



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – Isle of Anglesey County Council

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

. This document is also available in Welsh.

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The Auditor General intends to issue an unqualified audit report on your financial statements, subject to final audit testing being complete, and all items on the outstanding list resolved (See page 4).

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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 2017 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 is £4m. 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 2016-17, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 12 June 2017 and have now substantially completed the audit work. At the date of issue of this report the following were outstanding:
 - a. Finalisation of documentation in relation to provisions, receipt of bank letters, disclosures and the accounting treatment of de-recognised items;
 - b. Finalisation of Partner and independent quality review process and audit file documentation; and
 - c. Receipt of letter of representation.
- 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 S.151 Officer and Deputy S.151 Officer.

Proposed audit report

- 8 Subject to satisfactory completion of outstanding work, 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](#).

Significant issues arising from the audit

Uncorrected misstatements

10 There is one prior year uncorrected misstatement which has been discussed with management but remain uncorrected. We agreed it did not require restatement as there would be no material impact on the balance sheet in 2016-17. Further detail is set out in [Appendix 3](#).

Corrected misstatements

11 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

Significant Risks

12 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	Proposed audit response
Management override of controls 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].	The audit team undertook the following procedures: <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;• 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.

Financial audit risk	Proposed audit response
	No issues were identified from our testing.
<p>Completeness and recognition of grant income</p> <p>We have identified completeness and recognition of grant income as a significant risk as there is a need to apply management judgement on recognition of grant income, including determining whether a grant has conditions and whether they have been met to allow recognition.</p> <p>There are two types of grant income which we have considered to be relevant to this risk: , specific revenue grants and capital grants and contributions.</p>	<p>The audit team undertook the following procedures:</p> <ul style="list-style-type: none"> • carried out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled; • reviewed and validated correspondence attached to specific grants and compared to the Council's accounting treatment; and • tested the design and implementation of controls around recognition of grant income. <p>No issues were identified from our testing.</p>
<p>Pension liability</p> <p>The Council currently holds a material net liability in respect of its pension obligations on the balance sheet, the calculation of which is based on a series of actuarial judgements, and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, discount rates, mortality, and other key variables.</p>	<p>The audit team undertook the following procedures:</p> <ul style="list-style-type: none"> • obtained the IAS19 valuation as at 31 March 2017, and engaged experts to assist with our review and testing of the appropriateness of the IAS19 valuation bases, assumptions and financial statement disclosures; and • understood and corroborated the exercise undertaken by Council staff to review the accuracy of the data provided to the actuary and considered whether we can obtain assurance over its accuracy and completeness. <p>No issues were identified from our testing.</p>

Other significant issues arising from the audit

- 13 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:
- 14 **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 15 **We did not encounter any significant difficulties during the audit.**

- 16 **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
- 17 **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- 18 **We did not identify any material weaknesses in your internal controls, although we have identified several areas in which it would be possible to improve control.** These are included in [Appendix 4](#).
- 19 **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2016-17 financial audit work

- 20 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them 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

- 21 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 22 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 and Isle of Anglesey County Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

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

27 September 2017

Representations regarding the 2016-17 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 2017 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 the 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 grant income has been recognised in line with the conditions attached.

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.

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 27 September 2017.

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:

Marc Jones

S.151 Officer

Isle of Anglesey County Council

Signed by:

Officer or Member who signs on behalf of those
charged with governance

Date:

Date:

Appendix 2

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

Auditor General for Wales' report to the Members of Isle of Anglesey County Council

I have audited the accounting statements and related notes of Isle of Anglesey County Council for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Isle of Anglesey County Council's accounting 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.

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 2016-17 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Isle of Anglesey County Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes 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.

Opinion on the accounting statements of Isle of Anglesey County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Isle of Anglesey County Council as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

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

- adequate accounting records have not been kept;
- the accounting 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;
- the Annual Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of 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.

For and on behalf of

Huw Vaughan Thomas

Auditor General for Wales

XX September 2017

24 Cathedral Road

Cardiff

CF11 9LJ

Appendix 3

Summary of uncorrected misstatements which should be drawn to the attention of Audit and Governance Committee

As part of our Asset Held For Sale (AHFS) disposal testing, an AHFS with a value of £3,097k was selected for testing. It was identified that this asset was leased to a Housing Association as part of the extra care scheme for 99 years and although correct to de-recognise the asset, the lease with the Housing Association is signed Mar-16. The disposal therefore relates to the prior period (2015-16).

Summary of corrections made to the draft financial statements which should be drawn to the attention of Audit and Governance Committee

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

CIES DR	CIES CR	BS DR	BS CR	Nature of correction
£'000	£'000	£'000	£'000	
700			700	Capital Additions We identified that a contribution towards the development of social housing was incorrectly capitalised.
293	293			Grant Income We identified that the Council recognised Gwynedd Council's share of a grant as income and the transfer of the share to Gwynedd Council as an expense. The Council should have recognised only its share of the grant income, and treat Gwynedd Council's share as a transfer of cash between Anglesey and Gwynedd councils.
217			217	Provisions We identified through testing that the Landfill Provision was understated due to the calculation not being on a 30 year rolling basis as per Environment Agency Guidance.

CIES – Comprehensive Income and Expenditure Statement

BS – Balance Sheet

Appendix 4

Recommendations arising from our 2016-17 financial audit work

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

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	Not accepted.
Management response	As from September 2017, HR will be responsible for the setting up the new employees within the system and matching to the appropriate post within the approved establishment. Payroll will be required to complete other items of information including setting up the bank accounts. This provides the required segregation of duties. It is also planned that employees can access some of their own personal information via an electronic portal (My View) and can change information themselves which will include bank details. This change will be introduced over the coming months.
Implementation date	March 2018

Matter arising 2 - Asset Verification and Reconciliations	
Findings	It was identified during the audit of the fixed asset register that significant additional effort had to be made in order to identify some of the assets noted on the register.

Priority	Low
Recommendation	It is recommended that sufficient documentation allowing for efficient identification of assets is maintained.
Benefits of implementing the recommendation	This will improve the efficiency of the audit. .
Accepted in full by management	Accepted
Management response	The team will undertake a review of the fixed asset register before closure of accounts to ensure that assets are identifiable, as far as possible.
Implementation date	February 2018

Matter arising 3 – Calculation of Landfill Provision

Findings	It was identified during the audit of provisions that the waste provision was incorrectly calculated, therefore the provision was recalculated based on guidance specific to Landfill provisions.
Priority	Low
Recommendation	It is recommended that that the Landfill provision is calculated on 30 year rolling basis (until the date of closure is known) as set out on the Environment Agency Guidance taking into account the expected annual costs to maintain the site.
Benefits of implementing the recommendation	This will make the calculation in line with CIPFA and relevant guidance.
Accepted in full by management	Accepted
Management response	The landfill provision will be calculated on the thirty year rolling basis as recommended above.
Implementation date	March 2018

Matter arising 4 – Accounting for Grant income

Findings	We identified that the Council recognised Gwynedd Council's share of a grant as income and the transfer of the share to Gwynedd Council as an expense (gross recognition) The Council should have recognised only its share of the grant income, and treat Gwynedd Councils share as a transfer of cash between Anglesey and Gwynedd councils (net recognition).
Priority	Low
Recommendation	It is recommended that the Council recognises grant income on a net basis.

Benefits of implementing the recommendation	This will not overstate income and expenditure.
Accepted in full by management	Accepted
Management response	Grant income relating to other local authorities will not be treated as grant income to the Council.
Implementation date	October 2017

Matter arising 5 – Asset Recognition

Findings	We identified that the Council capitalised £700k in relation to a contribution to the development of social housing. This did not meet the CIPFA accounting guidance for capitalising assets. Furthermore we identified that the Council had previously recognised £1,500k of assets that were on further investigation contingent assets and therefore de-recognised in the year. However the derecognition was initially in the category 'de-recognition disposal'
Priority	Low
Recommendation	It is recommended that the Council follows the CIPFA Code when looking to capitalise expenditure and de recognise existing fixed assets.
Benefits of implementing the recommendation	The fixed asset note will be correctly stated and presented.
Accepted in full by management	Accepted
Management response	The team will work more closely with other services to ensure that the ownership of each capital project is established and accounted for correctly.
Implementation date	February 2018

Matter arising 6 – Fair Value of Loans

Findings	We identified that the Fair Value of the loan portfolio in the prior year includes early repayment penalties, rather than being presented on a market equivalent fair value basis. Per guidance the penalty should not be included.
Priority	Low
Recommendation	It is recommended that the Council follows the CIPFA Code when calculating the fair value of the loan portfolio.

Benefits of implementing the recommendation	The disclosure of the Council's loans will be in line with CIPFA guidance.
Accepted in full by management	Accepted
Management response	The fair value 2015/16 was based on information from the Council's specialist adviser at the time. This has now been corrected and restated. From 2016/17 the fair value of the loan portfolio is based on the market equivalent fair value.
Implementation date	September 2017

Matter arising 7 – Fixed Asset Note Reconciliation	
Findings	It was identified that the brought forward cost and accumulated depreciation per note 15 did not tie in the amounts per the fixed asset register. The brought forward amounts agree to the carry forward amounts for the 15/16 note15, therefore the error lies in the fixed asset register.
Priority	Low
Recommendation	It is recommended that the Council reconciles the fixed asset register and fixed asset note and investigate any differences in a timely manner
Benefits of implementing the recommendation	The fixed asset register will reconcile to the fixed asset note and accounts.
Accepted in full by management	Accepted
Management response	The cost and net books values will be reconciled early during the closure of accounts.
Implementation date	March 2018

Matter arising 8 – 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	Accepted
Management response	The payroll team is a small team but will endeavour to implement segregation of duties as much as possible within the resources available. A project is currently underway to develop and improve the use of the HR/Payroll system. This will lead to staff inputting their own timesheets and expense claims with the information being authorised by line managers electronically. This will then end the need for Payroll staff to input any timesheet information.
Implementation date	June 2018

Recommendations arising from our 2016-17 IT audit work

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

Multiple Systems – Passwords	
Findings	<p>We noted a number of instances where the password parameters enforced in the system were not in line with the Council's Password Policy:</p> <ul style="list-style-type: none"> - SX3 Application; - SX3 Database; - Resource Link Application; - Resource Link Database. <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. In the current environment, where the prevalence of cyber security attacks is increasing, management should take all opportunities to strengthen system configurations wherever possible. Databases should especially be protected given that they give direct access to the data.</p>
Priority	High
Recommendation	Management should review password parameters on the applications and their supporting infrastructure to ensure that the parameters enforced match the Password Policy wherever the system allows for this. As part of this review, an exercise should be undertaken to ensure that the default accounts on those systems have had their password changed from the default one or are disabled.
Benefits of implementing the recommendation	Maximising system protection will reduce the risk of data being inappropriately accessed.
Accepted in full by management	Partially Accepted

Multiple Systems – Passwords	
Management response	<p>The password length will be change on SX3 as part of the next software upgrade.</p> <p>Historically, the security wrap around on client devices was not as robust with organisations relying on the security model of the business system. However, with advances in technology and inconsistencies in the security model of the business systems greater reliance is placed on client device security such as Active Directory and an increasing number of applications rely upon Windows authentication or Active Directory integration to provide secure authentication into the application.</p> <p>The IT Security Policy states that complex passwords should always be enforced, however in the case of business systems which cannot enforce this requirement;</p> <p>“3.3. Where it is not possible to enforce password complexity within a system, it is the responsibility of the departmental administrator to instruct users that passwords must be manually set to meet these requirements.”</p> <p>The ResourceLink relaunch project will include the integration with Active Directory, therefore, the system will be fully tied in to Council’s network security protocol.</p>
Implementation date	December 2017

Civica Application– User Management	
Findings	<p>It was noted that there were no documented periodic reviews of Civica access rights held by users. These reviews are performed at an application level and seek to reaffirm current roles and permissions granted to the users. It was noted that a process is in place to authorise access rights at the point of granting, and to disable the accounts of leavers. However without a periodic check of access privileges across the user base, management are not able to ensure that no-one has accumulated excessive rights over time through internal transfers, involvement in projects or cover for colleagues on leave.</p> <p>In addition, we noted that two internal audit accounts have privileged access on Civica application and use the account for both viewing information and resetting the passwords of other users. It is unusual for internal audit to have this level of access, as good practice is to restrict privileged access only to core IT personnel who need it for their day to day system administration activities.</p>
Priority	Medium
Recommendation	A periodic user access review should be implemented by management to ensure that level of access granted to users is revalidated on a regular basis. As part of this, a Segregation of Duties matrix should be developed to identify toxic roles and combinations of privileges which should be avoided where possible, and accounts with privileged access should be reviewed to confirm that all such accounts require that elevated level of access for their normal day to day job roles.
Benefits of implementing the recommendation	<p>An effective access review program ensures that the users do not have permissions exceeding their day to day responsibilities, which in turn may result in manual Segregation of Duties controls being overridden, and that all leaver accounts have been identified and disabled.</p> <p>The fewer privileged accounts that exist, the lower the risk of these accounts being compromised or misused to undermine the integrity of the system configuration or bypass the internal automated controls.</p>
Accepted in full by management	Accepted

Civica Application– User Management	
Management response	<p>It is accepted that Management do need to notify the Civica team of any changes to access rights. The HR/Payroll project includes this as notifications should occur as part of the workflow/electronic documentation/systems which are being improved. In the meantime the Civica works closely with IT, payroll and HR to identify leavers, movers etc.</p> <p>Controls are already in place to ensure segregation of duties and this is subject to regular review.</p> <p>An annual review of authorised signatories takes place each year and Civica is updated on the basis of this.</p> <p>The systems admin access rights which were given to internal audit has since been deleted. When audit users had admin access they were not able to update users' passwords as these are linked to the domain access on the PC/laptop. The only users who can update passwords are officers within IT.</p>
Implementation date	October 2018

SX3 Application – User Management	
Findings	It was noted that no periodic documented user access reviews take place on the application in order to regularly revalidate roles and permissions granted to the users. Where user access reviews are not completed on a timely basis this may result in excessive access rights building up over time.
Priority	Medium
Recommendation	Management should implement a periodic user access review to ensure that the level of access granted to users is reaffirmed on a regular basis. Additionally, a Segregation of Duties matrix should be in place to identify toxic roles and combinations between permissions granted in the system which should be avoided.
Benefits of implementing the recommendation	Regular user access reviews ensures that the users do not have permissions exceeding their day to day responsibilities, which in turn may result in Segregation of Duties conflict. Additionally, periodic reviews ensure that all leaver accounts have been identified and their access removed.
Accepted in full by management	Partially accepted
Management response	Regular reviews are completed but were not previously documented. A control document will be introduced to document regular reviews. A matrix is being produced to ensure segregation of duties within SX3.
Implementation date	April 2018

Resource Link Application – User Management	
Findings	<p>A number of weaknesses were identified in controls over the Resource Link application and supporting infrastructure as follows:</p> <ul style="list-style-type: none"> • No periodic reviews of user access are performed to revalidate roles and permissions granted to users; • The HR leavers listings are not distributed to the system administrator which in turn results in them having to rely on line managers notifying them about a staff member leaving. As a result, number of active accounts on the system which belong to leavers might still be on the system. Additionally, we have noted that the requests for deletion and addition of users are not retained for audit trail; • The Head of Payroll has privileged access to the application for the purposes of the setting up and removing user accounts. Good practice is to restrict privileged access to only core IT personnel to ensure segregation of duties between those with powerful rights in the system and those responsible for day to day transaction processing within that system; • All members of the payroll team are assigned supervisor level of access which may grant them excessive privileges compared to those required for their normal job roles. <p>We are aware that there are plans to upgrade ResourceLink later in 2017 however whilst the current version is in use, these risks remain.</p>
Priority	Medium
Recommendation	<p>The upgrade of the system should be used as an opportunity to enhance the control environment around this application. Controls which should be implemented should include:</p> <ul style="list-style-type: none"> • A period user access review by the business to ensure that level of access granted to users is reaffirmed on a regular basis; • Development of a Segregation of Duties matrix to identifying toxic roles and combinations between permissions granted in the system which should be avoided; • Circulation of the HR leavers listing to the Resource Link system administrator on a regular basis; • Retention of the requests for setting up new users and removing leavers administrator to ensure that appropriate audit trail is maintained; • Tailoring of user access rights for individuals at all levels within the payroll team to match the requirements of their day to day job role and to implement automated segregation of duties through the system.
Benefits of implementing the recommendation	<p>These controls all reduce the risk of inappropriate access to systems and data. Therefore they are part of an effective response to manage the risk of fraud and error.</p>

Resource Link Application – User Management	
Accepted in full by management	Accepted
Management response	These will be considered as part of the HR/Payroll project. It is intended that the system administration role for the Resourcelink system is transferred from Payroll to be part of the duties of the Civica Control Team.
Windows AD – Privileged Access	
Findings	It has been confirmed that the default domain Windows Administrator account has neither been disabled nor has it been renamed. Insufficiently protected or locked default system accounts increase vulnerability toward brute force attacks aimed to access the network by inappropriate parties. Additionally, use of generic accounts limits accountability of the users using them.
Priority	Medium
Recommendation	Management should review whether the default Administrator account on the domains is in use. Access to that account should be restricted and if possible, the account should be disabled. If account is required for system functionality the account should be renamed.
Benefits of implementing the recommendation	Appropriately restricted and renamed default accounts limit the risk towards brute force attacks by inappropriate parties. Additionally, lack of use of generic account increases accountability of the users as the actions on the system can be traced back to specific users.
Accepted in full by management	Accepted
Management response	We accept this recommendation and are in the process of urgently retiring this account in line with industry best practice
Implementation date	March 2018

Estates related recommendations arising from our 2016-17 financial audit work

We set out all the estates related recommendations arising from our audit with management's response to them. The majority (six) of the recommendations relate to the valuation approach and how to improve the accuracy of the valuation of Council assets. The remaining two are procedural in nature. We will follow up these next year and include any outstanding issues in next year's audit report. Outstanding recommendations for 2015/16 have been updated and included in the 2016-17 recommendations.

Title / Area	Finding and Recommendation	Management Response
Procedural matters: RICS Registered Valuer	It is recommended that the Council valuer registers under the RICS scheme.	Accepted – this is currently in progress.
Valuation Related Issues : Council Dwellings	<p>It is recommended that when the Council Dwellings are next due to be revalued as part of the 5 rolling programme, in 2020/21, the valuer undertakes additional detailed analysis to determine whether the adoption of the updated adjustment factor for 'Yorkshire and the Humber' is still applicable.</p> <p>We did note that the Council's Finance Team detailed in their instructions to the valuer the requirement to revalue the Council Dwellings at 31 March 2017. Having discussed this with the valuer and after seeking confirmation from Audit who in turn raised it with the Finance Team we understand that the inclusion of the requirement to revalue the Council Dwellings in the instructions this year was an error as these assets, including garages and lockups were valued last year (2015/16). We do note that the Department for Communities and Local Government (DCLG) Guidance- Stock Valuation for Resource Accounting- Guidance for Valuers has been updated and new guidance was published in 2016. The guidance includes updated adjustment factors that are often applied when converting Market Values (with vacant possession) of the housing stock to Existing Use Value for Social Housing (EUV-SH). Albeit these adjustment factors are only applicable to housing stock in England. In determining the valuation of the stock last year we understand the valuer adopted adjustment factor applicable for 'Yorkshire and the Humber' as the adjustment factor applicable for this geographical location was selected after various meetings and discussions with previous auditors and valuers of other Welsh authorities</p>	Accepted
Procedural Matters	It is recommend that a more extensive and documented inspection programme is undertaken to ensure that the majority of assets valued each year have been subject to inspection within the relevant year, even if the inspection is not purely for valuation purposes, i.e. dealing with general management of the assets. This will ensure that all assets are inspected during the 5 year rolling valuation programme	Partially accepted. Limited council resources prevent full inspection programmes, However, improved communication between services and the property team will help with

	The valuer has confirmed that <i>'a number of properties were inspected through the year as part of asset management'</i>	understanding the condition of assets better for the valuation as some inspections do take place by services as part of their asset management.
Valuation Related Issues	<p>It is recommended again that the resulting land valuations are checked on a rate per acre basis, where possible the valuer should verify that the land values fall within a reasonable range.</p> <p>It is noted that the valuer provides land and building value apportionments for each asset for depreciation purposes. However, in the case of the non-specialised assets, the land and building value apportionment is based on fixed percentages. In our 2016 review we commented that, whilst this is a recognised approach, we recommended that the land value apportionments are checked against land sales evidence to ensure that the land value/rate per acre is appropriate in each case</p>	Accepted –the valuer will check land values against land sales to ensure that the land/value per acre is appropriate in each case.
Valuation Related Issues	<p>It is recommended that the valuer provides estimated costs of sale for the assets categorised as Surplus and Assets Held for Sale.</p> <p>The valuer has confirmed that he has not provided estimated costs of sale for the assets categorised as Surplus and Assets Held for Sale as the Council acts in the sale for these assets. As stated in 2016, it is more common that the hypothetical costs of disposal are also stated together with the valuation for these assets, irrespective of whether the Council acts in the sale or not.</p>	Accepted
Valuation Related Issues	<p>It is recommended that the valuer use the latest build costs forecast figures from BCIS for year end valuations.</p> <p>For assets valued using the Depreciated Replacement Costs (DRC) approach (Specialised Operational Assets), we note that the valuer has used build cost figures from BCIS dating from December 2016 as opposed to forecasted Q1 2017 build cost figures, which would be more in line with the valuation date. As a consequence of adopting build costs as at December 2016 there would be a requirement to provide an updated valuation if the build cost movement was deemed to be material between the periods of December 2016 and 31 March 2017. We understand from the valuer that updated valuations were offered to Finance in April 2017 (in line with the instruction memo) but it was agreed that these would not be required as the movement in build costs was not considered to be material. This is acceptable, however, it is recommended that the valuer adopts the Q1 forecast BCIS build cost data in future which would negate the need to provide such an update, unless the forecasted BCIS build costs change significantly between the date when the valuations are prepared and the valuation date</p>	Accepted
Valuation Related Issues	<p>It is recommend that the valuer reviews the approach for assets valued using the Depreciated Replacement Costs (DRC) approach</p> <p>For assets valued using the Depreciated Replacement Costs (DRC) approach, (Specialised Operational Assets) the valuer has determined the costs for the external works by adding a percentage to the base build costs for the buildings. This is a recognised and acceptable approach, however the valuer adopts a set percentage of 10%, whereas it is more common to vary the percentage depending on the extent of the external works (actual and on an MEA basis).</p>	Accepted
Valuation Related Issues	It is recommended that the valuer reconsider the level of contingency that is applied in the valuations and confirms the	Accepted

	<p>position prior to preparing the valuations for the Specialised Operational Assets next year</p> <p>It is noted that, despite our 2016 review commenting on the valuer's adoption of a contingency addition of 10% to the build costs for Specialised Assets valued on a depreciated replacement Cost (DRC) basis, the valuer has continued to adopt this level of contingency addition in 2017. Whilst the approach adopted in DRC valuations is not prescriptive, a contingency addition of 10% is high and typically, if applicable, contingency costs are taken at 5% of build costs. We are also aware that in the valuation of a significant number of Local Authorities asset valuers do not add contingency costs as an assumption is typically made that there would be no unforeseen costs when building a replacement asset (actual or hypothetical MEA).</p>	
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