

INTERNAL AUDIT PROGRESS REPORT – MARCH 2017

1 Purpose

1.1 To receive the Internal Audit Progress Report of activity undertaken since March 2016.

2 Recommendations

2.1 The committee is recommended to note the progress report.

2.2 The committee is requested to approve the 2017/18 Internal Audit Plan for Q1 (Section 3).

3 Supporting Information

3.1 This report provides an update on the progress made against the 2016/17 Internal Audit Plan and includes information on:

- Summary of internal audit reviews completed and in progress
- Overdue recommendations and follow up work
- 2017/18 internal audit plan and resource

3.2 The Committee requested that all internal audit reports are presented in full. These are included in Appendix 3.

4. Reasons for Recommendations

4.1 Ensuring a proper and effective flow of information to Audit Committee Members enables them to perform their role effectively and is an essential element of the corporate governance arrangements at the Council.

5. Resource Implications

5.1 There are no resource implications to report.

Contact Officer: Kate Mulhearn, Corporate Governance Manager
01296 585724

Background papers: none



Internal Audit Progress Report

March 2017





Contents

1. Activity and progress	3
Final reports issued since the previous Committee meeting.....	3
Internal audit plan work in progress	5
2. Overdue recommendations and follow up work	6
3. 2017/18 internal audit plan and resource	7
Appendix 1: Internal audit opinion and classification definitions	8
Appendix 1: Internal audit plan and progress tracker	10
Appendix 3: Internal audit reports	12

1. Activity and progress

The annual internal audit plan was approved by the Audit Committee in March 2016. A summary of the plan is included in Appendix 1. We monitor progress against the plan during the year and advise the Audit Committee of any changes.

Final reports issued since the previous Committee meeting

<i>Name of review</i>	<i>Conclusion*</i>	<i>Date of final report</i>	<i>No of recommendations made*</i>			
						
			Critical	High	Medium	Low
Housing Benefits	High	16.03.2017	-	3	3	-
General Ledger	Medium	16.03.2017	-	-	3	3
Budget Management	Low	16.03.2017	-	-	1	3

* See Appendix 1 for the basis for classifying internal audit findings and reports.

The full reports are attached in Appendix 3 and summarised below:

Housing Benefits

This report is classified as High Risk. We issued three high and three medium risk findings. Benefits administration is a critical part of the Council's responsibilities in supporting residents with their entitlements to financial support. For the 2015-16 Department for Work and Pensions (DWP) Subsidy Grant Claim the Council has to repay £377,333 due to errors identified in the annual external audit of the submission. This review focussed on the control environment around benefits administration and has identified a number of weaknesses.

- The structure of the benefits administration team has changed as part of the Commercial AVDC business review. There are inadequacies in both the current structure and the knowledge and experience of the staff.
- Quality checks have been performed inconsistently and there has been inadequate follow-up of outcomes from quality checks during the year.
- There has been a lack of performance monitoring and reporting of key housing benefit metrics during the year. There is currently no forum for management to oversee the performance of benefits.

- New claims processing times continue to increase, currently ranking the Council 318 out of 379 authorities.
- Data protection needs to be supported via completion of e-learning modules and system data reconciliations.
- Overpayments are not effectively monitored and reported information is inaccurate.

At the time of this report we are nearing the end of the 2016-17 financial year. The weaknesses identified, if not addressed promptly, could have significant impact on the 2016-17 subsidy claim, and place the Council at risk of further repayments. We understand the Group Manager has already taken a number of actions to address issues identified in the 2015-16 subsidy audits. If these, together with the recommendations in this report are acted upon promptly, the control environment should be much improved for 2017-18.

General Ledger

Overall the design of the Tech1 system is sufficient to allow general ledger transactions to be accurately recorded however, the effectiveness of the system functionality is undermined due to inadequate central oversight by the Finance Team of the data held on Tech1. This report raises particular concern with the lack of regular monthly reconciliations between sub-systems and Tech1 with key systems such as iWorld (revenues and benefits) not always being completed monthly and other systems in the Council not being reconciled at all. The previous internal audit report in this area raised a finding around reconciliations and since then the Council has improved by mapping the interfaces however, the purpose of this task has not been realised as the Finance Team do not have oversight over who is charged with completing reconciliations for every interface to Tech1, the frequency of these reconciliations or how large/unusual unreconciled items would be escalated.

We also raised a medium risk finding regarding the access rights of registered users of the Tech1 system. The review identified nine supplier accounts on Tech1 with their use of Tech1 not being monitored effectively.

Three low risk findings were identified relating to:

- Finance Team have insufficient arrangements via periodic data analysis to review journals processed, user access log-in and changes to the chart of accounts.
- There is insufficient escalation of high value and long outstanding suspense account balances.
- Narrative explanation for journals may be missing or insufficient.

Budget Management

This report is classified as Low Risk. We identified one medium and three low risk findings. Budget monitoring is a critical tool used by the Council to ensure the financial position forecast is met and appropriate action is taken to mitigate any risks. The current climate is challenging; £6.9 million has already been deducted from the Council's government grant since 2010, alongside a target of achieving £2.8m of savings in 2016-17. This report highlights 3 low risk findings which can be rectified quickly with little resource input. These relate to:

- Oversight of budget management meetings
- Variance thresholds
- Assessment of budget managers' training needs

Whilst the above can be rectified promptly, we highlight a more significant piece of work around improving the Quarterly Digest to incorporate more non-financial information to better inform decision making. There is a clear drive in the public sector to move towards integrated performance reporting. Within an environment of significant resource constraints and competing needs, public bodies are faced with a set of unprecedented risks and challenges. More than ever, they need to take a holistic view of the issues they face to guide their decisions and actions in the short, medium and long term.

Internal audit plan work in progress

As at the date of preparing this report the following reviews are in progress:

<i>Name of review</i>	<i>Update on progress</i>
Debt Recovery	<p>In response to internal audit recommendations arising from 2015/16 reviews, a project is underway to review the Council's strategic approach to debt recovery. The scope includes:</p> <ul style="list-style-type: none">- understand the level of debt – including all income streams and age profile- develop strategic direction/policy for debt management and recovery action- recommend future operating model, structure of teams and resources to maximise efficient collection of debts- clarity over responsibility & ownership of debt collection- identify reporting needs to effectively monitor and manage debt at the budget holder and corporate level- identify best practice and benchmark debt management elsewhere- apply customer insight to profile debtors which will support more focused recovery action and reduce overall debt

<i>Name of review</i>	<i>Update on progress</i>
	This is not an assurance review and IA is supporting in an advisory capacity.
Safeguarding	Initial scoping meeting conducted and audit commences in March 2017
Contract Management	Initial scoping meeting conducted and audit commences in March 2017
Accounts Receivable	Work completed and report being prepared
Accounts Payable	Work completed and report being prepared
Service Charges	Review is in progress

2. Overdue recommendations and follow up work

We monitor the implementation of actions and recommendations raised by internal audit reviews to ensure that the control weaknesses identified have been satisfactorily addressed. We only report to the Audit Committee when more than 3 months has passed since the original agreed target date.

Update on financial systems

Actions identified in the 2015/16 General Ledger and Budgetary Control internal audit report have been followed up as part of the current year reviews included in this report. The actions identified supersede those from last year. Implementation of actions will be followed up and reported appropriately.

The Audit Committee will receive the results of the Accounts Payable & Receivable audits at the next meeting.

Overdue recommendations

No recommendations have passed three months of their implementation date. The January 2017 Audit Committee received reports on Payroll, Fixed Assets and Treasury Management. These recommendations will be due in the next quarter and therefore any which pass their implementation dates will be reported to the next Committee.

3. 2017/18 internal audit plan and resource

As part of the Commercial AVDC restructure, the Council's model for the provision of internal audit has been reviewed. To achieve the Council's objectives the preferred model for delivery is a co-source arrangement with a retained Head of Internal Audit position, fulfilled by the Corporate Governance Manager, and buying-in resource to deliver the annual internal audit work programme. This model allows for the flexibility, insight and innovation achieved through using external suppliers who work with a range of other public and private sector organisations, and also retains the desired level of proximity to the issues and knowledge of AVDC.

This proposal is currently subject to the formal staff consultation review process. Once this concludes, likely by end of March, a detailed scope of work and tender will be developed in order to procure the internal audit service. This is likely to be for a three year term, with options to extend.

Between now and the time at which a contract can be procured, we plan to continue to engage the services of BDO Internal Audit.

2017/18 internal audit plan

The internal audit plan for 2017/18 will be fully developed once the organisational structure has been agreed and this plan will come to the July Audit Committee meeting for approval.

During Q1 of 2017/18 the following reviews are planned.

<i>Name of review</i>	<i>Description</i>
Company Governance	Review of governance arrangements over the Council's owned or part owned companies: Aylesbury Vale Estates and Vale Commerce
Commercial AVDC Programme/Project Assurance	Review focusing on the programme and project governance arrangements of the transformation programme including status of implementation of actions identified in the "critical friend" review.
Audit recommendation follow-up	Follow up on the implementation of actions identified in internal audit reports

Appendix 1: Internal audit opinion and classification definitions

Individual reviews - Basis of classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual findings are considered against a number of criteria and given a risk rating based on the following:

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 1: Internal audit plan and progress tracker

The 2016/17 Annual Internal Audit Plan was approved by members of the Audit Committee in March 2016. Progress and changes are reported below.

Review	Description	Status/Comment	Risk Rating
General Ledger	Ongoing input to Commercial AVDC Finance Review project (Q1&Q2) and assurance over implementation and effectiveness of processes (Q3 &Q4)	Complete	Medium
Payroll		Complete	Low
Accounts Receivable		In progress	
Accounts Payable		In progress	
Treasury		Complete	Medium
Fixed Assets		Complete	Medium
HR - Recruitment	Review recruitment processes and controls	Processes are being assessed as part of Commercial AVDC reviews. Consider audit in 207/18.	Defer to 17/18
Electoral & Democratic Services	Deferred from 15/16. Roll out of ModGov – review processes post implementation	Implementation has gone wells so far but not yet using full functionality. This is being considered as part of the Business Review. IA to consider once review has concluded.	Defer to 17/18
Contract Management – Supplier Resilience	Deferred from 15/16. Assurance that key suppliers/contracts have adequate business continuity plans in place. Consider outcomes of Commercial AVDC review.	In progress	
Budget Management		Complete	Low
Information Governance	Information governance effectiveness review.	Scope of was work agreed. Now pending outcome of Intel report. Scope will be modified as needed.	
Health & Safety	Compliance with OHSAS18001; review of H&S Management System	New H&S provider from 1 Oct 16 will review management systems following departure of H&S officer. Work will be overseen by BAS Manager but not likely to require specific IA resource. Audit should be deferred until systems are in place.	Defer to 17/18
Safeguarding	Review pre Sec 11 audit. Also consider vulnerable adults.	In progress	
Debt Recovery	Council wide review of debt management and recovery processes, including council tax, business rates, HB overpayments and other income streams.	Work commenced July 2016 to support review of processes. This is IA advisory work.	

My Account	Review security of payments, information and interfaces with other systems	Not considered a key risk area for focus at this time.	Remove
Good Governance Framework for Local Government	Review compliance with new CIPFA code and implications for AGS 16/17	CIPFA framework has been published. Review will commence in Q4.	
Risk Management	Continuous assurance over risk management process	Corporate risk register reviewed and reported to Audit C'ttee.	Ongoing
Enterprise zones	Processes governing management of E Z partnerships	Not considered a key risk area for focus at this time.	Remove
Housing benefits	Review of controls to ensure benefits are issued accurately and timely	Complete	High
Council Tax & Business Rates	Review of key controls around issue of bills and the calculation and collection of funds	In progress	
Estates – Service Charges	Basis for and calculation of service charges, collection processes	In progress	
Business Reviews	Ongoing	Internal audit has supported Commercial AVDC reviews: <ul style="list-style-type: none"> • Procurement & Contract Management • Business Intelligence • Financial Systems and Processes 	Completed
Vale Lottery	The review focussed on four areas identified as being key to ensuring that the lottery is being operated effectively and in compliance with the Gambling Act.	Complete	Low

Appendix 3: Internal audit reports

The Committee requested to see all internal audit reports in full. Those completed since the last meeting are attached below.

1. Housing Benefits
2. General Ledger
3. Budget Management



Internal Audit Report 2016/17

Housing Benefits

March 2017



Contents

1. Executive summary	2
2. Background and Scope	5
3. Detailed findings and action plan	6
Appendix 1. Finding ratings and basis of classification	19
Appendix 2. Terms of Reference	21
Appendix 3. Benefit Subsidy Repayment – How it works?	23
Appendix 4. Staff Structure	24
Appendix 5. Good Practice Benchmarking	25
Appendix 6. New Claims Processing Speed	28
Appendix 7. Change in Circumstances Processing Speed	29
Appendix 8. Training	30
Appendix 9. Follow-up of External Audit Recommendations	31
Appendix 10. Follow-up of Prior Internal Audit Recommendations	32

2	Distribution List
5	For action Jeff Membery – Assistant Director - Customer Fulfilment
6	Debbie White – Group Manager
19	For information Kate Mulhearn – Corporate Governance Manager
21	Andrew Small – Director, Section 151 Officer
23	Audit Committee

This report has been prepared only for Aylesbury Vale District Council (the Council) in accordance with the agreed terms of reference.

1. Executive summary

Report classification*	Total number of findings			
	Critical	High	Medium	Low
High risk (39 points)	-	2	1	-
	-	1	2	-
	-	3	3	-

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the Council at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as **High Risk**. We have issued three high and three medium risk findings. Benefits administration is a critical part of the Council's responsibilities in supporting residents with their entitlements to financial support. For the 2015-16 Department for Work and Pensions (DWP) Subsidy Grant Claim the Council has to repay £377,333 due to errors identified in the annual external audit of the submission. This review focussed on the control environment around benefits administration and has identified a number of weaknesses.

At the time of this report, we are nearing the end of the 2016-17 financial year. The weaknesses identified, if not addressed promptly, could have significant impact on the 2016-17 subsidy claim, and place the Council at risk of further repayments. We understand the Group Manager has already taken a number of actions to address issues identified in the 2015-16 subsidy audits. If these, together with the recommendations in this report are acted upon promptly, the control environment should be much improved for 2017-18.

Key Findings

- The structure of the benefits administration team has changed as part of the Commercial AVDC restructure and business review. There are

inadequacies in both the current structure and the knowledge and experience of the staff (Finding 1 – High)

- There has been a lack of quality checks and inadequate follow-up of outcomes from quality checks during the year (Finding 2 – High)
- There has been a lack of performance monitoring and reporting of key housing benefit metrics during the year. There is currently no forum to oversee the performance of benefits (Finding 3 – High)
- New claims processing times continue to increase, currently ranking the Council 318 out of 379 authorities (Finding 4 – Medium)
- Data protection needs to be supported via completion of e-learning modules and system reconciliations (Finding 5 – Medium)
- Overpayments are not effectively monitored and reported information is inaccurate (Finding 6 – Medium)

Good practice noted

- There are adequate controls around the upload of updated benefit parameters prior to the start of the year. We sample tested 5 updated parameters against the DWP change request with no issues identified
- The quality checks have recently been updated with a more detailed approach to reviewing new claims. Quality checks aid in reducing Local Authority Error and identify common themes and trends to support performance management and continuous improvement
- The payment run is setup to automatically run at regular intervals each month, allowing payments to occur in a timely manner.

Management comments

The findings identified are an accurate reflection of some of the issues experienced during the year. In the last few months many steps have been taken to rectify and reduce the risk of future financial loss.

Structure and Systems - Staffing has been a problem as we move to a multi-disciplinary team, it has been difficult to train staff in this complex area and the fully trained staff numbers have depleted. The DWP guidelines suggest a caseload vs staff =1 staff member per every 750 cases this would total 11 staff working solely on HB casework, we have only had 5.8. To get back on track we have had to hire specialist benefit assessment officers to fill the gaps; this recruitment has taken time and to date we have taken 3 staff in with one additional member being sought at the moment. In addition to this I have sought the expertise of an outside subsidy expert, he has already identified areas where we can save money.

We have reintroduced the Diary system on Northgate to pick up changes to help prevent further overpayments. We are trialling new “appchecker” software that is currently used in our Taxi licensing department as it has a HB module within this, it will help us identify high risk cases to review.

Training and Quality Checks - There are many areas to focus on in HB, we have completed training on Overpayments and the Self Employed (SE) guidance notes have been updated, with a view to carry out a SE workshop. Currently SE claims that are being assessed are checked by a Team Leader before going into payment. The new robust checking regime very quickly identifies errors, officer accuracy and training needs and is fed back to the individuals.

Reporting and Oversight - Overpayment recording is inefficient. As the benefits and financial systems are not integrated, suggestions have been put forward to purchase the Northgate Debtors module or further development (if possible) of Tech1. Although we speak about LA error, we should be mindful that this includes delay which currently runs at about 50/50. Most of the action plan regarding data breaches has been completed on time, the implementation of Northgate’s Information @ Work is taking a little longer than anticipated as it has become part of a wider procurement project of Northgate systems and hosting.

2. Background and Scope

Background

Aylesbury Vale District Council (the Council) uses Northgate as its revenue and benefits software, with Iclipse as the information retention system. The benefits team is led by the Group Manager and supported by two team leaders, who together manage revenue and benefits activities for the Council. In 2015/16, the Council paid £45.1m in housing benefits to the residents of the area. The benefit entitled to an applicant is calculated through obtaining evidence of all declared income and landlord rent agreement. Overpayments are created through Local Authority error or when an applicant's circumstance changes and backdated payments are recovered.

The purpose of this audit is to review the design of controls and their operating effectiveness with regards to housing benefits during the period since 1 April 2016.

Scope

The scope covered the key risks set out in the Terms of Reference (see Appendix 2), including a review of new claims, benefit parameters and performance against pre-determined targets. Our testing included:

- Test a sample of 10 new claims and 5 change in circumstances processed in 2016/17, reviewing evidence obtained to support the benefit calculation
- Review the controls around updating parameters built into Northgate and ensure these are consistent with statutory figures
- Evaluate the quality checks process and ensure an effective approach is in place to identify errors
- Benchmark good practice from other authorities and guidelines against current practice.

This does not represent a comprehensive list of tests conducted.

3. Detailed findings and action plan

1. Staff structure, team knowledge and training – Control design

Finding

Structure

To maximise use of resources and drive efficiency savings the Council established a multi-disciplined team working model across a variety of customer facing areas, including benefits. The revised structure is based on a Customer Relationship Team which is headed up by a Group Manager who oversees seven areas; these areas are overseen by six Team Leaders who are allocated to particular areas but in reality split their time as demands dictate – see appendix 4 for a full staff structure.

Through our detailed discussions and observation we note the following:

- Team Leader capacity – Only 2 of the 6 Team Leaders focus on benefits and neither is a full-time employee. Benefits is a complex area and without sufficient Team Leader capacity it makes it more difficult to support staff effectively. Individuals may not always have access to those Team Leaders who are more knowledgeable in benefits and are guided by those for which it is not their specialist area. This challenge is added to by the fact that individuals will report to numerous people i.e. whilst each person will have one Line Manager, their performance on a day-to-day basis will be assessed by any one of the 6 Team Leaders depending on the service area they are working on. Current arrangements are not sufficient to ensure staff are adequately supported at all times, and that feedback is collated and provided to individuals.
- High use of temporary staff – The Group Manager has employed three temporary staff who are skilled in the area of benefits. Whilst this is not ideal as higher levels of temporary staff do not build team resilience and experience, it was considered favourable compared to the investment required to train other Customer Relationship Team members. The Group Manager is on an interim contract having joined the Council in September 2016.
- Insufficient resource to perform effective processes – Effective benefit functions are where proactive approaches are taken to identify changes to claimant’s circumstances which reduce the risk that claimants do not report changes in their circumstances to the Council, resulting in an overpayment. For example, some local authorities have good links with large local employers who inform them when they make changes to their pay

i.e. 1% uplift to all employees. The advantage of these arrangements is that if the Council can identify claimants who work for these employers, they can proactively contact them to ask for confirmation of the pay increase and amend their cases accordingly. This type of proactive activity requires experienced resource to implement. Additionally, some of the issues identified regarding quality checks (Finding 2) are a consequence of reduced resources within the team.

- Adequacy of training – Training provided to staff is inadequate and this is compounded by difficulties faced due to the team structure in place (Appendix 8 sets out the current training offered along with examples from other Councils). As there is not a dedicated team of staff working on benefits cases only; it impacts the approach to, and costs of, training. The Customer Relationship Team totals c. 30 staff and therefore is not feasible to offer them all training in the area of benefits. The current approach taken is to offer training to 12 members of the Customer Relationship Team in revenues and benefits contact i.e. handling phone calls and the basics around evidence collection and questions to ask claimants. This training does not cover the more specific elements of case management which is very different to handling calls from claimants. The current training is offering a wider coverage of training but to a lower level of skill-set required to assess cases fully.
- Experience of Officers – Call handlers and assessors have remarked that they ‘do not feel comfortable or capable’ with managing a case with the level of training and experience they have. There is a high level of on-the-job training currently however, benefits is not considered an area where this type of training is reasonable to ensure that applications are processed accurately and correctly. Some of the staff moves made under the Business Review programme have not fully taken this into account; for example an experienced claims handler was moved to Parking, and replaced with a individual with no experience of benefits at all.

Risks / Implications

Potential increase in LA error / Admin delays resulting in increased overpayments and risk of subsidy reclaim. Negative impact on staff moral and team resilience. The levels of experience/skills do not provide assurance that new claims and change in circumstance applications are processed appropriately.

Finding rating

Action Plan

High	<ul style="list-style-type: none"> • The structure of the Customer Relationship Team and the impact this has on supervision, training and team resilience needs to be reviewed as part of the restructure process, and regularly thereafter – also see Finding 3. 	<i>Responsible person / title</i>
		Jeff Membery – Assistant Director - Customer Fulfilment

- A periodic review of training needs should be performed with an action plan set out to implement the training required on a one-off and on-going basis, this includes:
 - A clear programme of training for new starters
 - One-off training courses delivered internally or procured from external parties
 - Approach to regular periodic review of team training needs, drawing on results of quality assessments.

Target date

March 2017 – for review of team structure and experience

June 2017 – training needs review

2. Quality checks are insufficient – Operating effectiveness

Finding

Quality checking is a standard control in the housing benefit regime. The “Revenues and Benefits Service – Checking Strategy” sets out key aspects of the checking Strategy including:

- Processing Team – Supervisors will check 1 piece of work processed by each of their team members everyday
- New Staff – Supervisors will undertake 100% check on the work of all new staff
- This equates to a 5% check of the overall throughput of work.

There has been a lack of quality checks and inadequate follow-up of outcomes from quality checks during the year. The processes above that had previously been in place were dropped following team/staff moves and only performed on an ad-hoc basis.

The current Quality Checks Officer works on a part time basis, three days a week and leaves this role at the end of March 2017. A temporary member of staff has been trained to undertake the quality checking role moving forward. In January 2017, a new spreadsheet was implemented to assist with checking. Using the data collated from the quality check spreadsheet, Team Leaders can provide targeted feedback to individuals in appraisal/performance meetings. As of yet, targeted feedback is not in place.

The quality check environment would be further strengthened if the following were implemented:

- Review of higher risk cases - Claimants awarded benefits are set-up and approved on the Northgate system. The entitled benefit is calculated and the claimant is notified. This process is undertaken by the Case Officer with no secondary approval. Whilst it is unreasonable to expect all applications are reviewed by a second assessment officer, it would be useful to implement this procedure for areas of high risk. Northgate allows the utilisation of a ‘notepad’ system, which provides an audit trail to provide assurance that these cases have been reviewed and approved by a second officer. Whilst this functionality is available, it has only been implemented since February 2017 and used on an ad-hoc basis.
- DWP Risk Verification - The DWP has software which supports the assessment of benefit cases received by a local authority and risk assesses them as High, Medium or Low. This has been considered by the Group Manager who is looking into utilising a free trial of this software which is being used in another Council department

- As noted in the prior year internal audit, a target should be set for overall quality. Reasons for the target not being achieved should be investigated as they may indicate broader issues which could lead to overpayment / errors.

Risks / Implications

Assessors' work is inaccurate leading to incorrect benefit payments, overpayments and potential for DWP reclaiming subsidy. Common issues arising are not fed back to assessors to address errors and mitigate future re-occurrences.

Finding rating

Action Plan

High

- The results of quality checks undertaken must be reported to individuals on an on-going basis by at least the end of the following month which they related to, including trends being reported to the team as a whole
- Action must be taken to respond to errors identified for example:
 - Further training – see Finding 1
 - Individuals may need to be put onto improvement plans if errors persist.
- The Council should continue to test at least 5% of all cases each month and set a target accuracy rate i.e. 95% and above. The target accuracy rate should be reported and monitored
- Council should embed the review and approval (using notepad) control for cases which are greater risk until such time a new system or tool is devised.
- To assess and decide whether to purchase the DWP risk verification software. If this is not purchased, the Council should document the risk of not prioritising cases effectively and undertake an alternative arrangement.

Responsible person / title

Debbie White – Group Manager

Target date

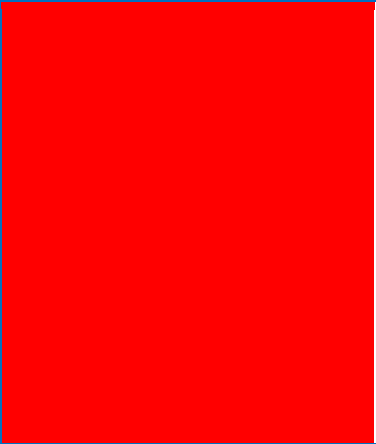
April 2017 – to set a target for accuracy rates for quality checks

May 2017 – all other recommendations

June 2017 – provide targeted feedback to individuals

3. Performance monitoring of benefits is inadequate – Control design

Finding		
<p>There has been a lack of performance monitoring and reporting of key housing benefit metrics during the year. There is currently no forum to discuss the performance of benefits and given the financial and reputational risks that surrounds this area, this is a significant control gap. Performance indicators can help an organisation understand if activity is on track for success and if it is not, where to focus attention, and bring about improvement.</p> <p>Reports should include the following and be regularly reviewed by Managers, with appropriate escalation should issues arise:</p> <ul style="list-style-type: none"> • Key performance indicators (KPIs) on processing speeds • Target quality checking results and the outcome of quality checks, including trends and any significant performance issues • Error rates • Overpayments, arrears and collection rates • The forecast subsidy outturn and current risks to financial loss through the repayment of subsidy to the DWP <p>The Housing Benefits review meeting should also include agenda items on:</p> <ul style="list-style-type: none"> • The adequacy of arrangements over data protection of benefits information • The training provided to staff and its adequacy 		
Risks / Implications		
No senior management oversight on performance and regulatory compliance, leading to inability to know issues and implement improvement measures.		
Finding rating	Action Plan	
High	<ul style="list-style-type: none"> • Monthly KPI reports should be produced and reviewed by management 	<i>Responsible person / title</i>
	<ul style="list-style-type: none"> • A quarterly a meeting should take place involving the Group Manager, Assistant Director for Customer Fulfilment and with escalation to the Director of Finance as needed 	Jeff Membery – Assistant Director - Customer Fulfilment
	<ul style="list-style-type: none"> • The purpose of this group should be agreed and outcomes of the meeting should be 	<i>Target date</i>



documented; purpose of the group should cover:

- Monitoring agreed KPIs
- Reviewing overall accuracy rates of quality checks
- Consider if staffing structure and training is effective
- Monitoring of the financial risk to subsidy being repaid to DWP through assessing the current subsidy outturn position
- Discuss control effectiveness around data protection
- Discuss overpayments and recovery rates
- Discuss the best practices comparison to the Council's practices identified in appendix 5 and take action.

April 2017 – agree KPIs and develop reporting pack

May 2017 – agree terms of reference of senior meeting and arrange first meeting

4. *New claims processing times – Control design*

Finding

The Council is required to report processing time performance statistics in the form of a Single Housing Benefit Extract (SHBE) on a monthly basis to the DWP. This report analyses average time taken to process a new claim and a change in circumstance on a monthly/quarterly basis. We analysed the DWP housing-benefit statistics on speed of processing for 2016/17 Q2 against other local authorities who processed a similar number of applications – see appendix 6 & 7.

AVDC is performing relatively well in terms of processing times for change of circumstances.

For new claims however, AVDC is 28 days (Q2 Jul-Sep 16) compared to the national average of 25 days. This means AVDC is ranked 317 out of 379 in terms of the slowest processing times.

In addition to consideration of team resources (Finding 1) and monitoring of processing times (Finding 3), we set out below three areas identified that could support further improvement of processing times:

- **Information at Work** - This software enhances the data available from the Northgate system by providing dashboard information on the current position on old and new cases, where follow-up is required, and information regarding the allocation of cases to staff which allows better resource management. It had been anticipated that this software would be implemented by the end of March 2017 but this will not be achieved. There are challenges with the implementation of this software which the Council's ICT Team are leading.
- **Diary system** - The Council have an allocated Duty Officer and their role is to follow-up on individual cases where Case Officers have set reminders to speak with a claimant. This follow-up process is important to reduce the Council's processing time of claims and also ensure the accuracy of payments. The Duty Officer now runs off a report weekly with all reminders on the system and makes contact with claimants to update cases. This process commenced in February 2017 and prior to this it occurred monthly. Whilst a weekly process is a significant improvement on the previous monthly process, it still means that claimant notification of updates might be delayed for at least one week after the information was provided.
- **SalesForce Allocation of Emails** - In January 2017 the Council implemented SalesForce; this software automatically picks up electronic submission of applications and any subsequent emails and ensures they are all accessible when the claimant's case is searched. During the audit the Customer Relationship Team became aware that over 4000 emails were incorrectly allocated on SalesForce. Through an analysis of the mis-allocations it was found only a small number (less than 30) related to benefit cases. The cause of these issues need to be understood and resolved.

<i>Risk</i>		
<p>Local Authority Admin Delays are reported in the subsidy and can result in financial. Residents in need may not receive timely payment of benefits and there is potential reputational damage due to the extended period of time to process claims.</p>		
<i>Finding rating</i>	<i>Action Plan</i>	
Medium	<ul style="list-style-type: none"> • Council should continue the recently established weekly process of the Duty Officer to follow-up benefit case reminders until such time a new approach is devised • To promptly implement the Information at Work software onto Northgate. If delays continue beyond the revised implementation date, the risks need to be assessed and alternative solutions considered. • Monthly review of misallocated Salesforce emails should take place to identify any unallocated emails. 	<i>Responsible person / title</i>
		Debbie White – Group Manager
		<i>Target date</i>
		May 2017

5. Data protection needs to be supported via completion of e-learning modules and system reconciliations – Operating effectiveness

Finding

The Data Protection Act 1998 sets out the requirements of organisations to have necessary arrangements in place to protect the personal data of all those on whom they hold information. To manage these requirements the Council has created a Revenues and Benefits Data Breach Corrective Action Plan. This was brought in to respond to some breaches previously identified and reported to the Information Governance Group. The plan includes actions such as updating policies and procedures and checking enveloped letters. As part of this review we assessed the progress made in completing the actions and noted those which have passed their expected completion date:

- E-learning module completion – There is a Data Protection E-Learning module which staff who work on benefit cases should undertake; this was expected to be completed by the end of February 2017. In March 2017 the Group Manager received a listing of all those who have completed the training however, no further action has yet been taken.
- Data matching of addresses – The iClipse system is used to identify the address to send a claimants correspondence. The Northgate system is where the address of a claimant (and any changes to this) are recorded and this system should update iClipse however, a technical issue has been identified which means the addresses between the two systems are not always the same. To rectify this issue a ‘sweep’ should be undertaken between the two systems to identify differences and for the correct addresses be recorded to avoid correspondence being issued to the wrong address. This ‘sweep’ was expected to take place in February 2017 however, at the time of the review had not taken place.

Risk

Potential data breach and non-compliance with the Data Protection Act.

Finding rating

Action Plan

Medium

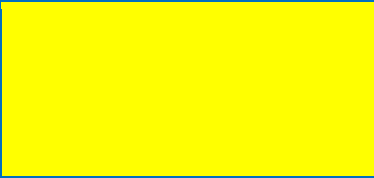
- The list of those who have conducted the E-learning module on data protection should be mapped to the current staff in the Customer Relationship Team. This should identify individuals who have not undertaken the training and those who have undertaken the training more than 12 months ago. Training should be completed and thereafter undertaken at least

Responsible person / title

Debbie White – Group Manager

Target date

March 2017 – undertaking mapping exercise



annually.

- A data matching exercise between iClipse and Northgate must take place at least monthly.

April 2017 – ensure 100% compliance with E-learning module for Customer Relationship Team staff

April 2017 – undertake data matching exercise between iClipse and Northgate

6. Overpayments data is not fully understood to support effective decision making – Control Effectiveness

Finding

Last year we reported that overpayments was not effectively monitored and had increased considerably. The total overpayment remains high, at £6.5m as of 31 December 2016. Approximately half of this is being recovered from ongoing benefit claims. Following last year's audit, a project started to look at debt recovery, including housing benefit overpayments and this has highlighted a number of issues.

When an overpayment has been identified the Council first approach is to recover the debt by reducing the on-going benefit the individual receives for a period of time until it is recovered. However, in some circumstances, if the debt cannot be recovered this way due to the individual no longer being eligible to receive benefits, then an invoice will be raised via Tech1. In such circumstances the Case Officer should flag the case on Northgate as being recovered via Tech1 however, this does not always happen.

The issue arises when the individual later becomes entitled to benefits and the case is reopened on Northgate. If the Case Officer does not identify that a debt is outstanding on Tech1 then one of two outcomes occurs:

- The benefit payment is not reduced on Northgate and continues to be chased via Tech1
- The benefit payment is reduced on Northgate to recover the debt however, continues to also be recovered on Tech1. In this circumstance, the debt shown on Tech1 should be removed via a credit note as it is no longer a debt.

To manage this the Council have undertaken two actions:

- Inform Officers they must flag overpayment cases on Northgate and check Tech1 prior to any changes to subsidy to ensure the debt data is not duplicated
- Commenced a process to reconcile the data for overpayments on Northgate to Tech1 however, this is a significant task which requires an individual to go into each case one-by-one and then either recommend cases to be written-off or for a credit note to be raised.

Risks / Implications

If overpayment position is not understood the risk of duplicating data, chasing overpayments correctly and incorrectly reporting financial position continues.

Finding rating

Action Plan

Medium	<ul style="list-style-type: none"> The Council must understand the current position on overpayments and whether sufficient resource is in place to reconcile the two systems data and then take appropriate action to improve the control environment. These issues are being addressed through the Corporate Debt Project but need to be overseen and actioned by the Housing Benefit Team. As part of Quality Checks undertaken, the Council should review whether Case Officers are flagging overpayment cases effectively and taking appropriate action. 	<i>Responsible person / title</i>
		Debbie White – Group Manager
		<i>Target date</i>
		June 2017

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

The Key risks agreed in the Terms of Reference are set out below.

Sub-process	Risks	Objectives
Parameters	Inaccurate benefit payments	<ul style="list-style-type: none"> Parameters entered onto the system are in line with national DWP circulars and sufficient verification checks are conducted to ensure the validity, accuracy and completeness of parameters entered
New Claims/ Change in Circumstances	Fraudulent or invalid claims	<ul style="list-style-type: none"> All claims are supported by appropriate evidence in accordance with benefits regulations Eligibility is assessed and agreed back to evidence which is recorded clearly on the system and case notes to ensure compliance with local and national guidance
Approval and Payment	Fraudulent or invalid claims	<ul style="list-style-type: none"> Approval of cases is in line with local procedures and clearly evidenced in a timely manner Payments are made in line with eligibility and local/national guidance in a timely manner
Quality Checks	Errors and overpayment	<ul style="list-style-type: none"> Claims are correctly processed by assessors in compliance with procedures Procedures are in place to systematically monitor and improve quality. Action is taken to correct recurring issues
Processing speed	Claimants waiting for payment. Admin delays can reduce subsidy	<ul style="list-style-type: none"> Processing times for new claims and changes of circumstance are routinely monitored and reported to maximise efficiencies
Overpayments	Inaccurate payment. Cost of non-recovery	<ul style="list-style-type: none"> Overpayments are identified in a timely manner, monitored and appropriate action taken Evidence to support decisions where overpayments are identified are recorded and clear approval is received Processes are in place to recover overpayments, in line with legislation, and monitor arrears.

Errors	Inaccurate payment, impact on subsidy claim	<ul style="list-style-type: none"> • Write-offs are in line with Council procedure • Claimant error and Local Authority Error is identified, monitored and rectified
Appeals	Appeal cases are not recognised, managed and heard adequately	<ul style="list-style-type: none"> • Policies and procedures for appeals are clear to identify, monitor and manage cases effectively
Data Protection	Adequate controls and Data breach	<ul style="list-style-type: none"> • There is clear guidance on how to manage data in line with the Data Protection Act and local policies • Data breaches or near misses are reported correctly with action taken • Sufficient support and training to staff is provided to meet requirements
Reconciliations	Inaccurate/incomplete financial data	<ul style="list-style-type: none"> • Reconciliations between iWorld and T1 are performed and reviewed on a regular basis to ensure data is accurate and complete
Follow up of audit recommendations	All	<ul style="list-style-type: none"> • External audit recommendations following the subsidy audit and have been addressed • Prior year internal audit actions have been implemented

Appendix 3. Benefit Subsidy Repayment – How it works?

Unitary and second-tier authorities are responsible for the administration of issuing benefits to residents of the Council area. Aylesbury Vale District Council issued £45.1m of benefit in the period 1 April 2015 to 31 March 2016 (2015-16).

Annual Process - Local government administers the Government’s housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. As part of this process, the Council must complete an annual grant claim where numerous (over 100) cells are populated with financial values sub-analysing the £45.1m of benefits issued; this sub-analysis includes identifying how much related to: backdated or extended expenditure, non-HRA expenditure or overpayments, to name a few.

External Verification - External Audit undertakes an annual review of the grant claim and must certify and submit the claim to the DWP by 30 November each year. They can provide an unqualified opinion or a qualified opinion; if a qualified opinion is given, the details behind the errors identified is set out and reported to Audit Committee. There are two types of financial recovery the DWP can make, these are: extrapolated error or breach of LA error thresholds.

Financial Repayment: Error Thresholds - The level of subsidy that LAs may claim for LA error and Admin delay overpayments is determined by thresholds, expressed as a % of total correct payments.

Criteria	Subsidy rate received by the Council
Less than or equal to 0.48% of the expenditure	100% reclaimed
Greater than 0.48% but less than or equal to 0.54% of the expenditure	40%
Greater than 0.54% of the expenditure	0%

Financial Repayment: Extrapolated Error - In addition to the errors identified by the Council in their annual grant claim submission, if External Audit identifies further errors, then they apply an extrapolated error figure. This results in further testing which either clarifies the extrapolated error or adjusts it.

Reporting to DWP and Subsidy Repayment - Upon receipt of the letter from External Audit, the DWP advise whether they will use their powers to request further information and/or recovery funds. For the 2015-16 subsidy claims, this led to a return of £377,333 to DWP.

Appendix 4. Staff Structure

The Council have in place a Customer Relationship Team which is headed up by a Group Manager. The table below is the team structure of the Customer Relationship Team which consists of six Team Leaders who report into the Group Manager. The Group Manager reports into the Assistant Director for Customer Fulfilment and then into the Director of Finance.

The structure below is subject to change due to current Council reorganisation. 'Area 1' staff refers to those involved with benefit applications. As a matrix structure the below diagram represents those who work in the identified areas most often however, they do also work across other areas too. The staff below are a mixture of permanent and temporary staff.

		Team Leader 1	Team Leader 2	Team Leader 3	Team Leader 4	Team Leader 5	Team Leader 6
Area 1	R&B Case Management	1 x 25 hours 1 x 22 hours	1 x 21 hours 1 x FT	1 x 34 hours 1 x FT	1 x 22 hours 1 x FT		
	R&B Contact	1 x 20 hours 1 x FT hours	3 x FT	2 x FT			
	R&B Compliance	1 x 27 hours	1 x 22.5 hours		1 x 20 hours 1 x 22 hours 1 x FT		
Area 2	Pathways			1 x FT	1 x FT		
Area 3	Bucks Home Choice	1 x 18.5 hours	1 x 18.5 hours	1 x FT			
Area 4	Customer Fulfilment	1 x FT	1 x FT	1 x FT	1 x FT		
Area 5	Parking	2 x FT		1 x FT			
Area 6	Waste		1 x FT	1 x FT			
Area 7	Planning					1 x 30 hours 1 x 34 hours 1 x FT	4 x FT
	Environmental Health					1 x 18.5 hours 2 x FT	3 x FT 1 x 18.5 hours
	Building Control						1 x FT

Appendix 5. Good Practice Benchmarking

We reviewed the Housing Benefit Subsidy Claims - Local Authority Best Practice Guide designed by the Department for Work and Pensions (DWP). We have collated a handful of considerations that should be made before the next housing benefits external audit.

<u>Overpayment Misclassification</u>		<u>Reconciliation</u>			<u>Auditor Certification</u>
Checks undertaken by an LA's dedicated overpayments checking team provide the auditor with information on the range of overpayments errors identified internally and thereby help to confirm that some errors identified by audit are isolated instances, thus avoiding qualification and extrapolation	The LA checks all overpayments over £500 so as to ensure that all larger overpayments are correct (as overpayments over £500 account for over 90% of the total value of overpayments, this check gives a good level of assurance)	Some LAs undertake reconciliation of benefit granted to benefit paid on a monthly basis and resolve issues as they arise, thus making the full year reconciliation more straightforward and reducing the likelihood of qualification	Some HB systems reconcile benefit granted and paid in a way which requires LA action to complete the reconciliation, e.g. by bringing off-system adjustments to account, thus emphasising the importance of maintaining a full audit trail	LAs undertaking manual adjustments should retain supporting information for certification purposes in order to explain non-reconciling items and thus avoid qualification	Following the auditor's identification of error in the initial sample, the additional sample should target the case type in which error was identified rather than being a random sample of all case types: this will provide a more representative and proportionate extrapolation. A targeted additional sample is, however, dependent on LA IT systems/records being able to identify sub-populations of case types
Overpayment misclassification is largely due to human error, increasing the importance of checking and training	Daily reports show all overpayments generated the previous day; random checks are undertaken from the daily report	<u>LA checking/training/targeting of error</u>			<u>Overpaid/Underpaid Benefits</u>
Feedback to caseworkers regarding classification errors is important	A desk aid/template /control sheet helps to promote correct classifications	Some LAs undertake a review of the subsidy claim in advance of certification, identifying errors and amending the claim (with a supporting audit trail), thus helping to avoid qualification	Having staff dedicated to a particular part of the caseload, e.g. the self-employed, helps to reduce error. It is accepted that this is not always possible in smaller LAs	Initial and refresher training can include a subsidy module, thus promoting awareness subsidy issues and the impact of errors on the subsidy of claim	Decisions on cases, e.g. the calculation of income used in assessments, need to be clearly recorded on the processing system 'claim notes' facility or by use of proformas so that the auditor has a clear audit trail explaining the outcome. This should extend to all decision-making, e.g. calculation of the rent or capital where the claim details are out of the ordinary

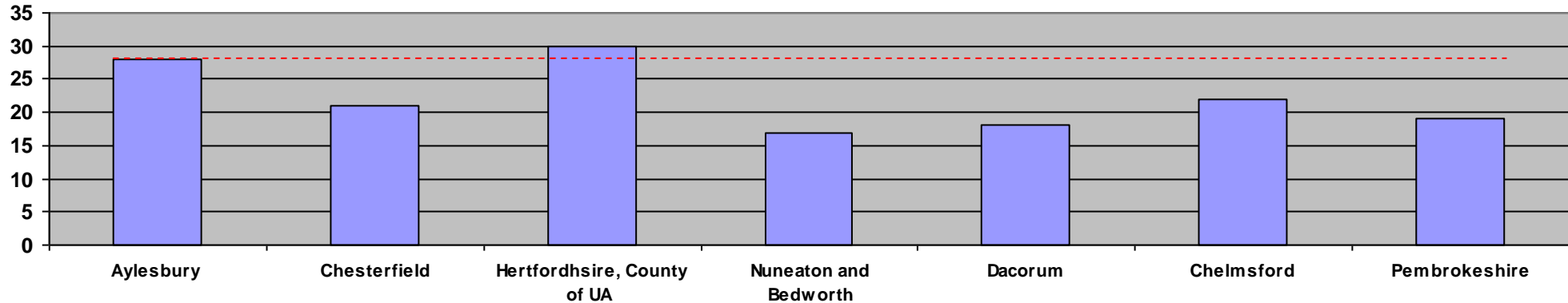
During the audit a further benchmarking exercise was completed to establish processes and innovations in place within other authorities. Using our contacts at other clients, processes were discussed with Brentwood Borough Council, Maldon District Council and Basildon District Council, in addition to undertaking a desktop benchmarking exercise via online services. Below is a table which outlines processes identified and discussed in place elsewhere that may provide benefit if implemented here at Aylesbury Vale District Council.

What's in Place	Other Authorities	Aylesbury Vale District Council
Text Messaging	<p>A range of responses. Some are in the process of looking into it whilst others have been using it for 8 or more years. Currently used for the following purposes:</p> <ul style="list-style-type: none"> • Requesting contact be made • Requesting the claimant to send in certain pieces of evidence • Reminders of the need to complete a change of circumstances form 	This functionality is currently not used – see Finding 3.
Electronic Submission and Indexing	<p>The extent of the Electronic Submission and Indexing varied:</p> <ul style="list-style-type: none"> • Some provided a basic method of uploading evidence and documentation to be received and indexed • There were instances of evidence being uploaded and, using the reference number of the claimant, documents were automatically indexed removing the need for manual input and improving efficiencies. This was via Victoria Forms 	Through the use of SalesForce this is in place and cases are electronically allocated. However, please note in Finding 1, an issue was noted regarding the incorrect allocation of some cases
One Touch Processing	<p>In order to increase knowledge and awareness of a claimants situation, one touch processing is being used in some cases. This ensures that only one Assessment Officer is involved with a claimant and they are essentially 'assigned' to an individual. However, concerns were raised when discussed with other members of Benefit Teams as there would likely be issues with absences and could result in it becoming less efficient</p>	This is not in place. As the Council have gone with a matrix staffing option – se Finding 1, having one individual to see through a case or focus on a certain type of case is not possible

Social Media	There was a vast difference in the use of social media. Whilst some felt it would be a good idea and have looked into it, others have been provided access to their Council's Twitter feed by Communications in order to tweet updates. They felt this has been incredibly beneficial and tweet information regarding the need to complete a change of circumstances, different methods of payment and new online services	The Council do have a twitter account @aylesburyvale. This account has not been used to promote changes to the benefits process or promote the use of e-claims; the Council should consider greater use of social media to interact with claimants – see Finding 3
E-claims	One Council spoke to declared they no longer make paper application forms available and have been this way for a number of years now. Others indicated that it was an area they would like to move to but felt that they will always keep some form of paper application available	Whilst paper application forms are still accepted to support the approach taken by all service users, the vast majority are now e-claims received and automatically allocated on Salesforce
Overtime	In order to ensure all work is completed to deadlines and processing targets are met, some Councils provide the option of overtime to employees during particularly busy seasons	The Council operate the use of overtime to support the effective administration of benefits
Visiting the Claimant	In the case of claimants where contact is proving difficult or those with particular needs, Assessment Officers are authorised to complete house visits in order to obtain the necessary documentation. This ensures processing rate targets are met	This is not in place. As the Council have gone with a matrix staffing option – se Finding 1, having one individual to visit claimants is not possible at this stage
New Claims Officer	Some authorities have employed a New Claims Officer. It was felt this improved efficiency as they were specialists and thus allowed others to maintain their workload. However, others felt this created single person dependency	This is not in place. As the Council have gone with a matrix staffing option – se Finding 1, having one individual to focus only on new claims is not possible at this stage

Appendix 6. New Claims Processing Speed

Aylesbury processed 567 new claims in Q2 2016-17 with an average processing speed of 28 days. The table below compares various Councils across the country that processed a similar number of cases and the average processing speed.



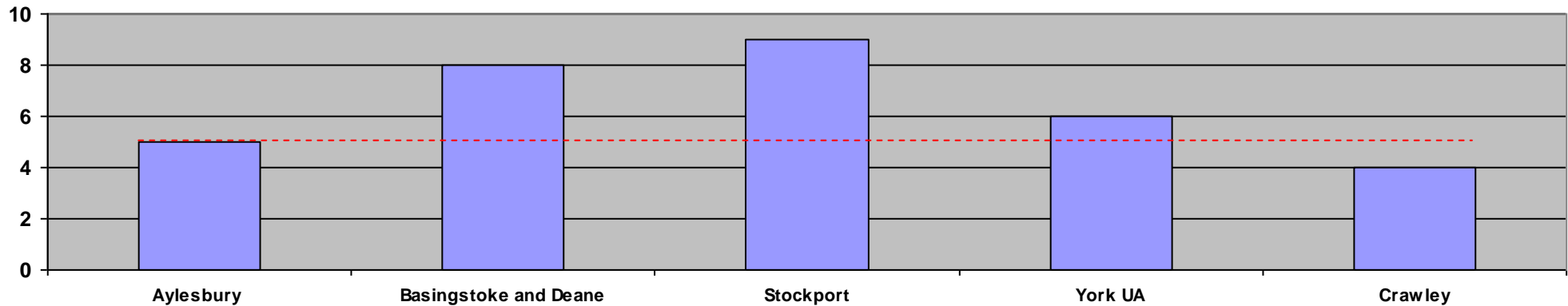
Authority	Total number of processing days	Total number of processed cases	Average speed of processing
Aylesbury	16,004	567	28
Chesterfield	11,585	565	21
Hertfordshire, County UA	16,713	564	30
Nuneaton and Bedworth	9,841	571	17
Dacorum	9,718	554	18
Chelmsford	12,336	570	22
Pembrokeshire	10,612	568	19

Housing Benefit is an income related benefit that is intended to help meet housing costs for rented accommodation. Speed of processing relates to the average time taken to process new claims and change of circumstances for this benefit. The average time is measured in calendar days, rounded to the nearest day. The national average time taken to process new Housing Benefit claims in the second Quarter 2 of 2016/17 (July 2016- September 2016) was 22 days. Aylesbury Vale District Council processed new claims at an average of 28 days (this ranks the Council 318 out of 379 Councils).

Performance is monitored through a SHBE report which is sent to the DWP on a quarterly basis. The latest results show new claims are processed at a national average of 25 days (Quarter 2 of 2016/17).

Appendix 7. Change in Circumstances Processing Speed

Aylesbury processed 7001 changes in circumstances to current claims in Q2 2016-17 with an average processing speed of 5 days. The table below compares various Councils across the country that processed a similar number of cases and the average processing speed. National average for processing a change in circumstance is 9 days.



Authority	Total number of processing days	Total number of processed cases	Average speed of processing
Aylesbury	35,277	7,001	5
Basingstoke and Deane	56,266	7,168	8
Stockport	66,086	7,070	9
York UA	44,182	6,920	6
Crawley	26,625	7,259	4

The performance of Change in Circumstances is good and in the national chart the Council are ranked 32 out of 379.

In the benchmarked data here the Council also perform well.

Appendix 8. Training

Here we set out the current training offered to benefits staff and we further note training delivered by other Council's over and above what this Council offer. As per Finding 1 of this report, the Council should strengthen their training offered first, by completing a periodic review of training needs and then setting clear targets to improve knowledge and skills of the team.

Current Training

- Call Handling Training – The team's skill sets can be split between those less experienced staff who handle calls with claimants and those more skilled staff who assess cases for approval. In order to manage the demand of cases and calls received by the Council, a six day training course was delivered in March 2017 for 12 members of staff in the Customer Relationship Team focussing specifically on the call handling processes. This was a one-off course in response to building better resilience in the team
- Specific Training on Known Issue Areas (In-House) – The Council are aware of issues with particular errors found with regards to rent allowances and self-employed income. In response to this one of the Team Leaders has delivered a training session on these areas highlighting key areas of focus
- On-the-job Training – When new staff join the team, and on an on-going basis, on-the-job training is the most common form of training delivered to staff. This manifests itself as one-to-one sessions, small group discussions on how to use the Northgate system and shadowing of more experienced personnel.

Training Delivered at other Councils

- New Joiner Training Programme – A more formal training programme which includes courses on the use of software, data protection, call handling and case assessing within the first three months of joining. These are delivered via a mixture of in-house and external sessions
- The Institute of Revenues Rating and Valuation (IRRV) Qualification – The IRRV are the leading professional body for revenues and benefits practitioners. Staff can be supported to qualify in IRRV which provides not only one-off training but access to updates/refreshers and on-line material
- Specific Training on Case Issues (External). Greater use of external trainers to provide bespoke one day sessions on specific topic areas i.e. proactive methods to identify overpayments early or the assessment of child care costs

Appendix 9. Follow-up of External Audit Recommendations

Ernst and Young, the Council's external auditors, have raised two recommendations as part of their 2015/16 Housing Benefit review. As part of our review we have followed up on the two recommendations raised.

#	Issue	Proposed Action	Action taken/Complete?
1	Self-employed income cases having insufficient evidence to support the figure used for self-employed income	The Council should ensure that for all self-employed cases, there is supporting information obtained from the claimant.	<p>A Quality Check process was implemented in January 2017 whereby at least 5% of all cases every month are checked for errors.</p> <p>As at 7 March 2017 they have also checked 90 out of 200 self-employed income cases in 2016-17. They are on-track to test all 100% by the end of the year.</p> <p>This report identifies findings around quality checks – see Finding 2.</p>
2	Increased incidents of errors compared to prior years resulting in additional testing being necessary.	Staff to receive continuous training on documentation requirements, particularly staff new to the role.	<p>The Council has responded to the errors identified by External Audit after their qualification of the 2015-16 DWP Subsidy Claim. This has resulted in internal training courses delivered by a Team Leader and investment of a 6 day course on initial case call handling delivered to 12 staff in the Customer Relationship Team in March 2017.</p> <p>Whilst action has been taken this report concludes that training and support provided is currently insufficient – please see Finding 1.</p>

Appendix 10. Follow-up of Prior Internal Audit Recommendations

As part of this review, we followed up on the three recommendations raised in the previous Housing Benefits internal audit review.

#	Finding	Agreed Action	Original Target date	Action Taken	Complete?
1	<p>Payments are made to benefit claimants on a weekly basis. During 2015/16 over £45 million was paid out by the Council to Housing Benefit claimants. Housing Benefit Officers create the payment file from the benefits systems, iWorld, and send it to the Payments team who transmit it through electronic bank transfer (BACS). The Benefits team maintain a spreadsheet detailing the total of each payment run and this is forwarded to a Finance Officer who checks the amounts are correctly reflected in Technology One (T1). We reviewed several payment run figures from the spreadsheet to the ledger and to the bank account and did not identify any differences. However, this is not a check of the payment figures directly from iWorld. We obtained a report from iWorld of the amount paid out in benefit claims over the year and were unable to reconcile this back to the figure in T1. Because the reconciliation that is performed is only from a manual spreadsheet, rather than iWorld itself, the integrity of the reconciliation process is diminished and there is a risk of inaccurate financial information.</p>	<p>The benefit payment reconciliation process should include checks between iWorld and T1. This would ensure that the two systems match and any differences would be identified early on and as and when they arise.</p> <p>This recommendation will be addressed as part of the wider review of T1 system interfaces which has commenced following the General Ledger internal audit report.</p>	<p>Work will commence July 2016 and progress monitored as part of the Commercial ADVC Financial Systems and Process action plan.</p>	<p>Monthly reconciliation controls are now in place however these are not operating effectively.</p> <p>A separate 2016-17 Internal Audit Report on 'General Ledger' has been conducted where this will be reported.</p>	<p>No. A separate 2016-17 Internal Audit Report on 'General Ledger' has been conducted where this will be reported.</p>

<p>2</p>	<p>The Revenues and Benefits team record the levels of overpayment raised and collected. As at the end of March 2016 the total level of outstanding overpayment was £6.1million (approx £3m of this is being recovered from ongoing benefit claims). This increased from the same date in 2015 by approximately 40% from £4.8million. Over the past 3 years the outstanding overpayment level has doubled.</p> <p>Processes for recovery of overpayment are different depending on the status of the claimant. If the claimant is still in receipt of benefits it will be deducted from ongoing benefit, amounts of deductions are set by legislation. This accounts for around £3million of the current total overpayments. If they are no longer in receipt of benefit, then the overpayment gets transferred to Finance who raise an invoice in T1 and recover in the same was as for sundry debt. The level of debt being recovered through T1 is £3.1million.</p> <p><u>Bad debt provision</u></p> <p>A provision has been made in the financial accounts to guard against the debts turning bad. This provision only relates to the £3.1million of overpayment debt that resides in T1 as sundry debtors. The level of debt was reviewed at the end of the 2015/16 financial year and the decision was made by the Finance Manager to increase the provision by £800,000, and is now</p>	<p>A corporate debt review is due to commence in July 2016 and this will include a detailed review of processes and resources for debt recovery, including housing benefit overpayments.</p> <p>Adequacy of bad debt provision should be reviewed on a regular basis. Debts should be written off when recovery is deemed to be unlikely.</p>	<p>TBC – on completion of the Debt Management review (estimated 3rd / 4th Quarter)</p>	<p>There are still significant issues with the reporting of overpayment data which have been identified as part of the Corporate Debt Review. The elements which relate to bad debt provision have been picked up at part of a separate 2016-17 Internal Audit of ‘Receivables’.</p>	<p>No – see Finding 6 for overpayments.</p> <p>The elements which relate to bad debt provision have been picked up at part of a separate 2016-17 Internal Audit of ‘Receivables’.</p>
----------	--	---	--	--	---

	<p>£2.1million.</p> <p>£2.3million of the overall debt is 8 months old or over and a provision of 75% of that has been set aside. In addition there are only collection arrangements in place for £400,000 of the £3.1million. On that basis it would appear that there is an inadequate provision for these types of debt. Write offs of the debts that are not being collected from ongoing benefit have been rare during 2015/16.</p> <p>Overpayment debt is significant and rising. Current recovery rates cannot match the levels at which new debt is added and so the outstanding amounts are likely to continue to increase, some debts are unlikely to ever be recovered in full. Housing benefit overpayments are particularly difficult to recover and require significant resource input.</p> <p>Whilst the Council is not alone in facing the challenges of recovering housing benefit overpayments, consideration should be given to current levels of exposed debt, analysis of active vs static debt and the level of resource employed to collect it. Analysis of the return on investment of any additional resources deployed in this area should be undertaken.</p>				
3	The processes for quality checking housing benefit claims are set out in the “Revenues and Benefits Service – Checking Strategy”. Key aspects of the	For the Strategy to be effective as a measure of the processing accuracy of the service as a whole it should	Dec 2016	There are still issues with quality checks as this is not operating	No – see Finding 2.

<p>Checking Strategy include:</p> <ul style="list-style-type: none"> • Processing Team - Supervisors will check 1 piece of work processed by each of their team members everyday • New Staff – Supervisors will undertake 100% check on the work of all new staff • This equates to a 5% check of the overall through put of work. <p>The responsibility for the application of the strategy lies with Supervisors. There were four Supervisors during 2015/16, each of which having responsibility for around 3 staff. A central record (spreadsheet) is kept with the results of quality checks. This is used as a monitoring record and to inform decisions on individual training needs. We reviewed the summary spreadsheet and note that the Supervisors carried out approximately 2000 checks in total across the year and this included all officers involved with processing. Any errors identified were noted on the spreadsheet along with the date when the error was corrected. There are a number of areas where measures could be improved to enable better monitoring of performance against the strategy:</p> <ul style="list-style-type: none"> • Level of checks - The central spreadsheet of checks records total numbers of checks but there isn't a running total of volume of claims processed to identify whether the 5% target is 	<p>contain an overall accuracy target, from which the outcomes from the checks can be measured against. The accuracy should be collated and recorded on a monthly basis for the checking to have any meaning.</p> <p>The strategy should be updated annually and factor in the areas of most concern that have been identified during the previous year.</p> <p>The volume of checking required (the 5%) should be monitored against the volumes that are actually being checked.</p>		<p>effectively.</p> <p>A regime has been set up but only since January 2017.</p>	
--	---	--	--	--

achieved. Guidance set out in HB/CTB Circular A6/2005 Appendix B requires a “minimum 4% sample across a range of decisions on new claims, changes of circumstance amendments and overpayment calculations.....New claims within the 4% sample would attract a full check, for changes in circumstances within the 4% sample, the check covers the last user action or is a full check, if on the basis of risk the LA decides it is necessary.”

- Accuracy - The Strategy doesn't specify any targets for accurate processing and the records that are held on the checks that occur are not collated into an overall accuracy statistic. We cannot determine whether the accuracy of processing for 2015/16 was at an acceptable level. Errors should be analysed between financial and procedural and error rates (i.e. number of errors per total checked) monitored. Financial errors pose the greatest risk as they could result in over or underpayment of benefit. In the checks performed to date.

The focus of checking should be on areas of greatest risk and the Council should consider trends and target areas with recurring issues regarding financial errors. Further monitoring of the level of financial error should be performed under the current testing regime and consideration given to monthly targets for financial accuracy.



Internal Audit Report 2016/17

General Ledger

MARCH 2017



Contents

<i>Executive summary</i>	2	This report has been prepared only for Aylesbury Vale District Council (the Council) in accordance with the agreed terms of reference. The findings should not be relied upon by any other organisation.
<i>Background and Scope</i>	4	
<i>Detailed findings and action plan</i>	5	
Appendix 1. Finding ratings and basis of classification	16	
Appendix 2. Terms of Reference	18	
Appendix 3. System reconciliation template	19	
Appendix 4. Follow-up of Previous Recommendations	20	

Distribution List

For action	Simon Wastenev – Strategic Finance Manager (Interim) Andrew Small – Director, Section 151 Officer
For information	Kate Mulhearn – Corporate Governance Manager Andy Barton – Assistant Director – Strategy & Digital Audit Committee

Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Medium risk (12 points)	Control design	-	-	1	2
	Operating effectiveness	-	-	2	1
	Total	-	-	3	3

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the Council at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as Medium Risk. We issued 3 Medium and 3 Low findings. The Council's main financial system is Tech1, where all general ledger transactions are processed. The purpose of the review was to assess the control design and operating effectiveness with regards to the Council's general ledger system.

Overall the design of the Tech1 system is sufficient to allow general ledger transactions to be accurately recorded however, the effectiveness of the systems functionality is undermined due to inadequate central oversight by the Finance Team of the data held on Tech1. This report raises particular findings over the lack of regular monthly reconciliations between sub-systems and Tech1 with key systems around iWorld (revenues and benefits) not always being completed monthly and other systems in the Council not being reconciled at all. The previous internal audit report in this area raised a finding around reconciliations and since then the Council has made some progress by mapping system interfaces. The objective of this task has not been realised as the Finance Team does not have oversight over the who is charged with completing reconciliations for every interface to Tech1, the frequency of these reconciliations or how large/unusual unreconciled items would be escalated.

We also identified a medium risk finding regarding access rights of registered users of the Tech1 system. The review identified nine supplier accounts on Tech1 with their use of Tech1 not being monitored effectively.

Key Findings

- Finance have not seen through the purpose of the previously conducted system interface mapping exercise and therefore do not have sufficient comfort over the accuracy, completeness and integrity of data which is held on Tech1 (Finding 1 – Medium)
- Reconciliations for key systems are not always taking place monthly and delays and outstanding items are not monitored by the Finance Team (Finding 2 – Medium)
- There are nine supplier accounts which have full access to Tech1 and this supplier access is not monitored. Staff user access is not reviewed after the initial approval and given current organisational staffing changes, there is a risk that users have inappropriate access (Finding 3 – Medium)
- Finance Team have insufficient arrangements via periodic data analysis to review journals processed, user access log-in and changes to the chart of accounts (Finding 4 – Low)
- There is insufficient escalation of high value and long outstanding suspense account balances (Finding 5 – Low)
- Narrative explanation for journals may be missing or insufficient (Finding 6 – Low).

Good practice noted

- Monthly bank reconciliation procedures are effective to ensure the accuracy and completeness of transactions undertaken in the period.
- Adequate arrangements are in place to prepare for any changes to the Tech1 software to maximise its capabilities.

Management comments

There have been improvements in the last 12 months however; I recognise that further improvements are required to strengthen the oversight of the Finance Team. We will be working towards seeing through the mapping exercise and supporting areas to validate the data on systems which interface with the general ledger.

Background and Scope

Background

The Council uses Technology One (Tech1) financial management software which includes the General Ledger and modules for the accounts receivable and accounts payable functions. Other financial systems including iTrent (Payroll), iWorld (Housing Benefits, Business Rates and Council Tax) and the on-line payments system interface with the General Ledger.

Journals are raised by budget holders and processed and approved centrally within the finance team. The finance team also approve/manage user access to the system.

The chart of accounts was updated at the start of 2016/17 to reflect the new organisational structure.

Scope

The scope covered the key risks set out in Terms of References (see Appendix 2). For the purpose of the review, we have conducted the following tests:

- Inquiry and observation of the current system and the controls that are in place
- Selected a sample of 10 leavers from April 2016 to November 2016 and verified whether they were appropriately removed from the system
- Selected a sample of five cost centre codes and five account centre codes from April 2016 and November 2016 and verified they were created or changed appropriately
- Selected a sample of 20 journal listings from April 2016 and November 2016 and verified whether they were raised and authorised appropriately
- Reviewed bank reconciliations and suspense accounts.

The above is not a comprehensive list of all tests.

Detailed findings and action plan

1. Oversight of key reconciliations is not sufficient – Control Design

Finding

In response to the 2015-16 General Ledger internal audit report the Council underwent a mapping exercise to establish all the systems which interface with Tech1. The purpose of mapping these interfaces was to provide the Finance Team with oversight of:

- What the various reconciliations are that occur to verify data from the other financial systems to Tech1
- The individuals responsible for preparing and authorising the reconciliation of data from a system to Tech1
- Setting the frequency at which this reconciliation occurs
- The support given to each area. Finance should provide standard procedure notes and reconciliation templates that those who prepare reconciliations should use
- Central oversight over whether reconciliations are taking place.

As part of this review we met with each area, reviewed and updated the system notes that were created in 2016 and reviewed the reconciliation processes that took place. We note:

- The Finance Team do not have oversight over whether reconciliations are taking place and whether there are any unreconciled items which warrant concern about the integrity of the data on Tech1
- The system notes previously completed, do not explicitly set out whether it was determined if a reconciliation was required to be performed.
- The system notes also do not confirm the expected frequency of the reconciliation or the responsible individuals who should complete them
- The Finance Team have not provided standard reconciliation templates for areas to use – see appendix 3.

Please note, we are updating the previously created procedure notes and once finalised they will be passed onto the Finance Team in March 2017. These should be reviewed to help inform the completion of the recommendations raised in this finding.

Risks / Implications

The data held on Tech1 may not be accurate or complete. Finance are unable to provide comfort over the integrity of data which is held on Tech1.

Finding rating

Action Plan

Medium

The Finance Team need to:

- Revisit each individual area process notes and decide whether a reconciliation is required
- Issue a standard reconciliation document to each area where a reconciliation is required – see appendix 3 as an example
- Establish a central shared electronic document which records the expected frequency for each reconciliation and a record of when all reconciliations took place. This central record should also note the balance of any unreconciled items along with an explanation
- Reissue the revised system notes to areas and ensure these are agreed with the key lead from the area; a central log should be held for when the area should be revisited to review the process notes, at least annually.

Responsible person / title

Strategic Finance Manager

Target date

May 2017

2. Frequency and consistency of reconciliations to the General Ledger – Operating Effectiveness

Finding

A variety of approaches are taken to reconciling data from the other systems that interface with Tech1. This ranges from a full audit trail being kept with print out of reports from Tech 1 and the interfacing system including signatures/dates of the individual who reconciled the data, to no reconciliations being conducted at all. Our review considered the main financial system reconciliations and found:

Uniform - The majority of data on Uniform (the Council's system for customer facing activities i.e. planning, building control, licensing and community enforcement) is not reconciled to Tech1. With exception to planning income where a robust monthly reconciliation process occurred and was documented, all other areas on Uniform do not reconcile data. It is considered that staff capacity would present a challenge to arranging a monthly reconciliation of this data.

Waste System – The interface is not reconciled monthly to Tech1. This occurs on an ad-hoc basis.

iTrent (payroll) – Reconciliation are taking place monthly. The prior year internal audit action has been fully implemented.

iWorld (business rates and council tax) – We note the significant progress made with these reconciliations from 12 months ago when they were not occurring during the year but they are still not performed consistently, and delays have occurred which in part are due to staff absence and reliance on key individuals. We requested reconciliation information for the period April to December 2016 for both the business rate and council tax modules within iworld respectively. The table details our findings which can be summarised as:

- Reconciliations are often conducted 1 or 2 months later than expected
- There is a small balance of unreconciled items with council tax which are understood to be due to a technical issue with Tech1 however, this is yet to be determined.

Risks / Implications

Without regular/robust monthly reconciliations there will not assurance over the completeness and validity of the transactions with various financial systems.

<i>Finding rating</i>	<i>Action Plan</i>	
Medium	As part of implementing the actions agreed in Finding 1, all systems including Uniform and Waste should be included to ensure appropriate reconciliation is performed. Thereafter escalation should take place as needed.	<i>Responsible person / title</i>
		Strategic Finance Manager
	iWorld reconciliations a) Reconciliations must occur on a monthly basis b) Reconciliations not occurring on a monthly basis and significant unreconciled balances must be escalated to the Strategic Finance Manager.	<i>Target date</i> May 2017

3. User access review – Operating Effectiveness

Finding

Supplier Access

As of 24 October 2016 there were 332 users who have access to Tech1. Out of this, 11 users have full access to the system (2 from the Council, 9 from the supplier). Full access means they can make any amendments to the system. We would expect to find a limited number of people from both the Council and the supplier to have full access accounts with the finance system. We would expect the supplier to have locked full access accounts; this arrangement requires the supplier to request a member of the Council to enable their access once appropriate justification has been provided. The account is then enabled for the supplier to access, and disabled immediately after the supplier finishes using the system; this could be to investigate a system error or test/upgrade the system.

The review identified that the Council does not operate a locked account arrangement and there is no oversight of when suppliers access the system and therefore no time limits are applied for their access to the system.

Tech1 User Access

All starters who need access to the Tech1 system require their manager to fill out an electronic user access request form on the Council's self-service system, Hornbill. This form is then received and approved by the ICT service desk before the user is allowed access to the system.

We selected a sample of 10 users who had access to the system. We found that 9 users were users on the previous general ledger system and their access was transferred to Tech1 as part of the system implementation (June 2015). One of the 10 users joined in August 2015 after Tech1 came into use. There has been no assessment over the appropriateness of the access based on their current role for any of the ten selected.

A user review should be done on at least an annual basis to review the access rights and permissions of different users of the system; this review typically identifies dormant accounts or may flag individuals who have moved roles without access being changed. User rights and permissions should then be disabled or amended accordingly.

Risks / Implications

Users both within the Council and particularly outside have inappropriate access levels to the Council's finance system.

<i>Finding rating</i>	<i>Action Plan</i>	
Medium	Supplier Access	<i>Responsible person / title</i>
	a) Suppliers who have full access to the system should be reviewed and restricted and their accounts must be locked by the Council's system administrator	Strategic Finance Manager – Finance Manager (Tech 1 Access)
	b) Suppliers who require access to the system must request permission from the system administrator and their account must be locked immediately after use. The access should only be granted for a specific time limit i.e. 12 hours.	John Barter – IT Project Manager (Supplier Access)
Tech1 User Access	<i>Target date</i>	
c) A review of users access rights should be undertaken for all Tech1 users on conclusion of the Council's restructure and thereafter at least annually.	a)&b) April 2017 c) July 2017	

4. Insufficient central oversight by Finance Team of key risk areas – Control Design

Finding

The effective function of the general ledger system is the responsibility of the Finance Team. Periodic risk based checks should be performed to ensure that controls are operating as designed and effectively.

Through the follow-up of prior year recommendations, it was identified that journals, account accesses and chart of account changes are not reviewed on a periodic risk based approach. The benefit of such a review would be to identify any unusual activity and ensure no inappropriate significant general ledger activity has gone unidentified.

Journals oversight

A report of all journal transactions can be run from the general ledger providing information such as the value of the journal, the journal type and narrative explanation of the journal, amongst other information. It is considered that the greatest risks related to sub-ledger to general ledger journal adjustments i.e. journals between the accounts receivable/payable sub-ledgers to the general ledger. The Finance Team should undertake a quarterly review of journals focussing on those high value journals by journal types of greater risk. This review should be documented with appropriate challenge applied to any unusual journal activity.

Chart of Account Changes

Any member of staff allocated to the 'Finance' access group on Tech1 can make amendments to the chart of accounts by amending or adding/deleting codes. As part of the review, we selected a sample of five cost centre codes and five account centre codes from April 2016 to November 2016. For each of the sample items we found that the changes were reasonable with no issues to note. Whilst this was the case, as there is no segregation of duties to make amendments to the charts of accounts, a quarterly oversight of changes would strengthen the control environment. It should be noted that the existing monthly budgetary control processes should also identify risks to this area because if spend occurred against a new code without a forecast set, a variance would be identified with action taken.

User Last Login Changes

Tech1 allows a report to be run which notes the last login date of all individuals with open accounts. One way of managing the integrity of the system is to remove those people from the system who no longer require access or whether access should be modified. Finance currently do not run this report however, having oversight on a quarterly basis and recording whether an account has been removed or justifying why their access should be retained would strengthen the control environment.

Risks / Implications

The Finance Team have insufficient central oversight over key transactions/changes to the Tech1 system to assure the robustness of access and data held.

Finding rating

Action Plan

Low

Finance should run the following reports and document a quarterly review as follows:

- Journals – A report listing all journals in the quarter should be run. The Finance Team should determine the criteria for filtering the report to identify those journal types/values most at risk and then document their assessment over whether the identified journals are reasonable
- Chart of Accounts – A report listing all changes to the chart of accounts in the quarter should be run. The Finance Team should review all changes and confirm if they are reasonable
- Last User Login – A report listing all users in order of last login date should be run every quarter. Those with last logins greater than nine months should be reviewed as to whether their access is still reasonable.

All of the above quarterly reviews should be documented to show review by the Finance Team and the process should be approved by the Strategic Finance Manager or Director of Finance.

Responsible person / title

Strategic Finance Manager – Finance Manager

Target date

June 2017

5. Suspense Accounts – Control Design

Finding

Each day a Finance Officer downloads transactions from the bank account from the prior day and this is uploaded to Tech1. When the data is uploaded, it automatically codes each individual financial transaction to the relevant code on Tech1; the software identifies unique reference numbers and account details and from this allocates transactions accordingly. If the system cannot allocate a transaction it automatically places it into the suspense account. This can happen if the reference number against a transaction is incorrect.

There are two suspense accounts, with balances as 1 March 2017:

99001 – General Suspense Account (£85,138) – this includes one item for £75k which hit the suspense account on 29/09/2016. The Finance Team are investigating this.

The Income Manager oversees this suspense account. On a weekly basis the items in the suspense accounts are reviewed and cleared. The clearance of these items is not documented; the Income Manager will go through the items on Tech1 by opening up a listing of the balances in the suspense account and then reallocating them as appropriate. Those items not allocated will continue to appear on the suspense account with no audit trail of action taken.

99000 – Council Tax/Business Rates Suspense Account (£65,203) – this includes £35k brought forward from the prior year.

A Revenues Officer oversees this suspense account. On a daily basis the items in the suspense account are printed. Each item is then gone through line-by-line with an audit trail documenting action taken against each. This results in either a tick if it is cleared or commentary if further investigation has taken place.

We note the following areas for improvement:

- The process for clearing suspense accounts is not documented. This should be done to support the continuity of the control should the identified members of staff not be available. When speaking with the Revenues Officer and querying the value of items in suspense which related to the period before 31 March 2016, it was found that due to unexpected loss of staff in the past twelve months and capacity to clear these items, the balance is higher than what may be considered reasonable. If the process was documented and other staff were aware of the process then the build-up of suspense items could be limited during periods of unexpected staff absence.
- There is limited oversight by the Finance Team over the progress to clear suspense accounts. Whilst Finance have access to Tech1 and can monitor progress, there is no formal review at set intervals (this issue was raised in the prior year internal audit report). If Finance had oversight they would have been aware of the levels of prior year suspense account balances and could have considered whether additional resource was required to clear these items promptly.

<i>Risks / Implications</i>		
Suspense account balances may build up without being actioned promptly. The longer balances sit in suspense the greater risk they pose to remaining unidentified or being subject to write-off		
<i>Finding rating</i>	<i>Action Plan</i>	
Low	<ul style="list-style-type: none"> Suspense account positions must be reported to the Finance Team in the first week of each month. This must set out the movement in suspense account values from the prior period and explain reasons for significant balances which remain outstanding Upon receipt the Finance Team has responsibility to take appropriate action to ensure suspense account balances are cleared timely The procedures for suspense accounts should be documented and approved by Finance, including the daily/weekly process, monthly reporting and escalation procedures to bring long or large balances to the Director of Finance. 	<i>Responsible person / title</i>
		Strategic Finance Manager
		<i>Target date</i> April 2017

6. Limited Narrative Retained on System for Journals – Operating Effectiveness

Finding

All journals are posted onto Tech1 by members of the Finance Team. The existing process is that:

- Journals are raised on Tech1 by those who have access rights to raise journals i.e. all members of the Finance Team
- Journals are electronically work-flowed through to a different member of the finance team with appropriate authorisation access rights to approve the journal
- The authoriser can see details of the various debit/credit transactions with the journal and the system allows preparers to upload any backing documentation to support journals raised
- Once the journal is approved, the transaction then posts to the general ledger.

A sample of 20 journal entries were tested between April 2016 and November 2016. This included five transactions each from of the general ledger journal types. For all 20 out of 20 journal samples either supporting documentation was uploaded or the journals were reoccurring journals i.e. the monthly payroll journal, for which the upload of evidence is not required.

However, in 1 of our sample the narrative was blank. From a data analysis of all journals for the period 1 April 2016 to 15 February 2017 it was found that 83 lines (0.1%) out of 71,526 were blank. For many other journal lines the narrative was limited and insufficient to enable effective review.

Risks / Implication

If all journals are not substantiated with sufficient narrative it undermines the validity, accuracy and completeness of the financial information the Council holds. There is a risk of fraudulent transactions.

Finding rating

Action Plan

Low

Appropriate journal narrative should be recorded against every journal transaction and the Finance Team should be informed regarding what the expectations are.

Responsible person / title

Strategic Finance Manager

Target date

April 2017

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

The Key risks agreed in the Terms of Reference are set out below.

Sub-process	Risks	Objectives
Policies and procedures	<ul style="list-style-type: none"> Inadequate policies and procedures are in place 	<ul style="list-style-type: none"> Policies and procedures are clear, understood and followed to ensure the objectives of activity are met
Access	<ul style="list-style-type: none"> Access to systems and data is not effectively managed 	<ul style="list-style-type: none"> Access to the system is controlled to manage unauthorised manipulation of data
Reconciliations	<ul style="list-style-type: none"> Monthly bank reconciliation procedures are ineffective 	<ul style="list-style-type: none"> Reconciliations are performed to ensure data held is accurate and complete
Upgrades	<ul style="list-style-type: none"> Inadequate arrangements are in place to prepare for any changes to the Tech 1 software to maximise its capabilities 	<ul style="list-style-type: none"> Sufficient arrangements are in place to facilitate for smooth changes and upgrades to the Tech 1 software
Chart of Accounts	<ul style="list-style-type: none"> Insufficient procedures are in place to add or remove entries into the chart of accounts 	<ul style="list-style-type: none"> There are clear procedures in place to create or amend entries into the chart of accounts
Suspense Accounts	<ul style="list-style-type: none"> Suspense accounts are not cleared on a timely basis 	<ul style="list-style-type: none"> Suspense accounts are cleared on a timely basis
Journals	<ul style="list-style-type: none"> Journals are not subject to sufficient approval and scrutiny 	<ul style="list-style-type: none"> Journals are appropriately approved and scrutinised and processed in an efficient manner.
Interfaces	<ul style="list-style-type: none"> Interfaces to/from Tech 1 inaccurately and incompletely process transactions 	<ul style="list-style-type: none"> Interfaces are accurately and completely processed in a timely manner.

Appendix 3. System reconciliation template

The below extract is a template which could be distributed, along with the reconciliation as good practice guidance, to individual areas once it has been agreed which areas require a reconciliation to be performed – see Finding 1. The below template may not work for some areas however, sharing this will set minimum standards which need to be embedded as part of any reconciliation process they set up.

SYSTEM RECONCILIATION				
Period: March 2017				
	System file export	Tech 1 file	Difference	If different, narrate investigation and response
Number of balances	350	350	0	N/A
Total value of income	£42,000	£42,000	0	N/A
Is a hard-copy of the original file attached to this reconciliation?	✓	✓	N/A	N/A
PREPARER				
Name printed	[insert name]			
Name signed	[insert physical signature]			
Date of preparation	[insert date]			
REVIEWER				
Name printed	[insert name]			
Name signed	[insert physical signature]			
Date of preparation	[insert date]			

Reconciliation best practice	
✓	Ensure the reconciliation is timely. If a reconciliation is decided to run on a monthly basis, this should be signed off by the end of the third week of the following month is relates to
✓	Ensure all items which do not reconcile are investigated with no de minimus error level set
✓	Use the same template each month
✓	Only accept physical and not electronic signatures
✓	Have an agreed list of preparers and reviewers which is reviewed annually or upon staff change
✓	Ensure hard-copies of export/import files are attached to all reconciliations
✓	Ensure a hard-copy file is kept with all reconciliations and supporting evidence separated by different financial years
✓	Where differences occur ensure sufficient narrative and evidence is attached

Appendix 4. Follow-up of Previous Recommendations

As part of this review, we followed up on the three two recommendations raised in the previous General Ledger assurance report.

#	Finding	Agreed Action	Original Target date	Action Taken	Complete?
1	<p>Reconciliation of key financial systems to GL The General Ledger is part of the Technology One (T1) finance system. The Council also operates a number of other financial systems including iTrent (Payroll) and iWorld (Housing Benefits, Business Rates and Council Tax). The performance of a monthly financial reconciliation between the General Ledger and the supporting financial systems is a key control that ensures the integrity of the financial systems and the accuracy and completeness of the data that flows between them.</p> <p>During the year to March 2016 there has been inconsistent, incomplete or no reconciliation of these financial systems to the General Ledger. At the end of April 2016 the status of reconciliations to the general ledger is as follows:</p> <ul style="list-style-type: none"> • Payroll has not been reconciled (see Payroll report) • Council Tax income is reconciled to September 2015 (see Collection Fund report) • Business Rates to February 2015 (see Collection Fund report) 	<p>a) Map the interrelationships between the General Ledger in T1 and the other financial systems and processes, with a view to establishing where reconciliation is necessary.</p> <p>b) Roles and responsibilities for reconciliations within the finance team and service areas will be clarified.</p> <p>c) Standard procedures for reconciliations will be documented and implemented. Monthly reconciliation will be performed.</p> <p>d) The Finance Team will oversee the reconciliation processes that are operating over these key systems and processes that impact on the</p>	<p>a) June 2016</p> <p>b) June 2016</p> <p>c) Not set</p> <p>d) Not set</p>	<p>a) Summary of interfaces has been mapped which identifies necessary reconciliations</p> <p>b) Roles and responsibilities are identified for preparers and authorisers</p> <p>c) There are template forms (procedures) in place which are printed and signed</p> <p>d) There is oversight from finance as the authorisation of some</p>	<p>No. See Finding 1</p> <p>No. See Finding 1</p> <p>No. See Finding 1</p> <p>In part. See Finding 1 and Finding 2</p>

	<ul style="list-style-type: none"> Housing Benefits – issues with overpayment and rent allowance reconciliations (see Housing Benefits report) <p>The reconciliation process is not overseen by the Finance Team. It is only at year-end that the delays have been identified resulting in potential issues with the closure of the Council’s accounts.</p> <p>The lack of up-to-date reconciliations over the Council’s key financial systems has been reported in the internal audit reports that relate to Payroll, Housing Benefits and Collection Funds respectively. However, since the General Ledger is the primary source of information for the annual accounts, the Finance Team should maintain oversight of the overall integrity of the financial data reported.</p>	integrity of the GL.		reconciliations requires the signature of the Section 151 Officer. Whilst this is the expectation we have found many months where reconciliations have not occurred and therefore this has been classified as incomplete.	
2	<p>Suspense account management</p> <p>Suspense accounts should be investigated and cleared frequently. There are four suspense accounts in T1. At the end of March 2016 the total balance on suspense is £750k.</p> <p>During 2015/16 the review and clearance of suspense accounts has been done sporadically which has resulted in large amounts sitting on the suspense accounts from one period to the next. For example, £300k has been in the “Error Suspense” account since Period 3 (June 2015). We understand that much of this suspense balance relates to a backlog from June to September 2015 post implementation of T1. Regular clearing of suspense accounts is a key</p>	<p>(a) Process for clearing suspense accounts to be documented</p> <p>(b) Agree appropriate officers to be responsible for clearing suspense accounts</p> <p>(c) Train identified officers</p> <p>(d) Suspense accounts will be checked each day</p> <p>(e) All items over £5,000 value will be cleared within five</p>	(a) to (j) All these actions were expected to be completed between May and July 2016.	<p>(a) This is now in place</p> <p>(b) Done. Income Manager and Revenue Officer manage each account</p> <p>(c) Done. Officers identified</p> <p>(d) Council Tax checked every day.</p>	(e), (f) and (j) are not complete – see Finding 5

<p>financial control to ensure integrity of financial information.</p> <p><i>* At the time of finalising this report in May 2016, work has begun to address the backlog of items in suspense. CTAX Suspense is £67k and Bank Suspense is £163k. Both General Suspense and Error Suspense have been cleared to nil. Within the Bank Suspense there are 203 items of which 138 are dated before 31 December 2015 and account for £65k with the rest (£98k) hitting the account from the 1st January.</i></p>	<p>working days</p> <p>(f) No items will be held in suspense for more than one month</p> <p>(g) Accounts will be cleared in a manner that facilitates checking of which items have been cleared and those outstanding</p> <p>(h) At the end of each month a report on each suspense accounts will be prepared showing number of items, value, number of items in account over one month, number of items over £5,000 over five days</p> <p>(i) If items are identified in suspense that are likely to be recurrent remedial action should be taken to ensure that the items do not enter suspense in future</p> <p>(j) There are a number of items that have been in suspense for some time (in some cases since June 2015)</p>		<p>General Fund every week, however this is deemed appropriate</p> <p>(e) This is not done. Balances over £5k may be there longer and not escalated.</p> <p>(f) As per (e)</p> <p>(g) This is now done</p> <p>(h) This is not done.</p> <p>(i) This is done at a local level where officers will inform areas re: the issues they have found and how they could be rectified</p> <p>(j) This is part-done. The balance has come down significantly and this reports recommendations will help that reduce</p>	
--	---	--	---	--

				further	
3	<p>Journals Currently there is no way of differentiating between what is regarded as a recurring accounting journal and adhoc journals and there are no routine monitoring controls to review journals.</p> <p>Procedures will be established for the use of different journal types that differentiate between recurring and non-recurring journals and virements. Journals between sub-ledgers are an area of risk as they could be used to manipulate the accounts or conceal fraudulent transactions. In order to balance resource input with risk, greater focus will be placed on journal transfers into/out of the sub ledgers. For these consideration will be given to de-minimis values and appropriate authority levels to approve prior to posting.</p> <p>Procedures will be agreed and documented for the approval and review of journals to ensure they are valid.</p>	<p>a) Establish a clear protocol for the use of different journal types that differentiates between recurring and non-recurring (adhoc) journals and virements. All journals are supported with evidence for the reason for the journal, and who requested it. Journals are reviewed and approved prior to being posted. Consideration will be given to the use of standard “journal request” forms.</p> <p>b) In order to balance resource input with risk, greater focus will be placed on journal transfers into/out of the sub ledgers. For these consideration will be given to de-minimis values and appropriate authority levels to approve prior to posting.</p> <p>c) A quarterly review of all journals will be performed to check for validity, large or unusual items and whether</p>	a) – d) September 2016	<p>(a) The system defines journal types of which there are four types. This includes those which are bank journals, pay journals, accounts receivable and accounts payable journals. The system allows full approval via Tech1 with an audit trail and therefore no further controls are needed</p> <p>(b) It is not considered that setting de-minimus levels is appropriate. This report raises the need for a quarterly review of journals – see Finding 3. If as</p>	<p>Yes</p> <p>No – see Finding 3</p>

		<p>there are recurring requests. Consider automation of recurring entries to reduce the number of manual journals. Identify any structural issues with budgets, spend or income which can be addressed at source.</p> <p>d) Agreed procedures will be documented and shared with appropriate staff.</p>		<p>an outcome of this control operating issues are flagged, then a de-minimus level may be revisited</p> <p>(c) A quarterly review has not been put in place and has been recommended in this review</p> <p>(d) Procedures have not been put in place and shared with staff.</p>	<p>No – see Finding 3</p> <p>No – see Finding 6</p>
--	--	---	--	--	---



Internal Audit Report 2016/17

Budget Management

MARCH 2017



Contents

1. Executive summary	2	This report has been prepared only for Aylesbury Vale District Council (the Council) in accordance with the agreed terms of reference. The findings should not be relied upon by any other organisation.
2. Background and Scope	4	
3. Detailed findings and action plan	5	
Appendix 1. Finding ratings and basis of classification	14	
Appendix 2. Terms of Reference	16	
Appendix 3. Follow-up of Previous Recommendations	17	

Distribution List

For action	Andrew Small – Director, Section 151 Officer
	Simon Wastenev – Interim Strategic Finance Manager
For information	Kate Mulhearn – Corporate Governance Manager
	Andy Barton – Assistant Director – Strategy & Digital
	Audit Committee

1. Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Low risk (6 points)	Control design	-	-	1	3
	Operating effectiveness	-	-	-	-
	Total	-	-	1	3

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the Council at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as Low Risk. We have issued one medium and three low risk findings.

Budget monitoring is a critical tool used by the Council to ensure the financial position forecast is met and appropriate action is taken to mitigate any risks. The current climate is challenging; £6.9 million has already been deducted from the Council's government grant since 2010, alongside a target of achieving £2.8m of savings in 2016-17. This report highlights 3 low risk findings which can be rectified quickly with little resource input, relating to oversight of budget management meetings, variance thresholds and assessment of budget managers' training needs.

Whilst the above can be rectified promptly, this report identifies a more significant piece of work around improving the Quarterly Digest to incorporate more non-financial information to better inform decision making. There is a clear drive in the public sector to move towards integrated performance reporting. Within an environment of significant resource constraints and competing needs, public bodies are faced with a set of unprecedented risks and challenges. More than ever, they need to take a holistic view of the issues they face to guide their decisions and actions in the short, medium and long term.

Key Findings

- Quarterly Digest contains insufficient narrative explanation and non-financial data and is not issued timely (Finding 1 – Medium)
- Frequency of budget monitoring meetings are not reviewed and post meeting actions need to be centrally recorded (Finding 2 – Low)
- Thresholds for variances between budget and actuals being triggered as a “risk” are set too high and information on prior year is not included (Finding 3 – Low)
- Training needs are not annually assessed (Finding 4 – Low).

Good practice noted

- A summary email is sent out after every budgetary meeting from the Finance Team to the attendees of the meeting outlining the actions to be taken and subsequent approval emails are obtained
- We saw evidence that actions are taken to mitigate variances identified and these are escalated to the relevant Service Area Lead
- Senior Managers were content with how to run off budget reports for their area from Tech1 and understood that budget monitoring is their responsibility with the Finance Team acting in a support role.

Management comments

There has been a positive change in the budget management control environment from twelve months ago with more regular meetings occurring to scrutinise the financial position; it is recognised however, that the controls can be improved. With regards to the Quarterly Digest, discussions need to be had around determining what a useful output would look like and what information is considered important. After this, changes can be incorporated as it is accepted that the document could be enhanced to support better scrutiny and decision making.

2. Background and Scope

Background

The budget agreed for 2016/17 identified £2.8 million worth of new efficiency savings and income generation. This takes the total savings over the last six years to approximately £14 million. To counter the £6.9 million which has been deducted from AVDC's government grant since 2010, the Council has reorganised many of its services to make them more efficient and cost-effective, and has looked at various ways of becoming more commercially-minded. The Council's budgetary control procedures are essential to ensure the Council can meet its financial challenges and support the achievement of Council objectives.

The purpose of this audit is to assess and review the design of controls and their operating effectiveness with regards to budgetary control during the period since April 2016 to date.

Scope

The scope covered the key risks set out in the Terms of Reference (see Appendix 2). We reviewed the Council's Budget Management procedures by attending budgetary meetings and discussions with staff. Our testing in this area and others included:

- Review of Quarterly Digests to ensure they contained sufficient and appropriate information
- Attending budget monitoring meetings between Finance and Senior Managers
- Comparing the Council's budget monitoring framework and approach to other local authorities.

This does not represent a comprehensive list of tests conducted.

3. Detailed findings and action plan

1. Quarterly Digest does not contain sufficient information and has not been issued timely – Control Design

Finding

Each quarter the Quarterly Digest is produced by Finance and issued to the Finance and Services Scrutiny Committee. The purpose of the Quarterly Digest is to provide a summary of the Council's actual to budget position for each portfolio area and identify and explain any key variances. The Digest is reviewed by the Director with responsibility for Finance prior to issue. We obtained and reviewed the last three Quarterly Digests from the 2016/2017 financial year. We identified three areas of weakness compared to good practice; insufficient narrative explanation of variance, limited to no use of non-financial data and that the Quarterly Digest is not issued on a timely basis.

Insufficient narrative explanation of variances

The Quarterly Digest comprises a series of tables with financial information followed by 'notes' which explain some variances on a line-by-line basis. We found:

- The 'notes' section is not always used and variances may be unexplained
- Where 'notes' are used to explain variances, an explanation is given on that specific variance and a holistic view of the portfolio area is not given. Our experience from other authorities is that after each portfolio area a summary narrative on the overall trends and financial position is given either by management or the Member responsible for the portfolio area.

Limited use of non-financial data

The Quarterly Digest makes very limited use of non-financial data to support the review of the financial position which is critical to enable effective scrutiny of the financial position and allow considered decisions to be made. From our discussions with members of the Finance Team and Senior Managers, a view was shared that there is an overall lack of engagement with the document across the business to support strategic decisions.

From our experience, the Council's Quarterly Digest document is less developed than other local authorities. The report should be developed more towards an integrated performance report which considers risk, corporate key performance indicators and financial variances (see advisory point 5 for further insight).

Quarterly Digest is not issued on a timely basis

The Quarterly Digest should be issued between 4-6 weeks after the previous quarter ends. For quarter 3 of 2016-17 (October-December 2016) the Quarterly Digest has not yet been issued by mid-March 2017, whereas this should have been issued at the end of January or beginning of February 2017. The Quarterly Digest was issued on time for quarters 1 and 2 and we understand the delay with quarter 3 is a “one-off”.

The Quarterly Digest is the Council’s critical document to be scrutinised on actual versus budget financial variances. Issuing so late impedes Members’ ability to raise concerns promptly and any decisions are based on out of date information.

Risks / Implications

Ineffective scrutiny and poor quality of decision making at the Council which could result in greater financial and/or reputation risk.

Finding rating

Action Plan

Medium

- In the Quarterly Digest, each portfolio area should be expanded to include an overall summary of the financial position in that area.
- As part of the ongoing Business Intelligence project, plans should be developed to move towards integrated reporting, for example:
 - The extension of non-financial information to support the Quarterly Digest
 - The incorporation of corporate key performance indicators
 - The incorporation of corporate / portfolio risks.
- Quarterly Digest must be issued within 6 weeks of the quarter ending and promptly be issued to Members for scrutiny. Ideally Members scrutiny occurs within 8 weeks of the quarter ending.

Responsible person / title

Strategic Finance Manager

Target date

July 2017

2. Frequency and outcomes of budget monitoring meetings – Control Design

Finding

The Council’s Financial Regulations (B.10) state: “It is the responsibility of Senior Managers to control income and expenditure within their area and to monitor performance, taking account of available financial information”. The Finance Team support Senior Managers through facilitating budget monitoring meetings. The table below sets out the frequency for most budget monitoring meetings:

Area	Frequency
Waste, Parking, Housing	Monthly
Planning, Revenues & Benefits	Bi-monthly
Communication and Marketing, Business Strategy, Environmental Services, HR, Finance, IT, Community Fulfilment, Commercial Properties, Democratic Services, Facilities Management	Quarterly

Based on our discussions with the Finance Team and Senior Managers we identified:

- The Finance Team in conjunction with Senior Managers should undertake an assessment ahead of each financial year to determine the frequency of meetings. The outcome of discussions identified that some areas expressed they would benefit from more frequent meetings e.g. Commercial Properties. If changes to the frequency are made then the right balance needs to be struck between more regular meetings and the availability of Finance Team resources to facilitate this.
- The Finance Team should keep a record of when meetings actually took place and who attended; currently the evidence of meetings can only be identified through calendar invites. There were instances when budget monitoring meetings did not occur i.e. one of the quarterly meetings for Democratic Services did not take place in 2016-17. Whilst this may happen on occasion, and be justified due to minimal financial movement, this should be centrally recorded and where meetings are missed an explanation given.
- At the budget monitoring meetings discussions held may result in the need to transfer funds from one account code to another or to reforecast the budget outturn in-light of reviewing actual income/costs to date. The current process is that an email is sent after the meeting which summaries all the agreed changes which are then actioned by the relevant finance team member. The budget manager must confirm their approval of these changes via email. These emails are not stored on the Council’s network in an easily accessible folder.
- The Council does not have a process in place to consider the lessons learned from the budget monitoring meeting and how this can be shared with other areas in the Council. For example, a budget saving was identified by Democratic Services regarding better use of free training services

that can be provided by existing contractors to the Council which reduced the actuals to date. This good practice could be shared with other areas to get them thinking whether similar opportunities to save money exist in their areas.

Risks / Implications

If budget monitoring meetings are missed and not occurring at expected intervals insufficient scrutiny may be applied to the financial position at the Council which results in unmanaged excessive costs and missed opportunities to generate savings.

Finding rating

Action Plan

Low

- The frequency of budget monitoring meetings should be assessed each year ahead of the new financial year and amended per the outcome of discussions between Finance and Senior Managers. Whilst Senior Managers have responsibility for their budgets, overall responsibility for budget management rests with Finance via the Section 151 Officer; therefore Finance should ultimately be responsible for deciding the frequency of meeting.
- Finance should maintain a central record of when each budget monitoring meeting took place, who attended. Where meetings do not take place in-line with their expected frequency, an explanation must be recorded on the central record to justify this.
- A central record of the actions taken post a budget monitoring meeting and the approval of the budget manager requesting these changes should be maintained. Emails are suitable to record the outcomes of discussion but they must be stored on the Councils network.
- Every quarter Finance should consider any budget management practices identified from their discussions with Senior Managers. Finance should capture both good and poor practices and select a method to disseminate this information.

Responsible person / title

Strategic Finance Manager

Target date

- March 2017 – frequency of budget monitoring meetings to be agreed
- April 2017 – central records to be kept on the Council network
- July 2017 – sharing best practices post 2017-18 Q1











3. Budget reports: variance thresholds and prior year outturn – Control Design

Finding

At each budget monitoring meeting a report is run from the Council’s general ledger system Tech1; this compares the actual costs incurred versus those budgeted. As part of the Tech1 configuration it automatically classifies variances using the RAG system between actual and budgeted costs:

- Red – the variance is 67% and above.
- Amber – the variance is between 34% and 66.99%
- Green – the variance is between 0% and 33.99%.

The below is an extract from the Tech1 system of an example budget report which is used for budget monitoring:

Parks, Pitches & Open Space	YEAR TO DATE			FULL YEAR		
	Actuals	Budget	Saving/ (Overspend)	Forecast	Budget	Saving/ (Overspend)
1181 - Parks Administration	11,746	92,269	80,523 	235,700	235,700	0 
1182 - Alfred Rose Park	18,811	29,075	10,264 	41,100	41,100	0 
1183 - Bedgrove Park	30,923	47,016	16,093 	62,700	62,700	0 
1184 - Mount Pleasant	0	1,425	1,425 	6,400	6,400	0 
1185 - Edinburgh Playing Fields	22,384	31,947	9,563 	50,200	50,200	0 

The RAG system is a useful tool to draw the attention of Senior Managers and the Finance Team to those budget lines which need greater consideration and discussion, but:

- The thresholds set are currently too high to effectively mitigate financial risk. For example, a budget year to date could be set at £200,000 and the actuals as high as £300,000 however this would only flag as Amber because the variance would be 50%. Most would consider this to be a “Red” variance as it is £100,000 overspent year to date and therefore should be flagged as a risk.
- The thresholds were compared to other local authorities and this confirmed that the Council’s thresholds are very high with typical Red variances being identified at 10% and above. The thresholds set should reflect the Council’s risk appetite and tolerance for budget variance, specifically overspend.

- The report does not display the prior year outturn figure. Whilst often the current year forecast is based on the prior year outturn, there may have been changes to the current year forecast during the year and therefore seeing the prior year outturn would be beneficial.

Risks / Implications

Significant variances may not be identified and challenged/scrutinised at budget monitoring meetings. This could result in inadequate action being taken to improve the financial position of the Council.

Finding rating

Action Plan

Low	<ul style="list-style-type: none"> • The Tech1 system can be configured to allow each budget area to set individual thresholds for their RAG system. Finance should amend the budget monitoring RAG thresholds ahead of the financial year to ensure more appropriate variance trigger levels are set, in line with the financial risk appetite. These should only be varied by agreement of both Finance and the budget holder • The budget monitoring report should be amended to display the prior year(s) outturn position. 	<i>Responsible person / title</i>
		Strategic Finance Manager
		<i>Target date</i>
		March 2017

4. Training needs are not annually assessed – Control Design

Finding

Training is important to ensure budget monitoring and management is effective. Since the previous year’s internal audit report, the Council has undertaken the following steps to facilitate this:

- Finance Workshops – In April 2016 the Council, through the use of an external consultant, ran three workshops which covered numerous areas and included the objective to ‘Get Manager’s perspective on what they need from Finance to be commercial’. As part of this it was discussed whether budget monitoring tools and training were adequate and actions were agreed on how to respond to feedback given.
- E-learning Modules – two E-learning modules have been developed:
 - “Introduction to Finance” – a general overview of financial procedures and terminology. Mandatory for all staff. This was launched in December 2016. To date approximately 35% of staff have completed this eLearning. No follow up has yet been done for non-completion.
 - “Finance for Managers” – this includes high level guidance on the expected practices in budget monitoring. This has not yet been rolled out due to the restructure and pending appointments of staff to new roles.

Through discussions with Senior Managers the broad consensus was that "additional training would be welcome". The E-learning modules will go some way to improving knowledge of budget monitoring and general financial responsibilities but the Council should consider how it can regularly capture the training needs of budget managers and ensure adequate support is given.

Risks / Implications

Lack of effective budget management and monitoring.

Finding rating

Action Plan

Low	<ul style="list-style-type: none"> • The roll out of E-learning should be completed. Non completion should be followed up and appropriately linked to performance management. Targets should be set of 100% compliance for both ‘Introduction to Finance’ and ‘Finance for Mangers’. • The Finance Team should establish an annual process whereby they survey Senior Managers to request their feedback on the budget monitoring process and the adequacy of support/training they receive. Subsequently an action plan should be devised with appropriate steps taken to complete these. 	<i>Responsible person / title</i>
		Strategic Finance Manager
		<i>Target date</i>
		June 2017

5. Integrated reporting to support decision making – Advisory

Finding

There is a clear drive in the public sector to move towards integrated reporting. Within an environment of significant resource constraints and competing needs, public bodies are faced with a set of unprecedented risks and challenges. More than ever, they need to take a holistic view of the issues they face to guide their decisions and actions in the short, medium and long term.

The Council is running a Business Intelligence Project, as part of the Commercial AVDC Programme, to implement performance management tools and reporting. This is starting with debt as a pilot area, looking at how the information the Council holds can be accessed to enhance not only the knowledge of the levels of debt but to aid strategic decision making on how to build stronger relationships with customers and achieve value for money. The objective is to expand the activities of the Business Intelligence stream to support the development of an integrated performance framework and resource has been built into the new structure (subject to consultation at the time of writing) to facilitate this going forward.

The below extract is from another local authority and shows an example of how non-financial information could be utilised. In addition to the income generated by building control it outlines the number of applications the service received. The table is then supported by more holistic commentary which better informs management and Members to support their decision making.

Income streams

Cost Centre	Service	Month	2012/13 £	2012/13 Volume	2013/14 £	2013/14 Volume	2014/15 £	2014/15 Volume	2015/16 £	2015/16 Volume
1548	Building Control	Apr	(7,066)	69	(5,504)	37	(10,616)	122	(8,109)	97
10503	Application Fees	May	(8,683)	90	(10,512)	123	(9,262)	74	(7,091)	86
		Jun	(4,945)	73	(8,425)	77	(12,137)	109	(9,621)	114
	<i>Volume = No. of Applications</i>	Jul	(10,169)	83	(9,782)	99	(10,956)	110	(11,946)	111
		Aug	(5,650)	78	(9,229)	99	(9,138)	71	(4,825)	63
		Sep	(6,920)	82	(7,108)	63	(5,739)	86	(7,875)	90
		Oct	(6,575)	82	(8,450)	118	(8,699)	100	(5,321)	86
		Nov	(5,291)	55	(6,933)	70	(7,604)	72	(5,417)	63
		Dec	(4,091)	44	(6,566)	60	(6,366)	56	(6,172)	73
		Jan	(8,925)	75	(7,725)	76	(10,146)	102	(8,833)	83
		Feb	(8,249)	75	(6,845)	102	(6,917)	83	(11,250)	109
		Mar	(7,309)	96	(11,354)	76	(10,826)	0	0	0
		Total	(83,873)	902	(98,433)	1,000	(108,406)	985	(86,460)	975

Comments: The latest 2015/16 budget is £97,400. There are over 100 different fee combinations and 6 different application forms. Large project applications command large fees which are in competition with the Private sector). There has been an increase in applications where little or no fee is received i.e. window, electrical, cavity walls and disabled persons. These would however still usually require inspections, but at a lower fee. The table of current fees for each type are published on the Council's website

The Integrated Reporting Council (IRC) and Chartered Institute of Public Finance and Accountancy (CIPFA) issued a joined report 'Integrated thinking and reporting' in September 2016, outlining the reasons why public sector bodies should move to integrated performance reporting to ensure they can cope with future challenges and stakeholder demands.

More details can be found at <http://www.publicfinanceinternational.org/news/2016/09/integrated-reporting-can-help-show-public-sector-value>

Recommendation

Advisory

The Council should embrace integrated reporting as part of the Business Intelligence work stream and continue to move forward with this to help ensure data is used effectively to support decision making.

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

The Key risks agreed in the Terms of Reference are set out below.

Sub-process	Risks	Objectives
Governance	Insufficient stakeholder involvement	<ul style="list-style-type: none"> • Ensure the correct representatives from central finance support and divisional staff attend regular discussions • Discussions at Director/Executive and Committee level are robust and effective
Governance	Ineffective scrutiny and escalation	<ul style="list-style-type: none"> • There are clear procedures to escalate budget actions • There are sufficient action plans in place, responsible officers are assigned to actions and followed up in a timely manner • Budgets actions are escalated effectively to ensure appropriate scrutiny and action is taken
Governance	Inadequate discussion between management accountants/ business partners and the respective heads	<ul style="list-style-type: none"> • Discussions are recorded and/or actions are recorded to ensure sufficient monitoring and action is taken • Robust discussions consider wider performance in addition to line over/underspend
Management information	Inadequate measures to establish service line targets	<ul style="list-style-type: none"> • Clear guidance and procedures in place to support the monitoring of service line targets • Clear measures/targets are set and subsequent performance is monitored
Governance	Ineffective budget process	<ul style="list-style-type: none"> • Ensure Budget management is effective to meet targets and optimise the use of resources
Follow up of audit recommendations	All	<ul style="list-style-type: none"> • External audit recommendations following the subsidy audit and have been addressed • Prior year internal audit actions have been implemented

Appendix 3. Follow-up of Previous Recommendations

#	Finding	Agreed Action	Target date	Action Taken	Re-raise?
1	<p><u>Service Area Budgets</u></p> <p>We conducted a survey with budget managers from a range of service areas from across the council. The survey asked questions that focussed on their experiences of using the 'Technology One' software as a tool to aid the effective management of their budgets. Overall the responses identified that there are inconsistencies with the way in which Budget Manager's monitor their budgets, including the frequency of monitoring. This was in part due to a lack of familiarity with how the new finance system operates and some managers expressed a lack of confidence in the output from the software. There is also still reliance on finance officers to provide a level of support which is at odds with why the system was introduced – to allow Budget Managers to manage their budgets more autonomously. The Finance Team have meetings with Budget Managers across the Council, but these meetings are not formally recorded. The outcomes from those meetings are not recorded in a standard manner; for example an agreement to change a forecast maybe followed up by an email or a note from the officer.</p>	<p>Training will be developed and provided for Budget Managers so that responsibilities are clearly understood. Any changes to budgets or reforecasts will be clearly documented and approved at appropriate levels in accordance with the scheme of delegation.</p> <p>Recognising that the Council is undergoing a major transformation in order to become more commercial, it is important that responsibility and accountability for budget management sits at an appropriate level within the organisation. Whilst Budget Managers may be responsible, there is some risk that without structured accountability mechanisms (e.g. linking to performance reporting), budget management may not be given appropriate priority. The restructure provides a good opportunity to consider the level of review and involvement from the central financial team required in order to support budget managers and ensure robust and accountable budget management procedures going forward.</p>	September 2016	<p>The Council has developed two E-Learning Modules:</p> <p>“Intro to Finance” - mandatory for all staff</p> <p>Finance for Managers – mandatory for Managers/budget holders – not yet rolled out</p> <p>Reporting functionality from Tech1 has been improved</p> <p>More still needs to be done to complete the roll out of training and ensure training needs are annually assessed.</p>	<p>Yes.</p> <p>See Finding 4.</p>

<p><u>Portfolio Level Budget Reporting</u></p> <p>The Finance Team produces quarterly financial reports known as the 'Quarterly Digest'. This report is primarily aimed at the Portfolio Holders (Members). The Digest provides an overview of the Council's budget position split by portfolio and service area and highlights significant variances on individual service budgets and provides high level explanations against those. Our testing reviewed the significant variances that are highlighted in the September and December 2015 Digest. As at the date of this report (April 2016) the outturn position for the final quarter of 2015/16 has not yet been produced and won't be until the accounts have been closed (around June 2016). We saw evidence to show that the Council is managing the impact of different events on the budgets and reporting changes. The predictions made on budgets when significant variances have occurred were found to be accurate and budgets were re-forecasted.</p>	<p>As per above.</p>	<p>September 2016</p>	<p>The Council continues to complete and issue the Quarterly Digest and this does identify variances and provide some narrative on variances.</p> <p>Whilst this is the case, the data provided to support the variances and level of explanation is considered insufficient.</p>	<p>Yes.</p> <p>See Finding 1</p>
---	----------------------	-----------------------	---	----------------------------------