



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Isle of Anglesey County Council**

Audit year: 2018-19

Date issued: September 2019



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The team who delivered the work comprised Ian Howse (Engagement Partner), Wil Bevan (Engagement Manager) and Scott Chester (Team Leader)

Contents

The Auditor General intends to issue an **unqualified audit report** on your financial statements subject to the items outstanding on page 4.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Audit outcomes	5
Recommendations arising from our 2018-19 financial audit work	7
Independence and objectivity	7
Appendices	
Appendix 1 – Draft Letter of Representation	8
Appendix 2 – Proposed audit report of the Auditor General to the Audit Committee	11
Appendix 3 – Recommendations arising from our 2018-19 financial audit work	14
Appendix 4 – Recommendations arising from our 2017-18 financial audit work	15

Summary report

Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Isle of Anglesey County Council at 31 March 2019 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Isle of Anglesey County Council are £4.91m. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Isle of Anglesey County Council, for 2018-19, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 30 May 2019, and have now substantially completed the audit work, however, at the date of our circulation of this report the following were outstanding:
 - Finalisation of Audit work on accounts.
 - Resolution of the calculation of the bad debt provision
 - Manager and Partner Review
 - Clearance of review notes;
 - Completion of the CIPFA checklist;
 - Review of second version of the accounts;
 - Clearance from independent quality reviewer;
 - Receipt of letter of representation; and,
 - Review of post balance sheet events.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with management.

Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Audit outcomes

Uncorrected misstatements

- In 2017/18 a payment of £3.66m was made by the Council to Gwynedd Pension Fund to cover the fixed element of the employer contributions for the period 2017/18 to 2019/20. The Council initially accounted for this in 2017/18 by charging 1/3 (£1.22m) to the general fund and 2/3 (£2.44m) to the Earmarked Reserve in 2017/18. The Wales Audit Office considered the treatment of pension fund deficit payments and concluded that the payment of fixed elements of pension fund contributions should be recognised in full in the year of payment in line with Regulation 24 of the 2013 Local Government Pension Scheme Regulations. This was raised as an uncorrected misstatement in the 2017/18 ISA 260. In 2018/19 the Council has continued with the above accounting treatment, and after releasing £1.22m to the general fund, the remaining balance on the Earmarked Reserve is a negative reserve of £1.22m. As identified last year, the Wales Audit Office concluded that the payment of fixed elements of pension fund contributions should be recognised in full in the year of payment in line with Regulation 24 of the 2013 Local Government Pension Scheme Regulations. Therefore the £1.22m remaining in the Earmarked Reserve should be charged to the General Fund. As this is a classification error within the detail of the usable reserves, management have chosen not to adjust the accounts for this error.

Corrected misstatements

- 10 As part of the preparation of the 2018/19 accounts, the Council's finance team identified that for 2017/18 Note 1b – Segmental Income excluded disclosing rental income of approximately £16m. This prior period omission has been corrected in the 2018/19 accounts with the note restated to include the income.

Significant Risks

- 11 In our Financial Audit Plan, we set out information regarding the significant audit risks that were identified during our planning process. The table below sets out the outcome of our audit procedures in respect of those risks. We have conducted our audit in line with the Financial Audit Plan.

Financial audit risk	Audit response
<p>Completeness and cut-off of expenditure</p> <p>We have identified completeness and cut-off of expenditure as a significant risk as there may be an incentive not to record all expenditure in order to for the Council to report a more favourable year end position.</p>	<p>The audit team undertook the following procedures:</p> <ul style="list-style-type: none"> • performed design and implementation testing over controls to ensure completeness of expenditure; • performed focused audit testing to significant risk level in relation to the completeness of expenditure including the testing of provisions and accruals as at the year end; and • completed detailed testing in relation to management estimates and judgements as set out in the management override risk detailed above. <p>No issues were identified from our testing</p>
<p>Management override of controls</p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>The audit team undertook the following procedures:</p> <ul style="list-style-type: none"> • testing the appropriateness of journal entries and other adjustments made in preparing the financial statements using enhanced data analytics to analyse the whole journal population for characteristics of audit interest; • performed testing on the design and implementation of controls over journal entries to the financial ledger; and management estimates • testing the appropriateness of accounting estimates for biases; and • evaluation of the rationale for any significant transactions outside the normal course of business including those with related parties. <p>No issues were identified from our testing.</p>

Other significant issues arising from the audit

- 12 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
 - **We did not encounter any significant difficulties during the audit.**
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls.**
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2018-19 financial audit work

- 13 The recommendation arising from our financial audit work is set out in [Appendix 3](#). Management has responded to the recommendation and we will follow up progress on it during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

- 14 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 15 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office / Deloitte LLP and Isle of Anglesey County Council that we consider to bear on our objectivity and independence.

Appendix 1

Draft Letter of Representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

10 September 2019

Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of Isle of Anglesey County Council for the year ended 31 March 2019 the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Isle of Anglesey County Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
 - Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

All legal advice provided by Burges Salmon LLP relates to the Wylfa Newydd Project, and there are no claims whose effects should be considered when preparing the financial statements.

All legal advice provided by Geldards LLP relates to Equal Pay claims against the Council, which have been appropriately recognised and accounting for in accordance with the applicable financial reporting framework

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We confirm that: all retirement benefits and schemes, including UK, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly

accounted for; all settlements and curtailments have been identified and properly accounted for; all events which relate to the determination of pension liabilities have been brought to the actuary's attention; the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the managers' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the Council; the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and the amounts included in the financial statements derived from the work of the actuary are appropriate.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Isle of Anglesey County Council on xx September 2019.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Head of Finance

Isle of Anglesey County Council

Date:

Signed by:

Councillor

Chairman

Isle of Anglesey County Council

Date:

Appendix 2

Proposed audit report of the Auditor General to the Isle of Anglesey County Council

The independent auditor's report of the Auditor General for Wales to the members of Isle of Anglesey County Council.

Report on the audit of the financial statements

Opinion

I have audited the financial statements of:

- Isle of Anglesey County Council

for the year ended 31/3/2019 under the Public Audit (Wales) Act 2004.

Isle of Anglesey County Council financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Isle of Anglesey County Council as at 31/3/2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the [council [and its group] in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's

ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

- I certify that I have completed the audit of the accounts Isle of Anglesey County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages ... to ..., the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
Date:

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Recommendation arising from our 2018-19 financial audit work

We set out the recommendation arising from our audit with management's response to the recommendation. We will follow up this next year and include any outstanding issues in next year's audit report:

Matter arising 1 – Resource Link – Password Parameters	
Findings	<p>The following weaknesses were noted with the password parameters on the Resource Link application:</p> <ul style="list-style-type: none">- Minimum Password Length = 4 characters (good practice = 8)- Password History = Not set (good practice = minimum 5 remembered)- Password Expiry = Not set (good practice = maximum 90 days)- Lockout Threshold = 4 (good practice = maximum 5 attempts)- Lockout Duration = Not set (good practice = 24 hours/admin reset). <p>In aggregate this means that users may choose simple, easy to guess passwords, which would be in contradiction to the Council's security policy and increase the risk that their accounts could be accessed inappropriately.</p> <p>The following weaknesses were noted with the password parameters on the Windows Domain:</p> <ul style="list-style-type: none">- Password Expiry = 12 months (good practice = maximum 90 days)- Lockout Duration = 30 minutes (good practice = 24 hours/admin reset) <p>It has been noted that the following settings are not changed from factory default and remain not enforced on the Oracle database supporting ResourceLink:</p> <ul style="list-style-type: none">- Minimum Length- Password History- Password Expiry- Complexity <p>Additionally the lockout duration is set to 1 minute which is not in line with Industry Good Practice.</p> <p>Lack of strong password controls increases the vulnerability of the system towards brute force attacks and unauthorised parties gaining access to the systems. Databases should especially be protected given their nature and ability of users to directly manipulate the data.</p> <p>Additionally, with the GDPR legislation, all applications holding personal data should have stringent password parameters to ensure no data is lost which could result in financial penalties for the council.</p>

Recommendation	It is recommended that the password parameters are revised to reflect good practice.
Priority	High
Benefit of Implementing Recommendation	Weak password parameters settings significantly increase the risk of brute force attacks and could result in unauthorised individuals gaining inappropriate access to confidential data.
Accepted in full by management	Accepted
Management response	<p>The NCSC guidance states that if password are too long in length end users will be more likely to write them down. 9 Characters offers increased security over the previous 7 but also reduces the likelihood of users writing passwords down, which is against our IT Security Policy. Our Intrusion Prevention and Detection system monitors the network for potentially malicious traffic and/or actions, multiple failed login attempts to Active Directory is one of these parameters.</p> <p>Our domain login policy forces account lockout after 3 failed login attempts, at which point the user must contact the IT Service Desk to request unlocking.</p> <p>We do not feel it would be appropriate to email users each and every time their account successfully logged in, although we will investigate the possibility of a notification on failed login</p>
Implementation date	31 st March 2020

Matter arising 2 – Timely access deprovisioning.

Findings	It was noted that a leavers SX3 access was only revoked upon one of the application owners receiving an 'out of office' email from the leaver's email account. No ticket or email request was submitted to inform SX3 admins of the leavers departure.
Recommendation	It is recommended that leaver's access is revoked in a timely manner
Priority	Medium
Benefit of Implementing Recommendation	Weak password parameters settings significantly increase the risk of brute force attacks and could result in unauthorised individuals gaining inappropriate access to confidential data.
Accepted in full by management	Accepted
Management response	Currently discussing with the management team and accept the matter raised
Implementation date	31 st March 2020

Matter arising 3 – Related Party Transactions

Findings	Related party Transactions have the same authorisation requirements as standard transactions
Recommendation	Related Party Transactions should have a specific authorisations requirements to respond to the risk related party transaction inherently present.
Priority	Medium
Benefit of Implementing Recommendation	It is recommended that the Council review's the authorisation process for related party transactions given the inherent risk due to the nature of the type of transaction.
Accepted in full by management	Accepted
Management response	This matter will form part of the department's year end process review. Any weaknesses identified will be amended
Implementation date	31 st March 2020

Matter arising 4 – Payroll Controls – Processing of timesheets

Findings	We identified that currently all Payroll officers are responsible for the checking and inputting of timesheets onto the payroll system. At the end of each month one Payroll officer will be responsible for checking the data input into the payroll system (this alternates between the three officers). This means that the member of staff completing the checking will check the data inputted by themselves, and therefore there is not complete segregation of duties
Priority	Medium
Recommendation	It is recommended that the council introduce complete segregation of duties in relation to the processing of timesheets.
Benefits of implementing the recommendation	This mitigates the risk that cash can be paid to fictitious employees.
Accepted in full by management	Accepted
Management response	Currently the payroll team and creditors team are undergoing a restructure. This restructure is based upon creating resilience within the team as well as allowing for segregation of duties. The restructure is currently under way and should be implemented early in the next financial year.
Implementation date	30 th June 2020

Matter arising 5 - Payroll Controls

Findings	We identified as part of our New Joiners walkthrough that a payroll member of staff can create a new starter and update the individual's bank details in addition to members of the HR department.
Priority	Medium
Recommendation	It is recommended that Payroll members of staff do not have the ability to set up new starters and update the individual's bank details and these functions are reserved to HR staff.
Benefits of implementing the recommendation	This mitigates the risk that cash can be paid to fictitious employees.
Accepted in full by management	Accepted
Management response	Currently the payroll team and creditors team are undergoing a restructure. This restructure is based upon creating resilience within the team as well as allowing for segregation of duties. The restructure is currently under way and should be implemented early in the next financial year.
Implementation date	30 th June 2020

Appendix 4

Recommendations arising from our 2017-18 financial audit work

We set out all the recommendations arising from our 2017-18 audit with management's response to them. We have followed these up during the 2018-19 audit and have recorded the results below.

Multiple Systems – Passwords	
Findings	<p>We noted a number of weaknesses in the password parameters configured on the Resource Link Application and Database as below:</p> <p><u>Resource Link Application</u></p> <p>The following weaknesses were identified with the Resource Link application password parameters:</p> <ul style="list-style-type: none">- Minimum Password Length = 7 characters;- Password History = Not Set;- Password Expiry = Not Set;- Lockout Threshold = Not Set; and,- Lockout Duration = Not Set <p>In aggregate this means that users may choose simple, easy to guess passwords, which would be in contradiction to the Council's security policy and increase the risk that their accounts could be accessed inappropriately.</p> <p><u>Resource Link Oracle Database</u></p> <p>The following weaknesses were identified with the Resource Link Oracle Database application password parameters:</p> <ul style="list-style-type: none">- Minimum Password Length = Not Enforced;- Password History = Unlimited;- Password Expiry = Unlimited;- Password Complexity = Not Enforced;- Lockout Threshold = 10 attempts; and,- Lockout Duration = 1 minute <p>Weaknesses in password controls increases the vulnerability of the system to brute force attacks and hence raises the risk of unauthorised parties gaining access to systems or data. Databases should especially be protected given that they give direct access to the data.</p> <p>Additionally, with the GDPR legislation, all applications holding personal data should have stringent password parameters to ensure no data is lost which could result in financial penalties for the council.</p>
Priority	High

Multiple Systems – Passwords	
Recommendation	<p>It is acknowledged that management have already taken steps to align all systems with Windows AD password settings and to revise the password policy in line with the NSCS guidance. This will see the password expiry increase from 1 month to 12 months and password length from 7 characters to 9 characters. We however recommend implementing minimum password length of 12 characters and implementing monitoring controls to ensure that user accounts are kept secure from unauthorised access. The monitoring controls include:</p> <ul style="list-style-type: none"> i) Monitoring logins to detect unusual use; ii) Notifying users with details of attempted logins, successful or unsuccessful; they should report any for which they were not responsible.
Benefits of implementing the recommendation	Maximising controls in place over authentication to systems will reduce the risk of data being inappropriately accessed.
Accepted in full by management	Rejected
Management response	<p>The NCSC guidance states that if password are too long in length end users will be more likely to write them down. 9 Characters offers increased security over the previous 7 but also reduces the likelihood of users writing passwords down, which is against our IT Security Policy.</p> <p>Our Intrusion Prevention and Detection system monitors the network for potentially malicious traffic and/or actions, multiple failed login attempts to Active Directory is one of these parameters.</p> <p>Our domain login policy forces account lockout after 3 failed login attempts, at which point the user must contact the IT Service Desk to request unlocking.</p> <p>We do not feel it would be appropriate to email users each and every time their account successfully logged in, although we will investigate the possibility of a notification on failed login.</p> <p>The changes noted by the auditor have only recently been implemented, a review will be carried out in 6 months.</p>
Implementation date	N/A
Follow Up	We have raised a revised recommendation in relation to our findings in 2018/19.

Matter arising 1 - Payroll Controls

Findings	We identified as part of our New Joiners walkthrough that a payroll member of staff can create a new starter and update the individual's bank details in addition to members of the HR department.
Priority	Medium
Recommendation	It is recommended that Payroll members of staff do not have the ability to set up new starters and update the individual's bank details and these functions are reserved to HR staff.
Benefits of implementing the recommendation	This mitigates the risk that cash can be paid to fictitious employees.
Accepted in full by management	Accepted
Management response	The process surrounding new starters and timesheets will change significantly as we continue to roll out the improvements to the Northgate HR/Payroll System. All new starters will be processed by HR (through the web recruitment function). Access levels of members of staff will be reviewed and amended as relevant once the process is complete.
Implementation date	December 2018
Follow Up	Recommendation to be re-raised – issue still occurring.

Matter arising 2 - Bank Reconciliations

Findings	We identified during our walkthrough of the treasury business process that monthly bank reconciliations at the Council had not been undertaken since August 2017.
Priority	Medium
Recommendation	It is recommended that bank reconciliations are undertaken on a monthly basis.
Benefits of implementing the recommendation	This will mitigate the risk of misallocation of cash and improves the timeliness of identifying issues with cash balances.
Accepted in full by management	Accepted
Management response	Changes in the cash management system will lead to greater automation and simplification of processes which will help ensure that the bank reconciliations are completed in a timelier manner.
Implementation date	September 2018
Follow Up	Our walk through identified the December 2018 Bank reconciliation was completed. Recommendation closed.

Matter arising 3 – Housing Benefit Reconciliation

Findings	We identified that over three years, 900k of revenue from the housing benefit system SX3 was not recognised due to no reconciliation taking place between the SX3 system and a Finance system general ledger code.
Priority	Medium
Recommendation	It is recommended that a reconciliation between SX3 and the Finance system is prepared and reviewed on a monthly basis.
Benefits of implementing the recommendation	The Council recognise all revenue due.
Accepted in full by management	Accepted.
Management response	Reconciliations will now commence on a regular basis
Implementation date	September 2018
Follow Up	Recommendation Closed. Reconciliations Occur on a regular basis.

Matter arising 4 – Payroll Controls – Processing of timesheets

Findings	We identified that currently all Payroll officers are responsible for the checking and inputting of timesheets onto the payroll system. At the end of each month one Payroll officer will be responsible for checking the data input into the payroll system (this alternates between the three officers). This means that the member of staff completing the checking will check the data inputted by themselves, and therefore there is not complete segregation of duties
Priority	Medium
Recommendation	It is recommended that the council introduce complete segregation of duties in relation to the processing of timesheets.
Benefits of implementing the recommendation	The Council will mitigate the risk of fraudulent time hours being paid.
Accepted in full by management	Partially-accepted
Management response	There is segregation of duties with the Payroll Assistants entering the timesheets. These are then checked and processed by the Payroll Officer relevant to that payroll. In addition, once the HR/Payroll Northgate improvement project has been implemented, the procedures and segregation will be further improved. For example, the majority of employees will input their own timesheets, these will be authorised by their manager. This will free up payroll officers' time for checking and examining exception report.
Implementation date	December 2018
Follow Up	Recommendation to be re-raised – issue still occurring.

Matter arising 5 – Revaluation Controls – review of postings of revaluations

Findings	It was identified that the postings of the change in fair value of assets to the revaluation reserve and CIES had been made incorrectly.
Priority	Medium
Recommendation	It is recommended that a separate review is performed on the postings of the revaluation movements to the reserves.
Benefits of implementing the recommendation	The Council will mitigate the risk of incorrect postings to the revaluation reserve.
Accepted in full by management	Accepted
Management response	The revaluation worksheet was reviewed but will be reviewed more closely including checking all formulas.
Implementation date	For 2018/19 accounts
Follow Up	No issues noted identified as part of our testing. Recommendation Closed.

Matter arising 6 – Related Party Transactions

Findings	We identified that a number of related party transactions were not disclosed in the initial version presented to audit. Furthermore, some related party figures were incorrectly reported.
Priority	Medium
Recommendation	It is recommended that management review the related party disclosure, and ledger.
Benefits of implementing the recommendation	The Council will appropriately disclose its related party transactions.
Accepted in full by management	Accepted.
Management response	A review will be undertaken during 2018-19 of the related parties and will be reconciled to the ledger in order for accurate reporting.
Implementation date	March 2019
Follow Up	We identified as part of our audit testing that a number of related party transactions were not disclosed in the financial statements. Recommendation re-raised.

Matter arising 7 – Rent Collection

Findings	We identified that increases in rent were not fully implemented within the housing system. We identified one property should have had a rent increase to £99.13. However we evidenced that the rent was recorded as £92.34.
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Priority	Medium
Recommendation	It is recommended that the Council pass on the full rent increases, implementing a system of review that confirms all rent increases have been applied.
Benefits of implementing the recommendation	The Council will increase the level of income from its housing stock.
Accepted in full by management	Partially Accepted
Management response	For the period that the old rent amount was recorded the property concerned was void. When the property was let the rent was increased to the correct rent figure of £99.13. Therefore, there was no loss of rental income apart from the property being vacant. The Housing Department records changes to rents and these are reviewed each year.
Implementation date	March 2019
Follow Up	Our walkthrough of controls in relation to housing benefit did not identify any issues.

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