

# Audit of Accounts Report – Isle of Anglesey County Council

Audit year: 2019-20

Date issued: 21 October 2020

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This document is a draft supplied in confidence solely for the purpose of verifying the accuracy and completeness of the information contained in it and to obtain views on the conclusions reached.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

## Audit of Accounts Report

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 Statement of Accounts in this report.
- 2 We shared the draft ISA260 with management prior to issue and are due to discuss the issues arising with the S151, Accountancy Services Manager and the Finance Manager on 8 October 2020.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £3,700,000 for this year's audit.
- 5 We have now almost completed this year's audit but the following work is outstanding:
  - Completion and review of the Pension Liability on receipt of IAS19 assurances from Pension Fund Auditor as well as conclusions in relation to McCloud and Goodwin cases;
  - We are awaiting resolution of differences identified between the valuers report for year-ended 31 March 2020 and blueprints. At this stage there is no indication that this outcome would materially change the figures in the accounts, however, it may lead to an immaterial unadjusted misstatement item being presented in the representation letter which will be tabled at the Council meeting and a recommendation which will be communicated to management;
  - Finalisation of our testing including debtors, cash after date testing;
  - Receipt of legal monitoring officer's confirmations of any matters outstanding;
  - Receipt of final accounts and review of these to ensure CIPFA checklist and audit quality exceptions addressed;
  - Completion of our reviews and clearance of review comments;
  - Subsequent events review to be updated to date of signing considering the disclosures required in the financial statements;
  - Review of final accounts; and
  - Receipt of signed representation letters.
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of Covid-19 on this Year's Audit

- 7 The Covid-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the Covid-19 pandemic on this year's audit process.

## Exhibit 1 – impact of Covid-19 on this year’s audit

|                              |   |
|------------------------------|---|
| <b>Timetable</b>             | <ul style="list-style-type: none"><li>• The deadline for completing your accounts was changed by Welsh Government from 15 June 2020 to 31 August 2020.</li><li>• We received the draft accounts on 15 June 2020.</li><li>• Our deadline for completing our audit was changed from 15 September 2020 to 30 November 2020.</li><li>• We expect your audit report to be signed on 23 October 2020.</li></ul>   |
| <b>Electronic signatures</b> | Electronic signatures are a permissible method of certifying and approving financial statements and this method will be used by Audit Wales.  |
| <b>Audit evidence</b>        | We have been unable to conduct our audit at the Council’s Llangefni site due to the Covid-19 pandemic. Early discussions with the team indicated that the audit could be conducted remotely via the use of a secure Sharefile and Microsoft TEAMS. Using this platform, we have been able to screen share and observe team members running reports and sending these to us, just as we would observe this whilst sat next to the individual. There has been no change to our standard audit approach. |
| <b>Other</b>                 | The impact of Covid-19 meant that we needed to factor additional considerations into our risk assessment and certain areas of our audit required further work, such as property valuations, pensions and the going concern assessment. We note that it has also resulted in a material uncertainty being attached to the property valuations produced by the Council’s Valuer as well as in relation to the fair value of pension scheme assets.  |

- 9 We will be reviewing what we have learned for our audit process from the Covid-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed Audit Opinion

- 10 We intend to issue an unqualified audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 13 Our proposed audit report is set out in **Appendix 2**.

## Significant Issues arising from the Audit

### Uncorrected misstatements

- 14 We set out below the misstatements we identified in the accounts, which have been discussed with management but remain uncorrected. We request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons in writing for not correcting them.
- Whilst we note we are awaiting the work to be finalised in relation to the Goodwin case where legal challenge has been made against the Government in respect of unequitable pension benefits for male spouses of female members (in respect of service before 1988). An Employment Tribunal has recently upheld the claim, resulting in an additional liability needing to be recognised in FY20, as a post balance sheet adjusting event, as a past service cost. We note that this is an area which has been developing since the accounts were first drafted, and our pension specialists are currently estimating the impact of this which could be in the order of 0.2% of the defined benefit obligation which is not considered to be material.

### Corrected misstatements

- 15 There were initially misstatements in the accounts that have now been corrected by management. These were not material so we do not believe that these need to be brought to your attention.

### Other Significant Issues arising from the Audit

- 16 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

## Recommendations

- 17 The recommendations arising from our audit are set out in **Appendix 3**. Management has responded to them and we will follow up progress against 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.



# Appendix 1

## Draft Letter of Representation

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

23 October 2020

## Representations regarding the 2019-20 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 2020 for 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 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.

The value of those assets which are currently held at historic cost, but should be accounted for at their current value in line with the CIPFA Code of Practice on Local Authority Accounting, is not materially different to their current value.

The pension liability, and related disclosures within the financial statements, are up to date following developments in the McCloud and Goodwin legal cases. Where the liability has not been updated for relevant developments, the impact of this is not material. The financial statements are free of material misstatements, including omissions.

## 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 8 September 2020.

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:

Signed by:

Section 151 Officer  
Isle of Anglesey County Council

Officer or Member who signs on behalf  
of those charged with governance  
Isle of Anglesey County Council

Date:

Date:

# Appendix 2

## Proposed Audit Report

**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 March 2020 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 2019-20 based on International Financial Reporting Standards (IFRSs).

#### **Basis of Opinion**

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 March 2020 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 2019-20
- 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 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.

#### **Emphasis of matter – material uncertainty related to property valuations**

I draw attention to Note 3 to the financial statements, which describes a material valuation uncertainty clause arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

#### **Emphasis of Matter - UK property funds**

I draw attention to Note 41 to the financial statements which describes a material uncertainty regarding the valuation of the UK property funds managed by the Gwynedd Pension Fund. My opinion is not modified in respect of this matter.

## **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 2019-20;
- 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 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.

### **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 page 18, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Adrian Crompton  
Auditor General for Wales

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Recommendations

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:

| <b>Matter arising 1 – IT Findings</b>              |  |
|--|--|
| <b>Findings</b>                                    | As part of our financial audit we engaged IT specialists to assist the audit team with testing the appropriateness of the Council's IT systems which have a direct impact on the production of the financial statements. The IT specialists identified a number of recommendations which have been communicated to management. |
| <b>Priority</b>                                    | High-Low   |
| <b>Recommendation</b>                              | It is recommended that management work with the IT Manager to ensure these recommendations are implemented in a timely manner.   |
| <b>Benefits of implementing the recommendation</b> | To improve the quality and robustness of the IT systems.   |
| <b>Accepted in full by management</b>              | Partially accepted.  |
| <b>Management response</b>                         | Management is working with the ICT section to agree actions required.  |
| <b>Implementation date</b>                         | 2020/21  |

## Recommendations arising from our 2018-19 financial audit work

We set out all the recommendations arising from our 2018-19 audit with management's response to them. We have followed these up during the 2019-20 audit and have recorded the results below.

### Matter arising 1 - Resource Link – Password Parameters

#### Findings

The following weaknesses were noted with the password parameters on the Resource Link application:

- 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).

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.

The following weaknesses were noted with the password parameters on the Windows Domain:

- Password Expiry = 12 months (good practice = maximum 90 days)



|  |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>- Lockout Duration = 30 minutes (good practice = 24 hours/admin reset)</li> </ul> <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"> <li>- Minimum Length</li> <li>- Password History</li> <li>- Password Expiry</li> <li>- Complexity</li> </ul> <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> |
| <b>Priority</b>                                    | High   |
| <b>Recommendation</b>                              | It is recommended that the password parameters are revised to reflect good practice.   |
| <b>Benefits of implementing the recommendation</b> | Weak password parameters settings significantly increase the risk of brute force attacks and could result in unauthorised individuals gaining inappropriate access to confidential data.   |
| <b>Accepted in full by management</b>              | Accepted   |
| <b>Management response</b>                         | The NCSC guidance states that if password are too long in length end users will be more likely to write  |

|                            |  |
|----------------------------|--|
|                            | <p>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> |
| <b>Implementation date</b> | 31 <sup>st</sup> March 2020  |
| <b>Follow Up</b>           | <p>We are pleased to note many of the above actions have been addressed with the below still remaining outstanding as a finding:</p> <p>The following weakness was noted with the password parameters on the SX3 application:</p> <p>Lockout duration = Blank</p> <p>Recommendation re-raised and communicated to management as part of the current years recommendation 'Matter arising 2 – IT Findings'.</p>   |

**Matter arising 2 - Timely access de-provisioning.**

|                 |   |
|-----------------|---|
| <b>Findings</b> | <p>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.</p> |
|-----------------|---|

|  |  |
|--|--|
| <b>Priority</b>                                    | Medium   |
| <b>Recommendation</b>                              | It is recommended that leaver's access is revoked in a timely manner   |
| <b>Benefits of implementing the recommendation</b> | Weak password parameters settings significantly increase the risk of brute force attacks and could result in unauthorised individuals gaining inappropriate access to confidential data. |
| <b>Accepted in full by management</b>              | Accepted   |
| <b>Management response</b>                         | Currently discussing with the management team and accept the matter raised   |
| <b>Implementation date</b>                         | 31 <sup>st</sup> March 2020  |
| <b>Follow Up</b>                                   | Recommendation re-raised and communicated to management as part of the current years recommendation 'Matter arising 2 – IT Findings'.  |

### Matter arising 3 – Related Party Transactions

|                       |  |
|-----------------------|--|
| <b>Findings</b>       | Related party Transactions have the same authorisation requirements as standard transactions   |
| <b>Priority</b>       | Medium   |
| <b>Recommendation</b> | Related Party Transactions should have a specific authorisations requirements to respond to the risk related party transaction inherently present. |

|  |  |
|--|--|
| <b>Benefits of implementing the recommendation</b> | 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. |
| <b>Accepted in full by management</b>              | Accepted   |
| <b>Management response</b>                         | This matter will form part of the department's year end process review. Any weaknesses identified will be amended  |
| <b>Implementation date</b>                         | 31 <sup>st</sup> March 2020  |
| <b>Follow Up</b>                                   | TBC – work to be finalised at the date this report was issued. This recommendation will therefore roll forward to the 2020/21 financial statement audit year.              |

#### **Matter arising 4 – Payroll Controls – Processing of timesheets**

|                       |  |
|-----------------------|--|
| <b>Findings</b>       | 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 |
| <b>Priority</b>       | Medium   |
| <b>Recommendation</b> | It is recommended that the council introduce complete segregation of duties in relation to the processing of timesheets.   |

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| <b>Benefits of implementing the recommendation</b> | This mitigates the risk that cash can be paid to fictitious employees.   |
| <b>Accepted in full by management</b>              | Accepted   |
| <b>Management response</b>                         | 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.   |
| <b>Implementation date</b>                         | 30 June 2020   |
| <b>Follow Up</b>                                   | When this was reviewed in July this recommendation remained outstanding. However, Internal Audit have published a report in relation to this matter and have confirmed updated segregation of duties have been implemented, we have performed sample testing to confirm this but are awaiting final evidence. This recommendation will therefore roll forward to the 2020/21 financial statement audit year. |

#### **Matter arising 5 – Payroll Controls**

|                 |  |
|-----------------|--|
| <b>Findings</b> | 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. |
|-----------------|--|

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|--|--|
| <b>Priority</b>                                    | Medium   |
| <b>Recommendation</b>                              | 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.  |
| <b>Benefits of implementing the recommendation</b> | This mitigates the risk that cash can be paid to fictitious employees.   |
| <b>Accepted in full by management</b>              | Accepted   |
| <b>Management response</b>                         | 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.   |
| <b>Implementation date</b>                         | 30 June 2020   |
| <b>Follow Up</b>                                   | When this was reviewed in July this recommendation remained outstanding. However, Internal Audit have published a report in relation to this matter and have confirmed updated segregation of duties have been implemented, we have performed sample testing to confirm this but are awaiting final evidence. This recommendation will roll forward to 2020/21 financial statement audit year. |





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