterly review has been implemented with immediate effect to ensure appropriate user access.</p> <p>Similarly this improvement has been acknowledged in respect of the payroll system and a quarterly review will be implemented with immediate effect.</p> <p>Responsible Officer</p> <p>Exchequer Services Team Leader (Ledger system)</p> <p>HR Analyst (Payroll system)</p> <p>Implementation</p> <p>Deadline</p> <p>Implemented (Ledger system)</p> <p>.Immediate effect (Payroll system)</p>	<p>accountant, HR, payroll and audit roles only. Employee self-serve or PeopleManager access will be reviewed periodically as access to these systems automatically change if the user leaves or transfer into another role.</p>
5	3	<p>Revocation of user access within ledger system</p> <p>Our testing of user access controls within the ledger system identified a number of cases where a leaver's access was not revoked in a timely manner.</p>	<p>Improvements have been made to the system access review process for the ledger application following last year's recommendation. However, further improvements in respect of</p>	<p>No further update – implemented July 2018.</p> <p>Quarterly reviews will be undertaken by the Exchequer Services Team Leader to ensure that all access is appropriate for all users. A quarterly</p>

		<p>Risk</p> <p>There is an increased the risk of inappropriate access to Authority data.</p> <p>Recommendation</p> <p>We recommend that the Authority reviews the effectiveness of existing processes to revoke access to ledger system from organisational leavers.</p>	<p>the timeliness of the reviews have been acknowledged and a new process was implemented in July 2018 which allows for timely access modification/revocation based on centralised communication of staffing changes.</p> <p>A further quarterly review has been implemented with immediate effect to ensure user access is revoked as necessary.</p> <p>Responsible Officer Exchequer Services Team Leader</p> <p>Implementation Deadline Implemented in July 2018</p>	<p>action has been included within the Finance Team Business for 2019/20.</p>
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ISA 260 Report 2017/18 – Follow-up of Prior Year Recommendations

Priority Rating	Risk	Issue & Recommendation	Management's Original Response	Status as at October 2018	Update
1	2	<p>Users on ledger system</p> <p>Our testing identified that nine leavers had not been removed from the ledger system in a timely manner and a regular review of user accounts is not undertaken and documented.</p> <p>Recommendation</p> <p>The Authority should remove leavers from the</p>	<p>Accepted</p> <p>When an employee leaves the authority their user account is deactivated so although their account may still be live on the ledger system, their ability to access the system is removed. We receive information from ICT regarding employees that leave the Authority. The timeliness and</p>	<p>Superseded</p>	<p>No further update – this recommendation was supersede with recommendation number 5 included in 2018/19 above.</p>

		<p>ledger system in a timely manner. Additionally, the Authority should perform review of user accounts on a regular basis to ensure that user access remains appropriate.</p>	<p>completeness of this information will be strengthened and leavers promptly deactivated from the system as a result. We will implement a documented quarterly review of user accounts moving forward.</p>		
2	2	<p>Review of actuarial assumptions</p> <p>The Authority performs a review of the assumptions used by the actuaries upon receipt of their report, but this is not documented.</p> <p>Recommendation</p> <p>The Authority should document its review of the actuarial assumptions. This may include reporting to the Audit and Governance Committee for approval by members as happens at a number of authorities.</p>	<p>Accepted</p> <p>The Actuary's report is reviewed by the Finance Section, but not documented. In future this will be documented and presented to the Auditors as part of the working papers.</p>	<p>Implemented</p> <p>KPMG assessment</p> <p>The review of assumptions have been documented.</p>	<p>No further update (recommendation was implemented).</p>
3	2	<p>Unreconciled Cash Flow Statement</p> <p>Our testing identified that the Cash Flow Statement did not</p>	<p>Accepted</p> <p>Consideration will be given to the method and tools used in producing the Cash</p>	<p>Partially Implemented KPMG assessment</p> <p>Our testing</p>	<p>In Progress.</p> <p>Ongoing work is continuing to identify the unreconciled balance.</p>

		<p>reconcile by £0.161m due to uncertainty. Whilst this unreconciled balance has reduced from £0.558m that was included within the 2015/16 financial statements, further review of the Cash Flow Statement is required to eliminate the unreconciled balance.</p> <p>Recommendation The Authority should review the Cash Flow Statement in detail to resolve the unreconciled balance. This may include using CIPFA's Cash Flow Model.</p>	<p>Flow Statement for future years with a view to reconcile all balances.</p>	<p>identified that the Cash Flow Statement did not reconcile by £0.038m due to uncertainty.</p> <p>Management October 2018 response Significant progress was made during 2017/18 to identify and eliminate the historic unreconciled balance. Whilst the remaining unreconciled balance value remains below the current external auditor's triviality level, it is acknowledged that this is not an ideal position. A further review, led by the Finance Team Manager and Deputy Section 151 Officer, will be undertaken to seek to resolve the unreconciled balance as part of the development of the 2018/19 draft Statement of Accounts.</p>	<p>The team are currently considering the benefits of implementing the CIPFA Cashflow model for the 2018/19 financial statements which will help to eliminate any unreconciled balances in the future.</p>
4	2	<p>Documentation of management review of valuation assumptions</p> <p>Property assets are revalued on an annual basis by a professional valuer in accordance with the CIPFA Code. Officers review the</p>	<p>Accepted</p> <p>In future, the annual officer's review of valuation assumptions will be documented.</p>	<p>Not implemented KPMG assessment</p> <p>The review of assumptions have not been documented.</p>	<p>Not yet started - The valuation of council owned assets is due to take place in March and plans are in place for the Technical Accountant to document the review of these assumptions in a report to the Head of Finance who will then document further</p>

		<p>assumptions related to the estimation processes followed by the appointed valuers. However this review is not documented and as such could not be re-performed.</p> <p>Recommendation The Authority should document its review of these assumptions to strengthen the control process.</p>		<p>Management October 2018 response Whilst significant analysis work was undertaken in validation of the assumptions used by the valuer in arriving at a valuation of the council's property asset's for 2017/18, this process was not documented. In undertaking this process for the drafting of the 2018/19 Statement of Accounts the Head of Finance and Section 151 Officer will request formal sign off of the review of valuation assumptions which are to be documented by the Technical Accountant.</p>	<p>review, challenge and conclusion.</p>
5	3	<p>Properties, Property, Plant and Equipment Processing There were a number of errors in the notes for Investment Properties, Property, Plant and Equipment (PPE), Capital Adjustment Account and Revaluation Reserves, which resulted in audit adjustments.</p> <p>Recommendation</p>	<p>Accepted A full and thorough review in relation to capital items will be undertaken in readiness of the production of the 2017/18 financial statements.</p>	<p>Partially Implemented KPMG assessment The Authority has undertaken a review of Council Dwelling capital accounting in 2017/18.</p> <p>Management October 2018 response Whilst significant progress has been made to the accounting treatment of PPE, it</p>	<p>In Progress - Work to migrate HRA property data onto the council's capital system commenced in January 2019. Issues with the balance of unusable reserves have been identified which are largely a result of the system working on a property approach accounting basis as opposed to a beacon approach. Additional technical accounting support is</p>

		<p>The Authority gives priority to reviewing the compilation of these notes.</p>		<p>is acknowledged that the current manual spreadsheet compilation of the Housing Revenue Account (HRA) property statements and supporting notes are laborious and susceptible to human error.</p> <p>Improvements will be implemented prior to the development of the 2018/19 draft Statement of Accounts to migrate the HRA property data onto the council's capital system. In addition, improvements in respect of the data sharing mechanisms between the Housing and Finance service will be strengthened. The Finance Team Manager and Deputy Section 151 Officer will take responsibility for this.</p> <p>As detailed below, a review of the approach to compiling working papers will be</p>	<p>currently being sought and the Head of Finance and Finance Team Manager are working closely with the council's auditors to ensure that any material errors are understood and presented as part of the draft statements in May 2019.</p>
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6	3	<p>Working paper</p> <p>The supporting working papers to the accounts were of an adequate standard, although could be more clearly presented to avoid additional queries being raised.</p> <p>Recommendation</p> <p>The Authority should improve working papers to ensure they are clearly presented to support the figures in the financial statements.</p>	<p>Accepted</p> <p>We will review our working papers with auditors and take any specific comments on board..</p>	<p>Partially Implemented KPMG assessment</p> <p>We have seen some improvement to working papers provided from prior year, but there is still scope for further improvement.</p> <p>Management October 2018 response</p> <p>Whilst some improvement has been made to working papers, a review of the approach to the compilation of these working papers will be undertaken by March 2019, prior to the drafting and audit of the 2018/19 Statement of Accounts. The review and subsequent implementation will be led by the Finance Team Manager and Deputy Section 151 Officer.</p>	<p>In Progress</p> <p>A review of previous year's working papers has been undertaken by the Finance Team Manager and a number of improvements have been identified. These will be implemented as part of the 2018/19 closedown process.</p>