	INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager   **SUBJECT:** Banking Arrangements

TO: Head of Finance   **DATE:** 13 September 2023

C.C. Chief Executive
Principal Accountant
Portfolio Holder (Cllr Chilvers)

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1 Introduction

1.1 In accordance with the Audit Plan for 2023/24, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.

1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

2.1 Banking arrangements are managed by the Capital and Treasury Management team in Finance.

2.2 Warwick District Council has always banked with HSBC and its predecessor, The Midland Bank. The contract had a five-year extension which is due to end in February 2025.

3 Objectives of the Audit and Coverage of Risks

3.1 The management and financial controls in place have been assessed to provide assurance that the risks are being managed effectively. It should be noted that the risks stated in the report do not represent audit findings in themselves, but rather express the potential for a particular risk to occur. The findings detailed in each section following the stated risk confirm whether the risk is being controlled appropriately or whether there have been issues identified that need to be addressed.

3.2 In terms of scope, the audit covered the following risks:

1. Inappropriate procurement of banking services.
2. Suppliers do not receive timely payments due to banking system failures or IT failures.
3. Bank service provider has undesirable working practices or is owned / operates in an undesirable country.
4. Unauthorised access to Council funds.
5. Lack of resource for procurement causing stress on staff and staff having to work additional hours.

6. A change of bank would result in the need for specialist work to update interfaces and additional costs for support from TechnologyOne.
7. Lack of resource due to absence and leave resulting in broken processes.

3.3   These risks, if realised, would be detrimental to the Council with regards to meeting the following corporate objectives, as set out in the Fit for the Future Strategy:

The banking arrangements themselves have no direct bearing on the Council's objectives under the Fit for the Future (FFF) strategy. However, access to funds to enable other departments to carry out their work will help the Council to meet its overall vision.

4   Findings

4.1   Recommendations from Previous Reports

4.1.1   The current position in respect of the recommendations from the previous audit reported in March 2020 were also reviewed. The current position is as follows:

	Recommendation	Management Response	Current Status
1	The payment information screenshots should be included in the retention policy for Finance to ensure that their retention is justified and that they are only held for the appropriate length of time.	The need to retain these will be reviewed and a decision will be subsequently made as to whether there is a need to include these in the retention policy. This will also be considered as part of the implementation of the new Financial Management System.	Treasury data has been considered and included in the retention policy with the information retained for six years.

4.2   Financial Risks

4.2.1   Potential Risk: Inappropriate procurement of banking services.

There is a contract in place with HSBC for the banking services. The contract started 1 March 2015. In 2019, a five-year extension was agreed extending the end date to 28 February 2025. As the tendering of the contract and the extension were covered in earlier audits they have not been reviewed as part of this audit. The signed contract and extension were reviewed to ensure the bank and the Council are operating under the agreed terms.

Interest and charges are taken at source by HSBC from the payment account and then coded to the relevant module on the finance system. The bank provides electronic documentation for any charges, which are monitored and maintained by an Accountancy Assistant.

A sample of invoices was provided detailing the fees and charges incurred. These were checked against the payments authorised on CiAnywhere to confirm

they had been completed accurately. The invoiced amounts were in line with the contract.

WDC do not complete reviews to ensure transaction volumes are in line with those included in the agreement. HSBC perform an annual review which highlights variance and informs the Principal Accountant of any changes needed. It is understood that transaction volumes are within the expected range as they have only been asked to approve the overdraft limit.

4.3 Reputational Risks

4.3.1 Potential Risk: Suppliers do not receive timely payments due to banking system failures or IT failures.

The department risk register includes the risks of loss of IT resulting from a number of potential triggers such as computer breakdown, technology problems, power failure and loss of internet. The mitigation in place includes support from the IT helpdesk, training and various system controls. Mitigation includes good plans and further actions include ongoing review of business continuity plans.

In case of IT issues staff are advised to work from the Council office or contact IT for support. It was confirmed that in most cases another accountant could complete a task on behalf of a colleague if they are experiencing problems accessing the internet from home.

There are a number of documented procedures in place for the day-to-day banking operations. The documents are kept up to date and are clear with screen shots to show the various steps. A discussion was had with the Principal Accountant who confirmed that Accountancy staff have full access to the documented procedures. These documents assist the staff when completing a task on behalf of another officer.

There were no occasions identified within the last five years where the Council has incurred charges for late payments due to IT or system failure.

The risk register will need updating as it refers to training from a staff member who left a number of years ago. None of the mitigations counter the risk of total loss of WDC IT. With officers signing in remotely total loss would prevent them from working and contacting IT support. Some of the mitigations don't relate to the risk identified. These errors could be due to a mistake when transferring the register into the new format on the intranet.

Recommendation

The risk register should be reviewed to ensure the information is up to date and that the controls and mitigations in place relate to the risk identified.

4.3.2   **Potential Risk: Bank service provider has undesirable working practices or is owned / operates in an undesirable country.**

When procuring services and products the Council should be considering various factors about the provider. This includes environmental, social and governance information, ensuring for example that the provider doesn't operate with undesirable working practices or isn't owned or operating in an undesirable country.

WDC has an Ethical Procurement Statement in place which sets out the Council's approach to ethical procurement. The statement lists principles on which it is based on and the expectations of how they will be implemented. Some of the principles include safe working conditions, employees be paid at least minimum living wage and elimination of child labour and inhumane treatment. There are various other procurement policies and statements which are advised to be used when procuring new contracts. These include sustainable procurement, social value and equality procurement.

The climate action plan includes an aim to decarbonise contracts and remove investment in fossil fuels. The code of corporate governance commits to defining outcomes in terms of sustainable economic, social, and environmental benefits, suggesting that impact and long-term views should be considered when making decisions.

These desirable requirements have not been considered in either the significant business or the department risk registers, including under the procurement specific risks. Failure to consider the risks when procuring services, such as a banking provider, could impact the Council's reputation.

Recommendation

Ethical procurement aspects should be considered in the risk register.

HSBC (the banking provider) reports on its Environmental, Social and Governance (ESG) performance annually. The report is available publicly and includes information and data on three main areas:

>   Environmental: sustainability, climate ambitions, finance, biodiversity and water.
>   Social: employee profile, charitable giving and volunteering
>   Governance: complaints, suppliers (geographically) and tax

The information shared in the ESG performance report is in line with the Council's Ethical Procurement Statement.

4.4   **Fraud risks**

4.4.1   **Potential Risk: Unauthorised access to Council funds.**

The Council has a constitution document in place which details the scheme of delegation. Section 9 of part 3 of the document details the responsibility of the Head of Finance which includes responsibility for the banking arrangements, the Council's cash flow, investment and borrowing. This section of the document

was last amended and approved at Council 15 March 2023. Part 4 of the constitution includes the code of financial practice. This section was last approved by Council on 22nd April 2015 with a revised version issued to Cabinet in 2021. The code contains details about banking arrangements in part 4 section 7. The details include authorisation limits and occasions where dual authorisation would be required.

A formal bank mandate is in place detailing the authorised signatories, such as the Head of Finance and the Principal Accountants. The mandate still includes the previous Head of Finance, who left in April 2022. The Assistant Accountant confirmed that they would contact the bank to have them removed from the list.

The intranet holds a selection of procedure documents for CiAnywhere. These include processes for logging on, how to navigate around the system and access request forms. Other documents are available, but these do not come up when using the search function and are not saved within the finance system pages. Some of the documents are role-specific so do not need to be readily available, such as how to create a journal and perform year end duties. The lack of linking is likely due to the intranet being new and not everything has been linked to appropriate pages and search functions yet.

The documents are all up to date, mainly due to the finance system still being relatively new to the Council. There are a number of accountancy staff listed who are able to provide further help when completing procedures on the finance system should it be required.

The user list for the finance system details 132 users with varying authorisation limits ranging from £10k to unlimited. At the time of processing, the list was up to date with current staff shown. The authorisation limit for the users is appropriate for the role they carry out and in line with other officers in roles at a similar level.

HSBC.net has accountancy users set up to allow processing of payments. Users can only be added with the approval of the Head of Finance, currently the only officer with administration rights. The banking system has the authorisation limits set up to match those on the mandate and CiAnywhere. The Strategic Finance Manager is in the process of being set up as an administrator on the banking system, to help manage the workflow.

The bank mandate confirms the same delegation and financial controls as those stipulated in the code of financial practice. For authorisations over £50k two of the mandated signatories are required. Although there are procedures detailed for cheques they are no longer used by the Council. The updated code of financial practice also confirms the removal of cheques.

Transaction / statement information is downloaded from HSBC.net on a daily basis. This is checked and a copy is saved to cloud storage.

4.5   **Health, Safety and Wellbeing Risks**

4.5.1   **Potential Risk: Lack of resource for procurement causing stress on staff and staff having to work additional hours.**

There is not a work plan in place, as staff within treasury have specific roles. The roles and duties are built into the job descriptions so all officers are aware of their responsibilities.

There are processes in place for delegation and authorisation where there could be a conflict of interest, for example accounts who are involved with Milverton Holmes would not authorise payments to them.

The workload is monitored through one-to-one discussions to help ensure staff are not working excessive hours. Although in most cases this works, as you move up the hierarchy it is clear that more senior officers are recording an increasing amount of flexi hours. There are recognised times through the year where hours accrued peak. This includes year-end and during external audits.

Where actions, such as reducing accrued flexi hours, are identified the action is usually agreed by email. This provides an audit trail if required and acknowledges the extra hours worked.

Vacancies within the Accountancy team have recently been filled leaving the team fully staffed.

4.6   **Other risks**

4.6.1   **Potential Risk: A change of bank would result in the need for specialist work to update interfaces and additional costs for support from TechnologyOne.**

The banking contract is planned to be procurement-ready by January 2024 (due to the workload of the Treasury team). The award would need to be made six months before the new contract starts in January 2025. Should the workload prevent it being ready by January it is expected that an external banking contract expert would be required to put together the banking specifications.

Although there are risks identified in the risk register about the banking provider, as well as procurement risks, system compatibility has not been considered. Discussions with key Accountancy staff and the systems officer confirmed that a change of bank would result in the need for specialist work to update interfaces and additional costs for support from TechnologyOne.

The changes required to the finance system would require an additional budget to cover costs as the change would be a major project with a large amount of work required. There would be a risk of it not being 100% right once completed. The costs of this major project would have to be built into the contract evaluation, as the benefits of changing bank could be outweighed by the project costs.

The Systems Officer confirmed that there would be compatibility issues between the bank provider and the finance system as the current interfaces would have to be written from scratch. Clearly this would be a major project. External support would be required to make the changes and discussion with TechnologyOne to ensure the required changes were possible.

Recommendation

The additional resource requirements should be considered as part of the procurement exercise.

4.6.2 **Lack of resource due to absence and leave resulting in broken processes.**

There are processes in place that ensure workloads are covered in the event of absence and leave. Although not documented, the team are aware of their responsibilities when covering team members.

Absences and holiday are defined by practice where the team covers various roles on behalf of one another. In most cases, multiple officers are able to provide cover for another role. For one role, however, there is at present only one other staff member who provides cover. To build resilience and to allow the officers to alternate cover, another officer is currently being trained on the role.

The cover currently in place is for short term absence and leave and can be adjusted for situations as needed. Maternity Cover is dealt with at the time, based on needs, usually by employing externally on a short term contract or with agency staff to either cover the post, or backfill an existing officer already trained to cover the post.

5 **Summary and Conclusions**

5.1 Section 3.3 sets out the risks that were being reviewed as part of this audit. The review highlighted weaknesses against the following risks:

Risk 2 - Suppliers do not receive timely payments due to banking system failures or IT failures.
Risk 3 - Bank service provider has undesirable working practices or is owned / operates in an undesirable country.
Risk 6 - A change of bank would result in the need for specialist work to update interfaces and additional costs for support from TechnologyOne.

5.2 In overall terms, however, we can give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Banking Arrangements are appropriate and are working effectively to help mitigate and control the identified risks.

5.3 The assurance bands are shown overleaf:

Level of Assurance	Definition
Substantial	There is a sound system of control in place and compliance with the key controls.
Moderate	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited	The system of control is generally weak and there is non-compliance with controls that do exist.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Banking Arrangements – September 2023

Report Ref.	Risk	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.1	Suppliers do not receive timely payments due to banking system failures or IT failures.	The risk register should be reviewed to ensure the information is up to date and that the controls and mitigations in place relate to the risk identified.	Low	Head of Finance	This is on the risk register with a low likelihood but high potential impact. The CiA system is Cloud-based, and while reliable to date, could be subject to an extended loss of internet and web connections, which could also affect the web-based bank system, with a consequent period that suppliers could not be paid. The risk register will be reviewed in October and then frequently on a quarterly basis to ensure risks and mitigations are relevant.	October 2023

Report Ref.	Risk	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.2	Risk 3 - Bank service provider has undesirable working practices or is owned / operates in an undesirable country.	Ethical procurement aspects should be considered in the risk register.	Low	Principal Accountant	The Council's investment counter-party criteria identifies countries that the Council is happy to accept, and the Council's bank provider would be a UK-based subsidiary or company. The risk register will be reviewed in October and then on a quarterly basis.	October 2023
4.6.1	Risk 6 - A change of bank would result in the need for specialist work to update interfaces and additional costs for support from TechnologyOne.	The additional resource requirements should be considered as part of the procurement exercise.	High	Head of Finance / Principal Accountant	The Council invested a considerable staff resource in setting up the bank interface with the current bank provider. All this work would have to be repeated if there was to be the change in bank provider, which is a major project due to the importance of this interface. Also, the Accountancy team does not have capacity to undertake the tender exercise to obtain banking quotes, requiring external resources.	October 2023

Report Ref.	Risk	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
					This is to be discussed with the Procurement Team soon to discuss options.	

* The ratings refer to how the recommendation affects the overall risk and are defined as follows:

High: Issue of significant importance requiring urgent attention.
Medium: Issue of moderate importance requiring prompt attention.
Low: Issue of minor importance requiring attention.

| **INTERNAL AUDIT REPORT** |

FROM:	Audit and Risk Manager	**SUBJECT:**	Business Applications: CIVICA APP Application
TO:	Head of Safer Communities, Leisure and Environment	**DATE:**	18 September 2023
C.C.	Chief Executive		
	Head of Finance		
	Head of Customer and Digital Services		
	Systems and Service Support Team Leader		
	Application Support Team Leader		
	Portfolio Holder (Cllr Sinnott)		

1   Introduction

1.1   An audit has been included on the Audit Plan for 2022/23 to review the adequacy, effectiveness and efficiency of the systems and controls in place for the management of the CIVICA APP Application for Warwick District Council.

1.2   This audit was performed by the Council's ICT Internal Audit contractors, TIAA, and completed in July 2023.

1.3   Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and co-operation received during the audit.

2   Background

2.1   The CIVICA APP application is used by the Safer Communities, Leisure and Environment Service, Private Sector Housing section within the Housing Service and Neighbourhood and Assets, Waste section. The use of the system is limited to those who have the application installed on their machines as well as via a 'sandboxed' piece of technology on specific mobile devices used by staff working off site.

2.2   The system has been in place for several years and, whilst work has been undertaken to look into the replacement of the application, the decision was taken to retain the current application under a renewed contract procured through the UK Government G-Cloud framework. The decision to retain the application also resulted in an audit of the application being requested as part of the 2022/23 internal audit plan.

3   **Objectives of the Audit and Coverage of Risks**

3.1   Audits of ICT do not tend to follow the 'normal' risk-based approach, with the audit reviewing the management controls in place.

3.2   However, in scoping the audit, the following risks were identified by the auditor and agreed with the Head of Customer and Digital Services:

- Lack of appropriate application management and governance.
- Inadequate system security measures leading to the potential for inappropriate or unauthorised access to the system.
- Ineffective management of interfaces with other systems leading to inaccurate data being processed affecting management decision making.
- Inadequate data validation techniques being used resulting in weak data management.
- Weak change management controls resulting in unmanaged updates being applied to the application potentially causing service disruptions.
- Inadequate data backup processes which could result in an inability to recover the application in a timely manner.
- Ineffective vendor support resulting in system downtime.

3.3   The risks identified above were covered in overview against the following key control areas:

- Application Management and Governance
- System Security
- Interface Controls and Processing
- Data Input and Output
- Change Control
- System Resilience and Recovery
- Support Arrangements

3.4   The work will help to ensure the Confidentiality, Integrity, and Availability of the Council's data. Whilst this does not directly help the Council to achieve any specific objectives, it has a cross-cutting impact on several internal themes and objectives as set out in the Fit for the Future strategy.

4   **Findings**

4.1   **Recommendations from Previous Report**

4.1.1   The last audit of the CIVICA APP system was undertaken in 2016. Due to the passage of time, the recommendations made in that report were not specifically considered, other than where relevant to the risks and controls covered as part of this review.

4.2   **Application Management and Governance**

4.2.1   Whilst there has been a Data Protection Impact Assessment (DPIA) on the work of the departmental as a whole, it was identified that there has not been any work to undertake a formal DPIA on the application itself and the data it processes, or an analysis of whether such an assessment is required under

the Data Protection Act 2018. A DPIA is mandatory where the processing of data is likely to result in a high risk to individuals.

Risk

The lack of a formal DPIA for the application increases the risk of non-compliance with the Data Protection Act 2018.

Recommendation

The Information Governance Manager should be contacted to discuss whether there is a need for a specific DPIA for the CIVICA APP system or whether the departmental record is sufficient.

4.2.2   It was identified that formal roles and responsibilities have been documented into the role of Systems and Service Support Team Leader and that the role has been assigned to an appropriate officer. The incumbent has only recently been assigned the role.

4.2.3   There has been no formal data classification work applied to the data that the application processes due to the system constraints. However, the current data retention policy provided does include classification of the data that is recorded and created by the department.

4.2.4   It was identified that users of the application are training on the job on an as and when required basis. There are also a range of business process documents in place for use as reference.

4.3   **System Security**

4.3.1   Upon review, it was identified that there are processes in place to manage starters, movers and leavers with respect to access to the application.

4.3.2   To help demonstrate the processes in place, sample testing was undertaken covering three leavers and one new starter since May 2022. All of the leavers were found to have had their accounts deleted and that these activities had supporting service desk incidents raised. The processes were also found to have included the return of Council assets on their departure. The sampled starter was found to have been supported by the relevant service lead with regards to the approval of their access.

4.3.3   The application includes the ability to assign permissions to named accounts for performing password resets. The processes in place for requesting a password reset were observed during the audit and were found to operate appropriately.

4.3.4   It was identified that the application's password controls are not managed by Active Directory using Single Sign-on (SSO) with the password controls in place being managed locally within the application.

4.3.5   The password controls currently configured within the application are not complex. The current configuration is as follows:

- Minimum Length: 9 characters
- Password lifetime: 60 days
- Reuse Limit: 5 previous passwords
- Maximum invalid password attempts: 5

4.3.6   The configuration shown does not require a mix of Capitals, lower case, numeric and special characters (for example, &^%$£) and is not compliant with the Council's password security requirements set out within the "Information Security and Conduct Policy" (section 16) and in more detail within a newly drafted "Account and Access Control policy" (section 6.1) that is awaiting approval.

Risk

Weak password security increases the risk of unauthorised access to the application and data resulting in the potential for service disruptions. There is also an increased risk of non-compliance with Council IT Security Policy requirements.

Recommendation

The current password controls for the system should be reviewed and updated in line with the Council's policy as far as is possible. The password history (reuse limit) should also be increased (ideally to 22 or more.)

Alternatively, the feasibility of linking the application to Active Directory via a Single Sign On process could be reviewed. Doing so will remove the need to set a local password policy within the application as this will be superseded by the Active Directory user login and related password policy.

4.4   **Interface Controls and Processing**

4.4.1   The application incorporates interfaces with the external website and mobile devices used by field staff working on duties such as premises food safety inspections. The Council's website supports the use of forms that customers can complete to submit reports and apply for services. The forms cover a large range of Council services in addition to Environmental Health Services.

4.4.2   The interfaces are essentially live links that synchronise back to the application via the other technical services described above. Any technical issues that arise are worked on with the assistance of the Systems and Service Support Team Leader.

4.4.3   Testing undertaken identified that documented processes and procedures for the management and general monitoring of the state of the interfaces connected to the CIVICA APP application are not documented, although we

acknowledge that assistance is sought from the Systems and Service Support Team Leader when technical issues arise.

Risk

A lack of formal business process documentation covering the management of the CIVICA APP interfaces increases the risk of service disruptions should issues arise and relevant officers are not available to assist.

Recommendation

Business processes related to the management of the interfaces with the CIVICA APP application should be formally documented with regular reviews being scheduled once they are in place.

4.5   **Data Input**

4.5.1   Upon review, it was identified that the application has been configured to help ensure that only correctly formatted data can be entered. This helps to ensure consistency of data formatting, such as dates.

4.5.2   User account profiles are configured to help ensure that changes made by users are restricted to the user role within the Council.

4.6   **Data Output**

4.6.1   Due to current ways of working, there is very little physical output created. However, electronic reports produced from the system or derived from data held within it are produced which can be emailed and stored outside of the system. At the time of the review, there was insufficient evidence to confirm that this output was being handled appropriately.

Risk

Inadequate management of data retention and destruction increases the risk of non-compliance with Data Protection Act 2018 requirements.

Recommendation

Reviews should be undertaken to ensure that output from the system is retained and subsequently destroyed in line with the departmental retention policy and the requirements of the Data Protection Act 2018.

4.7   **Change Control**

4.7.1   There has recently been a separate audit of Change Management undertaken which covered this section in greater detail. However, an opportunity was taken to conduct testing of the processes specific to the CIVICA APP application.

4.7.2   It was highlighted that there have been very few changes implemented for the application. However, testing was undertaken on two of these changes and it was confirmed that they broadly follow the processes described in the detailed Change Management audit with the exception on how the system owner signoff was implemented for an upgrade.

4.7.3   There is a template email message configured into the Change Management process that offers the system owner options for accepting (or otherwise) a change before it is promoted into the Live environment.

4.7.4   A recommendation to help enhance that process was raised in the Change Management audit, although we noted that the email with options was not used in this example. However, the system owner confirmed that relevant testing was conducted and that the upgrade was authorised.

Risk

Non-compliance with the Council's Change Management procedures increases the risk of unmanaged changes being implemented and reduced clarity over what the authority given by a system owner is authorising.

Recommendation

An appropriate change authorisation process should be followed and adopted in all cases.

4.8   **System Resilience and Recovery**

4.8.1   It was confirmed via observation that there are comprehensive backup processes in place covering the CIVICA APP application.

4.8.2   The resilience processes in place include test restores of the backups to help show that the processes continue to operate as required. Evidence was obtained of the process to verify its operation.

4.8.3   Evidence was also obtained to confirm that the CIVICA APP environment was included in the last annual recovery test process that the Council's IT service implements. Results from those tests noted some minor issues although the tests were successful overall.

4.9   **Support Arrangements**

4.9.1   The Council has entered into new contracts with CIVICA that has extended the support into 2025, with options to extend into 2026 and 2027 via one-year extensions.

4.9.2   The application has been in place for several years and has been very reliable. Contact with the vendor for support purposes is initiated via the vendor's helpdesk system.

5   **Conclusions**

5.1 Following our review, in overall terms we can give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of the Change Management are appropriate and are working effectively to help mitigate and control the identified risks.

5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 The audit did not highlight any urgent issues influencing materially the Council's ability to achieve its objectives. However, five issues were identified which, if addressed, would improve the overall control environment:

- There is no formal DPIA in place for the application.
- Password security requires review as complexity is not implemented.
- Business process documentation covering the management of the interfaces with CIVICA APP are not in place.
- There is a need to develop and implement secure data disposal processes.
- There has been minor non-compliance with Change Management processes.

6 Management Action

6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit & Risk Manager

Action Plan

Internal Audit of the CIVICA APP Application – September 2023

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.1	The Information Governance Manager should be contacted to discuss whether there is a need for a specific DPIA for the CIVICA APP system or whether the departmental record is sufficient.	The lack of a formal DPIA for the application increases the risk of non-compliance with the Data Protection Act 2018.	Low	Systems and Service Support Team Leader	A discussion will be held with the Information Governance Manager as suggested.	December 2023
4.3.6	The current password controls for the system should be reviewed and updated in line with the Council's policy as far as is possible. The password history (reuse limit) should also be increased (ideally to 22 or more.) Alternatively, the feasibility of linking the application to Active Directory via a Single Sign On process could be reviewed. Doing so will remove the need to set a local password policy within the application as this will be superseded by the Active Directory user login and related password policy.	Weak password security increases the risk of unauthorised access to the application and data resulting in the potential for service disruptions. There is also an increased risk of non-compliance with Council IT Security Policy requirements.	Low	Systems and Service Support Team Leader / Systems Support Officer	The password settings will be reviewed in line with the requirements of the new policy once adopted. Application Support staff have checked CIVICA with regards to Single Sign On with APP and have confirmed that it's not possible with the current version used. This 'capability' is something that will be considered as part of the specification for the replacement system.	December 2023

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.4.3	Business processes related to the management of the interfaces with the CIVICA APP application should be formally documented with regular reviews being scheduled once they are in place.	A lack of formal business process documentation covering the management of the CIVICA APP interfaces increases the risk of service disruptions should issues arise and relevant officers are not available to assist.	Low	Systems and Service Support Team Leader / Community Safety and Civil Contingencies Manager	When renewing the CIVICA contract, it has been agreed with the Community Safety and Civil Contingencies Manager that a review and progress report of the APP should be done every six months - the first of which should fall in December.	December 2023
4.6.1	Reviews should be undertaken to ensure that output from the system is retained and subsequently destroyed in line with the departmental retention policy and the requirements of the Data Protection Act 2018.	Inadequate management of data retention and destruction increases the risk of non-compliance with Data Protection Act 2018 requirements.	Low	Systems and Service Support Team Leader / Environmental Health and Licensing Manager/ Head of Safer Communities, Leisure and Environment	Agreed. Reviews of data retention and subsequent destruction will be undertaken.	September 2023

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.7.4	An appropriate change authorisation process should be followed and adopted in all cases.	Non-compliance with the Council's Change Management procedures increases the risk of unmanaged changes being implemented and reduced clarity over what the authority given by a system owner is authorising.	Low	Head of Customer and Digital Services	Following a more general audit of change management processes, change management as a whole is being looked into by ICT. This will include provisions for changes made within applications, methods of recording and authorisation processes. It would be recommended that a common change management process is adopted rather than each service area creating its own approach, with the level of information recorded depending on the impact that the change being undertaken could have. This will be fed into other departments once the policy is updated and approved.	3 November 2023

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.
Medium Risk: Issue of moderate importance requiring prompt attention.
Low Risk: Issue of minor importance requiring attention.

INTERNAL AUDIT REPORT		

FROM:	Audit and Risk Manager	**SUBJECT:**	Employee Attendance Management
TO:	Head of People and Communications	**DATE:**	16 August 2023
C.C.	Chief Executive Head of Finance HR & Payroll Manager HR and Payroll Support Advisor Portfolio Holder (Cllr Harrison)		

1 Introduction

1.1 In accordance with the Audit Plan for 2023/24, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.

1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

2.1 Previous audits have been undertaken under the title of Employee Absence Management. However, this was thought to concentrate on the negative aspects and so the title has been changed to look at attendance management, i.e. helping to keep staff healthy and be able to stay at work. Nonetheless, as per the scope of the audit set out below, the processes for dealing with sickness absence are still relevant.

3 Objectives of the Audit and Coverage of Risks

3.1 The management and financial controls in place have been assessed to provide assurance that the risks are being managed effectively. It should be noted that the risks stated in the report do not represent audit findings in themselves, but rather express the potential for a particular risk to occur. The findings detailed in each section following the stated risk confirm whether the risk is being controlled appropriately or whether there have been issues identified that need to be addressed.

3.2 In terms of scope, the audit covered the following risks:

1. Staff are paid inappropriately due to the incorrect reporting of sickness absence.
2. Additional staff costs (e.g. overtime, agency staff, etc.) are incurred if staff absence is not managed.

3. Inadequate action is taken to help staff return to work following absence in contravention of (e.g.) the Health & Safety at Work Act.
4. The Council is not seen as a 'great place to work' if sickness absence is not dealt with appropriately.
5. Procedures and policies are not followed by staff and managers resulting in fraudulent claims. For example: staff are not sick when they claim to be.
6. Patterns of absence that may indicate that staff are 'playing the system' are not noticed by management.
7. Sickness is not managed appropriately, with other staff being affected by additional workloads, etc., which may in turn lead to them going off sick.
8. Personal data is not secure.

3.3   These risks, if realised, would be detrimental to the Council with regards to meeting the following corporate objectives, as set out in the Fit for the Future Strategy:

> The services provided in this area help the Council to achieve the internal People theme of Fit for the Future. This in turn indirectly impacts other themes with staff being available to help deliver other intended outcomes.

4   Findings

4.1   Recommendations from Previous Reports

4.1.1   The current position in respect of the recommendations from the previous audit reported in November 2018 were also reviewed. The current position is as follows:

	Recommendation	Management Response	Current Status
1	Managers should be reminded of the need to complete return to work forms for all sickness absence.	Managers are advised in Self-Serve training and it is included as part of the new HR for non-HR manager Courses which all managers must attend. It is also noted on the form, the intranet and in the policy. We recommend that SMT discuss this with their managers. Coventry City Council (as the payroll provider) will be contacted to check whether an absence trigger report can be produced.	Managers are reminded to complete return to work meetings, these do not need to be accompanied by a form and can just be a conversation.

	Recommendation	Management Response	Current Status
2	Guidance should be provided to managers regarding the retention of Return-to-Work forms in terms of the method and period of time that they need to be held for.	Managers need to be advised of the Retention timescales – 6 years + current year - after the end of employment (confirmed with Data Regulations Officer).	When completed managers should be uploading forms or emailing them to HR to store. If this process is followed the retention period is irrelevant to managers. This process is not consistently followed, however, and managers may need to be reminded of retention policies relating to absence documents held.

4.2   **Financial Risks**

4.2.1   **Potential Risk: Staff are paid inappropriately due to the incorrect reporting of sickness absence.**

There were 609 absences recorded in the financial year 2022-23. A sample of twenty records was selected which included a mix of staff who had hit absence triggers as well as some selected at random. With the support of an HR officer the sample was reviewed to ensure that return to work meetings had been held and documents provided where appropriate.

Return to work meetings should be held within 2 days of an officer returning after an absence. There is a return-to-work form available on the intranet which the manager can complete or use as a guide when confirming with the staff member that they are ready to return to work. After short term absences this can be a quick discussion or email. After longer absences it recommended that the form is completed to ensure that any requirements or changes are considered.

Six of the sample had return to work forms or information recorded with HR others may have completed it verbally with the staff member in these cases this does not have to be recorded with HR.

HR advised that I-Trent (staff management system for pay, leave and absence) has no way of logging that a return to work has been completed. To aid with reporting and absence management, this would, if practicable, be a useful tool to add to the system. At a recent contract meeting with Warwickshire County Council, who manage the system, it was confirmed that this function isn't available. Without the function available on the system it is the managers responsibility to ensure the return to work is completed.

As the policies in place and guidance states that a return-to-work meeting must be completed within 2 days of the staff member returning there should be a way to monitor this, ensuring compliance with the policy and providing data for KPI measuring and reporting.

Advisory

To allow monitoring of the requirements set out in the policy it may be beneficial to consider ways to record the completion of a return-to-work meeting.

Fit notes are required for absences of eight consecutive days or more. The above sample was reviewed to ensure fit notes had been provided for absences over eight days and that the absence information recorded matched the details on the fit note.

Three from the sample of twenty did not require a fit note as the absence was less than eight days. Of the other seventeen in the sample, four did not have a fit note saved to their HR file or I-Trent. The thirteen with fit notes were reviewed to check that the absence reason matched the details recorded on the system. In most cases it did. However, the ones that didn't match the reason on the system were either unreadable (in the cases where the reason given on the fit note had been handwritten), or it was clear that the manager wasn't sure which was the best overarching absence reason to select. The cases where there was no fit note recorded were reported to HR who confirmed that the relevant HRBP will raise it with the manager. At the time of writing this report, responses had been received from two of the managers who confirmed they had the fit note and return to work documents in their own files. It was advised that they would be uploaded onto I-Trent.

The sickness absence reporting procedure detailed on the intranet specifies that employees should email doctors' notes (Statement of Fitness for Work) promptly to both the Manager and HR Support, retaining the original for their own records. HR Support will check I-Trent when a 'Doctor's note' (Statement of Fitness for Work) is received to ensure that it has been input correctly by the appropriate Service.

Advisory

When the procedure documents and training are next updated it may be beneficial for guidance for managers to include a requirement for them to forward fit notes to HR to ensure HR receive them.

4.2.2 **Potential Risk: Additional staff costs (e.g. overtime, agency staff, etc.) are incurred if staff absence is not managed.**

Monthly reports are completed that allows any irregularities to be identified and, where needed, HRBP to contact managers with any queries or to obtain missing data. Managers receive emails and workflow reminders when someone is logged as absent through I-Trent. The system also highlights employees who have hit triggers on the management screen. Where HR are made aware of absence updates through other sources, they can check the report to ensure the manager has marked the employee as off or back at work.

Essentially it is the managers responsibility to perform regular monitoring. The Attendance Management policy and Long-Term Sickness and Ill Health Capability policy are readily available to use and follow the guidance. If

additional staff costs (e.g. overtime, agency staff, etc.) are incurred, the manager is responsible. The HRBP is also available to managers to provide support and information to help manage employee attendance.

4.3 **Legal and Regulatory Risks**

4.3.1 **Potential Risk: Inadequate action is taken to help staff return to work following absence in contravention of (e.g.) the Health & Safety at Work Act.**

Sickness absence reports are run on a monthly basis. I-Trent sends emails to managers when a staff member has met a trigger or an action is required regarding an absence. Staff are also contacted in the event of their pay being impacted due to the length of absence.

In addition to the monthly reports, managers are able to run their own reports on I-Trent providing them with current absence information for the staff they manage. To help them manage staff absence, they can use the Attendance Management policy when monitoring triggers for short term absence and/or the Long-Term Sickness and Ill Health Capability policy to monitor long term absence.

HRBP meet regularly with Heads of Service and attend departmental meetings to review sickness as part of that meeting. HR staff are able to signpost staff to relevant support services when approached, e.g. refer to Employee Support Officers / Occupational Health, training available, etc.

There is a large amount of information available for staff to access on the intranet. This includes the Employee Support Officers (ESO) page with names of contacts and information about the support the ESOs can offer, as well as providing information for staff who are interested in becoming an ESO.

ESOs are given appropriate training to allow them to support staff. Additional support is available for them should it be required to help them to cope with issues that other staff may be raising with them. The ESOs work within various teams across WDC and are an immediate point of contact for employees experiencing a problem or difficult issue, either at work or outside the office. They offer an impartial and confidential listening point, supporting, identifying, exploring and understanding a particular problem. The ESO may help reduce escalation of the issue, provide assistance to help the employee to decide what to do, and what action to take (if any). An ESO cannot make decisions on behalf of an employee but will help and encourage an employee to make an informed decision.

There are five ESOs listed on the ESO page of which two were contacted for information about their role and the training and support given to them. They confirmed that initial training was a two-day course. It covered counselling, mediation and had guest speakers from Citizens Advice Bureau who also covered data and safeguarding. Refresher training is offered as and when needed. Meetings are held on a quarterly basis providing the ESOs with an opportunity to discuss any training / refresher needs. The most recent meeting was 15 May 2023. At this meeting it was highlighted that staff are not using

ESOs as much as when the Council was office-based. Additional training is to be provided to ESOs to include menopause training. The current ESOs have been in the role for a number of years so they are well-established and well-equipped to deal with a variety of concerns. They can be contacted via email, phone or face-to-face.

The HR Guidance and Policy page provides information about sickness absence with links to relevant documents such as right-to-work form and self cert, pay info, and absence reporting.

There is a dedicated page about the Bupa Health and Wellbeing scheme and for the Health Officers Group which can be accessed from the main health and wellbeing page where there is also information regarding occupational health and how to be referred.

Staff are made aware of the BUPA Cash Plan at the introduction training. Reminders are issued frequently through big buttons linked to health and wellbeing initiatives e.g. mental health week, work perks etc.

The contract for BUPA Cash Plan is due to be reviewed in April 2024. As well as providing cash back towards health and wellbeing expenses, BUPA also provides a confidential route to counselling that does not require manager involvement.

4.4   **Reputational Risks**

4.4.1   **Potential Risk: The Council is not seen as a 'great place to work' if sickness absence is not dealt with appropriately.**

There are appropriate policies in place in relation to (sickness) absence which are readily available to staff through the intranet along with guidance and signposting to support.

There are forms available for self-certification and return to work interviews. These were most recently updated in October 2022. There is dedicated information about sick pay and allowances that gives details of the pay staff will receive (dependant on the length of service) and information about Statutory Sick Pay (SSP). The guidance mentions the Attendance Management policy and Long-Term Sickness and Ill Health Capability policy. It was discovered, however, that the links to the policies were missing or broken. This was highlighted to HR who were then able to fix it.

A Sickness Absence page provides information and a brief procedure for staff to follow. An example of each would be as follows: "an absence of more than eight calendar days requires a fit note from a doctor", "notify manager of absence by 10 am". There are a number of links to relevant guidance and policies.

A Sickness Absence Reporting page provides information and guidance aimed more at managers. For example, the page informs managers of absence triggers (10 days or more and/or 5 or more separate absences across a rolling 12-month period), and provides guidance on how to record absences and complete return-to-work interviews. This page also provides links to various other pages, guidance, and policies.

The Attendance Management policy (dated June 2018) sets out the purpose of the policy, the scope and key principles. It also defines the roles and responsibilities and gives guidance on the stages of sickness absence monitoring, setting out the meetings and discussions to have with the staff member.

The Long-Term Sickness and Ill Health Capability policy is similar to the Attendance Management policy, setting out the various stages and providing advice to managers on how to manage the absence. Long term sickness is where absences last 20 days or more in a 12-month period (these do not have to be consecutive days). Although there is no date included on the policy, it does state that the policy will be reviewed by HR as and when it is deemed appropriate, but no less frequently than every 3 years. This was highlighted to the auditee who confirmed that the information hadn't been transferred across to the new intranet correctly due to a compatibility issue, they were able to resolve it by editing the document.

The Long-Term Sickness policy was last approved at Employment Committee on 13 June 2018 along with an amendment for delegated powers to the Sickness Absence policy due to Covid restrictions. A revised policy was issued in January 2023 to all managers. Minor revisions and amendments do not need to be approved by Employment Committee, this is only required when there are significant changes to the policy.

Furthermore, no evidence could be found in Managers Forum minutes or SLT minutes that management had approved these policies. Having said that, the minutes are not consistently uploaded and extend to only the last couple of years.

4.5   **Fraud risks:**

4.5.1   **Potential Risk: Procedures and policies are not followed by staff and managers resulting in fraudulent claims. For example: staff are not sick when they claim to be.**

The policies in place provide monitoring and management guidance. The policies should prevent fraudulent claims due to the steps involved in managing the attendance of staff. Initial training for staff includes information about absence which reinforces the monitoring and reporting of it, serving as a deterrent. If managers follow the policies and perform return-to-work meetings and refer staff to occupational health when required this would also serve as a deterrent. Referring to Occupational Health (OH) will ensure the reason for absence is explored and would help to identify absences which are fraudulent. Conversely, where absences are genuine, the referral could help staff to manage issues consistently and support them to return to work.

The Long-Term Sickness and Ill Health Capability policy advises managers when it may be appropriate to refer a staff member to OH. The HRBP will assist with the referral to OH should this be the most appropriate route to take. The current Occupational Health provider is Washington House with the contract due for renewal in August 2024. The contract was reviewed as part of the Health and

Wellbeing audit that was completed in June 2023 so has not been reviewed again in depth for this audit.

Phased return / recommended adjustment are put in place to enable staff to return to work following long term absence. This is tailored to the needs of the individual; adjustments are made based on advice from either occupational health or a doctor. The Attendance Management and Long-Term Sickness and Ill Health Capability policies provide guidance regarding phased returns and / or adjustments. Phased returns are usually over a 4-week period but can be tailored up or down dependant on the advice given by Occupational Health. HRBPs work with managers to support phased returns or adjustments as needed. Examples were identified on the system where staff had returned to work after long absences on a phased return. Documents were held from OH to support the return.

4.5.2 **Potential Risk: Patterns of absence that may indicate that staff are 'playing the system' are not noticed by management.**

All managers can input sickness absence data. All staff are able to check the data held and can notify their manager if it is believed to be incorrect. Managers can view the data and run reports which could identify patterns of absence that may indicate that staff are 'playing the system'.

Training is mandatory for managers that are responsible for inputting sickness periods onto the payroll system. During the last financial year (2022-23) 21 managers attended sickness absence and I-Trent training. Managers can request to re-attend training at any time as a refresher or because they feel they would benefit from re-training.

Since February 2023, the reason for absence can no longer be left blank on I-Trent and managers have to put a reason, thus helping to identify patterns. Only a handful of HR officers are able to override this. The system sends reminders about absence to both the manager and staff member via email and logs it in the managers workflow. This happens when triggers have been hit, sick pay is due to change or to remind the manager to complete a return to work. The return-to-work reminder also has the RTW form linked to it.

When the policy for sickness absence was last reviewed and updated a meta training pop-up was issued. This remained live and available on the big buttons for a number of months early in 2022.

4.6 **Health, Safety and Wellbeing Risks**

4.6.1 **Potential Risk: Sickness is not managed appropriately, with other staff being affected by additional workloads etc. which may in turn lead to them going off sick.**

When a staff member is absent from work other staff are impacted with increased workloads, and this is something that the manager will monitor related to other team members. The support provided to these staff varies dependant on the length of time the individual is away from work, the expected return date and any changes or adjustments that may be required.

Hiring agency staff can be considered for longer absences. As managers manage their own budgets they would need to decide if support in the form of extra staffing is appropriate. Information on Comensura (the Council's agency staff provider) is available on the intranet and has been communicated at Managers Forum. Often, managers choose to rearrange work within the team or prioritise. Support and advice are available from HRBPs as well as from Heads of Service.

HR work with managers and staff to facilitate a return to work. They can provide advice, support, and, when needed, assist with referrals to OH. They work with managers who are managing sickness absence issues and provide additional training where required. HR are also responsible for updating managers and staff on sickness issues, such as advise of changes in policies, etc.

If a member of staff or manager is off sick the line manger should ensure that relevant staff are informed of any changes in reporting procedures or other temporary change. The policies provide information for managers and absent staff, but there is no guidance for the remaining staff in cases where the manager is absent, e.g. a point of contact for hierarchy purposes or queries / leave authorisation. The Long-Term Sickness and Ill Health Capability policy states that 'Senior managers are responsible for ensuring that managers who are managing sickness absence issues attend the appropriate training. Senior managers should also ensure that absence issues are treated equitably and consistently within their area of responsibility.' …. 'Managers have the right to initiate and maintain reasonable contact with the employee to inform their decisions. Employees are expected to co-operate with such contact and failure to do so may result in decisions being made based on the limited information available at that time.' Communicating with officers is a key issue, especially where there is a temporary change in hierarchy or workloads need adjusting. Where this isn't completed, additional stress may be put on staff as they might not know who to report to, or what changes in their workload are required.

Without the delegation of work and temporary change in hierarchy, priority work might not be completed and deadlines missed. In some areas within the business this lack of communication could result in breaches of legislation or the Council could incur fees and / or charges for missed deadlines.

Recommendation

Where an officer is absent, there should be effective communication with teams regarding short term (or long term) changes in hierarchy and expected workloads.

4.7 **Other Risks**

4.7.1 **Potential Risk: Personal data is not secure.**

The Attendance Management policy sets out the procedure to follow when reporting the absence. This includes clear timescales such as the staff member reporting their absence on day one by 10.00 am, providing an update on the absence on day three and producing a fit note from day eight. Managers are responsible for conducting a return-to-work interview within two days of the

staff member returning to work. The policy includes the timescales but it does not include what the manager should do with the information or accompanying documents, e.g. save them, upload them to I-Trent or forward them to HR. The only guidance on documents is for the staff member to send both HR and their Manager a copy of their fit note.

Absence reporting guidance available on the intranet states that managers are responsible for inputting sickness onto I-Trent. Absence details can only be input onto I-Trent by managers and some of the HR team. The guidance for sickness absence should link to the I-Trent guidance so managers are aware of the process to follow when receiving and sharing information related to sickness absence.

Recommendation

The role of managers should be included in the policy in regard to their responsibility for uploading and storing information and documents regarding attendance.

There is an HR Document Retention Policy in place that covers various potential data which could be held by HR. However, it is unclear where fit notes and return to work documents fit into the policy. There is a retention timeframe for sickness data but this was understood to be referring to the data held on systems and not documents. Other forms and documents are identified in the retention policy for example OH medical forms. Most data and forms on the policy are to be retained for seven years after employment ends, apart from COVID-19 related information which is two years from declaration. The Data Governance Officer confirmed that the retention policies are currently undergoing review so this should be identified and the policy updated. A discussion with the HR manager confirmed that the policy had now been updated with fit notes and return to work documents identified.

When a staff member's employment ends, related documents are moved to a new dated file clearly marked to show the employee has left. This allows easy disposal of the documents at the agreed timeframe after they have left the business. A walkthrough was completed as part of the audit and the files shown all clearly showed that the employee had left as well as their last day of employment with the Council.

I-Trent holds information including uploaded documents for the retention timeframe specified by the Council. After staff have left the Council the information and forms remain accessible to HR officers. An example of this was shown as part of the audit. As the system has not been in place for many years the current information held on the system only spans a few years requiring historic HR files to be maintained for the time being.

5   **Summary and Conclusions**

5.1   Section 3.2 sets out the risks that were being reviewed as part of this audit. The review highlighted weaknesses against the following risks:

Risk 7 - Sickness is not managed appropriately, with other staff being affected by additional workloads etc. which may in turn lead to them going off sick.

Risk 8 - Personal data is not secure.

5.2   Further 'issues' were also identified where advisory notes have been reported. In these instances, no formal recommendations are thought to be warranted, as there is no significant risk attached to the actions not being taken.

5.3   In overall terms, however, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of the Employee Attendance Management are appropriate and are working effectively to help mitigate and control the identified risks.

5.4   The assurance bands are shown below:

Level of Assurance	Definition
Substantial	There is a sound system of control in place and compliance with the key controls.
Moderate	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited	The system of control is generally weak and there is non-compliance with controls that do exist.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Employee Attendance Management – August 2023

Report Ref.	Risk	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.6.1	Sickness is not managed appropriately, with other staff being affected by additional workloads, etc. which may in turn lead to them going off sick.	Where an officer is absent, there should be effective communication with teams regarding short term (or long term) changes in hierarchy and expected workloads.	Low	HR	To add to policy: 'If a member of staff or manager is off sick the line manager should ensure that relevant staff are informed of any changes in reporting procedures or other temporary changes to workloads.'	Dec 2023
4.7.1	Personal data is not secure.	The role of managers should be included in the policy in regard to their responsibility for uploading and storing information and documents regarding attendance.	Low	HR	Policy to be updated to include this.	Dec 2023

* The ratings refer to how the recommendation affects the overall risk and are defined as follows:

High: Issue of significant importance requiring urgent attention.
Medium: Issue of moderate importance requiring prompt attention.
Low: Issue of minor importance requiring attention.

INTERNAL AUDIT REPORT

FROM:	Audit and Risk Manager	**SUBJECT:**	IT Change, Configuration and Release Management
TO:	Head of Customer and Digital Services	**DATE:**	22 August 2023
C.C.	Chief Executive		
	Deputy Chief Executive		
	Head of Finance		
	Transformation Lead		
	Portfolio Holder (Cllr Harrison)		

1   **Introduction**

1.1   An audit had been included on the Audit Plan for 2022/23 to review the adequacy, effectiveness and efficiency of the systems and controls in place for Change Management for Warwick District Council.

1.2   This audit was performed by the Council's ICT Internal Audit contractors, TIAA, and completed in July 2023.

1.3   Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and co-operation received during the audit.

2   **Background**

2.1   Change Management is the process by which changes to IT and related other systems and processes are recorded, authorised, tested, and deployed across the Council. The audit has used the COBIT 2019 Framework BAI06 – Managed IT Changes – as the basis for audit testing.

3   **Objectives of the Audit and Coverage of Risks**

3.1   Audits of ICT do not tend to follow the 'normal' risk-based approach, with the audit reviewing the management controls in place.

3.2   However, in scoping the audit, the following risks were identified by the auditor and agreed with the Head of Customer and Digital Services:

- Lack of coordination when evaluating, prioritising and authorising changes leading to unmanaged changes being implemented.
- Weak definition and management of emergency changes also resulting in unmanaged changes being implemented.
- Inadequate management reporting of change status resulting in ineffective resource management.

- Ineffective recording of change closures resulting in the potential for inadequate resource management and inaccurate management data for strategic decision making.

3.3   The risks identified above were covered in overview against the following key control areas:

- Evaluate, prioritise, and authorise change requests.
- Manage emergency changes.
- Track and report change status, and
- Close and document the changes.

3.4   The work will help to ensure the Confidentiality, Integrity, and Availability of the Council's data. Whilst this does not directly help the Council to achieve any specific objectives, it has a cross-cutting impact on several internal themes and objectives as set out in the Fit for the Future strategy.

4   **Findings:**

4.1   **Recommendations from Previous Report**

4.1.1   The last audit of Change Management was undertaken in 2017. Due to the passage of time, the recommendations made in that report were not specifically considered, other than where relevant to the risks and controls covered as part of this review.

4.2   **Evaluate, prioritise, and authorise change requests**

4.2.1   The Council has documented a formal Change Management policy, describing the need for formal change management procedures from the initial request to the final deployment of the change.

4.2.2   It was identified that the Change Management policy was last reviewed in 2021 at about the time of the planned (but subsequently aborted) merger with Stratford-on-Avon District Council. No physical changes were made at that time as it was anticipated that the policy would be changed once the merger had taken place.

        Risk

        Where a policy is not subject to regular review, there is an increased risk that the policy concerned becomes unfit for purpose due to changes in Council priorities and / or business processes not being accounted for.

        Recommendation

        The Change Management Policy should be reviewed as soon as possible and at regular intervals thereafter.

4.2.3   The change management process includes processes for categorising all change requests using pre-defined options that have been set up within the NetSupport ServiceDesk change management system.

4.2.4   The process also includes the ability to assign priorities to change request records, which helps to ensure that changes are managed as effectively as possible.

4.2.5   There is a process to ensure that change requests are approved by the appropriate management role or body. However, we have also noted the lack of a formal Change Advisory Board (CAB). The Council made a conscious decision not to implement such a process as it would introduce delays to the overall process that were not considered appropriate for a Council of its size.

4.2.6   It was also noted that, historically, the Council has seen a CAB function as being an ICT process alone and that the ICT service has been acting as an 'informal' CAB, reviewing the larger changes and any emergency changes that may be raised. We note that there have been no emergency changes raised since the current service desk system was implemented (2015).

4.2.7   Whilst we acknowledge that the lack of formal CAB was a conscious decision at the time, it is best practice to convene CAB meetings to review all change requests deemed a high enough priority for further scrutiny. This has been the 'informal' process to date, although we understand that the business areas are not involved with the current process.

4.2.8   A key aspect of a CAB is to review the higher priority changes, but to do so with the business leads concerned (or their assigned deputy) and others that may be dependent on the outcome of the changes under scrutiny. All decisions within these meetings also need to be formally documented.

Risk

Where there is no formal CAB process, there is an increased risk of unmanaged changes being implemented, in particular, where business areas may not have been consulted sufficiently.

Recommendation

The Council should implement a formal Change Advisory Board, ensuring that it has an agreed Terms of Reference, representation from across all Council service areas and documented roles and responsibilities. The CAB meetings should be held on a regular basis ideally (for example, quarterly), but at least on an extraordinary basis depending on amount of change backlogs.

4.2.9   There are several change requests that have been classified as standard changes. These are recurring changes that have been deemed low risk and can be implemented with reduced formality, including a formal signoff. Changes like this include patch management.

4.2.10 Where there are changes classified as standard changes, we would expect that the decision to categorise them as such is reviewed on a periodic basis and that a general review of all change requests be conducted at the same time. This review process is for the identification of potentially new standard changes where there is a trend of a certain type of change that may warrant it. These processes are not currently in place.

Risk

Where there is no periodic review of standard changes or a process to identify the potential for additional standard changes, there is a risk that existing standard changes continue to be managed as such when it is no longer be appropriate to do so. A lack of review to identify potential new standard changes misses an opportunity to help streamline the change management process.

Recommendation

The Council should implement a process whereby all existing standard changes are reviewed on a regular basis to help ensure that it remains appropriate for them to keep that status. In addition, a new process should be implemented in support of this by identifying the potential for new standard changes.

4.2.11   It was identified that the change request process is only initiated where there is a need for ICT assistance. The Council is continuing to increase its use of cloud-hosted services and it is these services where change requests are not raised as it is a process that the service area concerned manages with the respective vendors.

4.2.12   A change request may subsequently be raised should these interactions result in the need to involve the Council's ICT service for any reason.

4.2.13   It is accepted good practice to ensure that all changes are documented within the relevant systems, regardless of whether it is the service area managing a change with their vendor or whether the ICT Service is required to assist.

4.2.14   As the Council moves towards more cloud-hosted services, the current process would result in there being fewer change requests being logged despite a continuing need to document the work required to service them, whether that be within the service areas or the ICT service. This provides the opportunity to review the way in which changes that relate to cloud-hosted systems are managed.

Risk

A process whereby not all changes are recorded within relevant systems increases the risk of certain changes not being managed effectively and resource mismanagement.

Recommendation

The Council should ensure that every change request is recorded with the NetSupport ServiceDesk system, regardless of its source (including changes related to cloud-hosted systems) and priority / category.

4.3   **Manage emergency changes**

4.3.1   The Change Management policy includes a definition of what constitutes an emergency change. However, as reported above, there have not been any change requests prioritised as emergency changes since the current service desk system was implemented in 2015.

4.3.2   It was identified that there is reporting in place to detect new change requests that have been categorised in this way. However, as there have been no recent, relevant changes, no testing was required in this area.

4.4   **Track and report change status**

4.4.1   Upon review, it was identified that management reporting on change management is minimal. It covers three areas – closed changes, Emergency changes and Immediate (Broken) changes. It is in the form of a summary spreadsheet with lines for each of these metrics and months of the year along the top.

4.4.2   Internal Audit were advised that individual managers / team leads are responsible for monitoring changes under their jurisdiction. However, the viability of this process cannot be tested as there is no formal oversight of this work.

4.4.3   There is a need to develop more detailed change management reporting to cover more areas. Testing undertaken on a random sample of six change requests logged since September 2022 noted that there are change records that are open, marked as overdue or otherwise not closed. These calls are dated from late 2022, suggesting that a review of them may be appropriate.

Risk

Inadequate monitoring of the status of change requests increases the risk of unmanaged changes being implemented due to change records being missed or otherwise going into a dormant state without further updates. There is also an increased risk of weak resource management.

Recommendation

The Council should implement a process whereby improved change request monitoring reporting is designed and implemented. These might include (but not be limited to) the following:

- **Aging of change requests broken down into regressive time periods, to detect change records that have exceeded specific KPIs in this respect.**
- **New changes for specific time periods.**
- **Resource time allocations to changes, to detect allocation overruns where changes are more challenging to implement.**
- **Change request age (the time between the initial record being raised to the request being closed).**
- **Changes awaiting approval.**

All these examples will require agreed KPIs or other suitable metrics for them to be adding value to the service.

4.5 **Close and document the changes**

4.5.1 Where business approval to implement a change is required, the ICT service sends a predefined email to the relevant service lead to have them confirm their decision. No further action on a change can be undertaken without a response. The email contains three options as follows:

- Testing is complete and the change should be promoted to the live environment.
- Testing is not complete, but the change can still be promoted to the live environment.
- The change is to be withdrawn completely.

4.5.2 It is good practice to ensure that all relevant business process documentation is reviewed and updated as appropriate for the change being implemented. It is for the business areas to ensure that this is completed, ideally, prior to the change being implemented. The email process described above does not explicitly have the service areas confirm that the relevant process documents have been reviewed and updated as necessary. There is also no explicit option covering any training needs that may be required.

Risk

Should the service areas not be required to confirm that their business process documents have been reviewed and updated as needed, there is an increased risk of non-compliance with the new processes as changed. This could result in the potential for non-compliance with statutory requirements resulting in punitive fines and reputational damage.

Recommendation

The Council should update the email template used (to have the business authorise the next steps in the change cycle) to include an explicit option for having the service area confirm that their business process documentation has been updated as required and that relevant training on the new processes has been delivered.

4.5.3 ServiceDesk has every change request that has been recorded since the system's implementation in 2015. Upon review, it was identified that there has not been any analysis of the need to implement an appropriate retention policy on that data. This lack of data retention was not limited to change requests, relating to all data recorded across the ServiceDesk system, including service desk incidents that users raise to deal with day-to-day issues.

4.5.4 Whilst the Council's lack of a formal data retention policy for this data is not unusual, it is considered good practice to define one as there is the possibility of personally identifiable data being processed by the system from email conversations attached to call records and other sources.

Risk

The lack of an appropriate data retention policy or a Data Protection Impact Assessment increases the risk of non-compliance with Data Protection Act 2018 requirements, resulting in the potential for punitive fines and reputational damage.

Recommendation

The Council should document an appropriate data retention policy covering the data processed by the system. Alternatively, a Data Protection Impact Assessment should be undertaken on ServiceDesk to analyse the potential data processing risks associated with the system.

5   **Conclusions**

5.1   Following our review, in overall terms we can give a MODERATE degree of assurance that the systems and controls in place in respect of the Change Management are appropriate and are working effectively to help mitigate and control the identified risks.

5.2   The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3   The audit did not highlight any urgent issues influencing materially the Council's ability to achieve its objectives. However, seven issues were identified which, if addressed, would improve the overall control environment:

- The Change Management Policy requires review.
- The decision not to implement a Change Advisory Board requires review.
- Pre-approved (Standard) changes require periodic review and opportunities for new standard changes should be investigated.
- All change requests need to be recorded.
- Improved change management monitoring and scrutiny is required.
- Confirmation that the business areas are updating their process documentation to account for each change is required.
- A data retention policy or a Data Protection Impact Assessment for the ServiceDesk application is required.

6   **Management Action**

6.1   The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit & Risk Manager

Action Plan

Internal Audit of IT Change, Configuration and Release Management – August 2023

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.2	The Change Management Policy should be reviewed as soon as possible and at regular intervals thereafter.	Where a policy is not subject to regular review, there is an increased risk that the policy concerned becomes unfit for purpose due to changes in Council priorities and / or business processes not being accounted for.	Low	Head of Customer and Digital Services/ Transformation Lead	The Change Management policy does require a review as it was last looked at when we were merging. We will review the policy in context of best practice and bring this back to SLT for approval.	03/11/23
4.2.8	The Council should implement a formal Change Advisory Board, ensuring that it has an agreed Terms of Reference, representation from across all Council service areas and documented roles and responsibilities. The CAB meetings should be held on a regular basis ideally (for example, quarterly), but at least on an extraordinary basis depending on amount of change backlogs.	Where there is no formal CAB process, there is an increased risk of unmanaged changes being implemented, in particular, where business areas may not have been consulted sufficiently.	Medium	Head of Customer and Digital Services	A fully dedicated change advisory board may not be possible for the organisation, purely down to the amount of time and resource that would be needed. However, there is a need for greater accountability and visibility of change management processes, particularly for higher profile changes which hold greater risk. As such, the functions of a CAB could be integrated with a reformed ICT Steering Group.	03/11/23

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.10	The Council should implement a process whereby all existing standard changes are reviewed on a regular basis to help ensure that it remains appropriate for them to keep that status. In addition, a new process should be implemented in support of this by identifying the potential for new standard changes.	Where there is no periodic review of standard changes or a process to identify the potential for additional standard changes, there is a risk that existing standard changes continue to be managed as such when it is no longer be appropriate to do so. A lack of review to identify potential new standard changes misses an opportunity to help streamline the change management process.	Low	Head of Customer and Digital Services	Agreed – each standard change will be reviewed and a "review by" date included within the documentation or a "review trigger".	01/03/24
4.2.14	The Council should ensure that every change request is recorded with the NetSupport ServiceDesk system, regardless of its source (including changes related to cloud-hosted systems) and priority / category.	A process whereby not all changes are recorded within relevant systems increases the risk of certain changes not being managed effectively and resource mismanagement.	Medium	Head of Customer and Digital Services/ Transformation Lead	Agreed – this will be addressed as part of reviewing the Change Management Process.	03/11/23

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.4.3	The Council should implement a process whereby improved change request monitoring reporting is designed and implemented. These might include (but not be limited to) the following: • Aging of change requests broken down into regressive time periods, to detect change records that have exceeded specific KPIs in this respect. • New changes for specific time periods. • Resource time allocations to changes, to detect allocation overruns where changes are more challenging to implement. • Change request age (the time between the initial record being raised to the request being closed). • Changes awaiting approval. All these examples will require agreed KPIs or other suitable metrics for them to be adding value to the service.	Inadequate monitoring of the status of change requests increases the risk of unmanaged changes being implemented due to change records being missed or otherwise going into a dormant state without further updates. There is also an increased risk of weak resource management.	Low	Head of Customer and Digital Services/ Transformation Lead	Agreed – this will be addressed as part of reviewing the Change Management Process.	03/11/23

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.5.2	The Council should update the email template used (to have the business authorise the next steps in the change cycle) to include an explicit option for having the service area confirm that their business process documentation has been updated as required and that relevant training on the new processes has been delivered.	Should the service areas not be required to confirm that their business process documents have been reviewed and updated as needed, there is an increased risk of non-compliance with the new processes as changed. This could result in the potential for non-compliance with statutory requirements resulting in punitive and reputational damage.	Low	Head of Customer and Digital Services/ Transformation Lead	Agreed – this will be addressed as part of reviewing the Change Management Process.	03/11/23
4.5.4	The Council should document an appropriate data retention policy covering the data processed by the system. Alternatively, a Data Protection Impact Assessment should be undertaken on ServiceDesk to analyse the potential data processing risks associated with the system.	The lack of an appropriate data retention policy or a Data Protection Impact Assessment increases the risk of non-compliance with Data Protection Act 2018 requirements, resulting in the potential for punitive fines and reputational damage.	Low	Head of Customer and Digital Services/ Transformation Lead	Most of the information retained within Change Control records does not detail individuals – other than the details required to process changes, such as an authorising managers name and email. As such, the privacy impact of our data retention is minimal. However, it is appropriate that information is not kept in perpetuity, particularly when	03/11/23

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
					systems are decommissioned and never reused. This will be addressed as part of reviewing the Change Management Process.	

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.
Medium Risk: Issue of moderate importance requiring prompt attention.
Low Risk: Issue of minor importance requiring attention.

INTERNAL AUDIT REPORT		

FROM:	Audit and Risk Manager	**SUBJECT:**	Purchasing Cards
TO:	Head of Finance	**DATE:**	22 August 2023
C.C.	Chief Executive Strategic Finance Manager Grants & Loans Manager Portfolio Holder (Cllr Chilvers)		

1 Introduction

1.1 In accordance with the Audit Plan for 2023/24, an examination of the above subject area has recently been completed by Emma Walker, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.

1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

2.1 A Purchasing Card (PCard) works in the same way as a company credit card; it is a MasterCard in which cardholders have both a monthly and single transaction credit limit. PCards are specifically for low value, ad-hoc purchases, subscriptions, and low value contract spends. The PCard scheme has, in effect, replaced petty cash and therefore usage is encouraged as a viable alternative to the Purchase Order process.

2.2 Transactions through PCards are uploaded to a Smart Data Online (SDOL) system, approximately two to three days after the cardholder has undertaken the transaction. Transactional information is then analysed by the cardholder and an 'approver' who has been given delegated authority by the Head of Service to fulfil this role. 'Approvers' are usually line managers and/or budget holders. All card transactions are published monthly on the Council's website, in line with the Local Government Transparency Code (2015). There are currently 104 cardholders registered under the PCard scheme. The total expenditure through the PCard scheme for 2022/23 amounted to £489,345.99.

3 Objectives of the Audit and Coverage of Risks

3.1 The management and financial controls in place have been assessed to provide assurance that the risks are being managed effectively. It should be noted that the risks stated in the report do not represent audit findings in themselves, but rather express the potential for a particular risk to occur. The findings detailed in each section following the stated risk confirm whether the risk is being

controlled appropriately or whether there have been issues identified that need to be addressed.

3.2 In terms of scope, the audit covered the following risks:

1. Expenditure is not in line with the Code of Procurement Practice.
2. Unable to reconcile transactions made on purchase cards.
3. Failure to comply with key legislation or legal requirements.
4. Failure to protect financial data.
5. Ineffective monitoring of PCard contract.
6. Cardholder breach of terms and conditions e.g., circumnavigating WDC spending limits.
7. Decline in public trust due to lack of transparency regarding purchases.
8. Cards used for personal expenditure.
9. Unauthorised individuals authorise/approve/review transactions.
10. Loss of IT/key records resulting in inability to manage purchase card transactions.

3.3 A 'risk-based audit' approach has been adopted, whereby key risks have been identified during discussions between the Internal Auditor and key departmental staff. The Finance and Significant Business Risk Registers have also been reviewed.

3.4 These risks, if realised, would be detrimental to the Council with regards to meeting the internal 'Services' and 'Money' elements of the Fit for the Future Strategy. The Council has a duty to ensure the effective continuation of cost management.

4 **Findings**

4.1 **Recommendations from Previous Reports**

4.1.1 There were no recommendations arising from the previous report.

4.2 **Financial Risks**

4.2.1 **Potential Risk: Expenditure is not in line with the Code of Procurement Practice.**

The minimum expenditure limit is £1000 for monthly credit and £1000 for single transactions. There is no maximum limit as this depends on what Heads of Service deem appropriate. Previously, the Council's credit limit was set to £100,000 per month; however, due to the urgent incident at Christine Ledger Square, this credit limit was increased to £200,000 per month in order to temporarily house residents elsewhere. This decision was approved by the Head of Finance.

Monthly expenditure from 2022/23 was tested by the auditor through four separate monthly journals. This was to ensure that cardholders had not breached either their single or monthly transaction limits. In all cases tested, the cardholder had adhered to both their single and monthly limits.

Requests to amend a PCard spending limit have to be authorised by Heads of Service before being sent to the Grants & Loans Manager (GLM). Any changes on the system are all stored on the network files. In all cases tested by the auditor, new credit limits had been appropriately authorised by the relevant Head of Service and evidence was held to corroborate this. Most PCard purchases are made through the Council's Amazon Business account or Booking.com for temporary accommodation; individual local artists, whose products are sold in the Visitor Information Centre, are paid through PayPal.

A number of completed transactions for commodities over £1000 in value were investigated to ensure that these were appropriately approved and authorised. In all cases tested, the high-value transactions had been appropriately authorised by the relevant approver and a reason for the transaction was provided. Most of the high-value transactions related to temporary accommodation. Other transactions concerned licenses, courses, and subscriptions. High value transactions were generally authorised in a timely manner (seven within the same month as the transaction and thirteen within one month of the transaction). Transactions must be reviewed and authorised no later than seven days after the 28th day of the month. Eleven of these transactions were authorised within this timescale. Of the nine overdue authorisations, six cardholders had been emailed advising them to adhere to administration requirements. Approvers are advised of the transaction authorisation deadlines though the approver guide; an updated approver guide was issued to all approvers in October-2022 reinforcing this deadline. The GLM further advised that the monthly deadline for transactions has been highlighted through an FAQ page on the Intranet. Cardholders have been advised to proactively ask an approver to authorise a transaction immediately and ensure that approvers are aware of the monthly deadline.

4.2.2 **Potential Risk: Unable to reconcile transactions made on purchase cards.**

Transactions are expected to have a VAT receipt or invoice, where applicable. If a receipt is lost or destroyed, the cardholder is expected to email the approver and use this email as evidence of the transaction. Transactions must be reviewed by the cardholder; a transaction review involves the cardholder populating the NatWest SDOL system with details of the transaction. Transactions are available for review as soon as they have been posted on the SDOL system.

The review process involves:

- Adding a VAT amount and VAT code for the transaction.
- Selecting the correct delivery point to allocate the transaction to a budget.
- Selecting the correct product code for the type of transaction.
- Including a comprehensive description of the purchase.
- Uploading a copy of the transaction receipt and or VAT receipt.

Monthly transaction logs do not link directly to the Ci Anywhere ledgers; however, the journals do contain the delivery points and product codes which correlate with the finance system. A number of monthly transaction logs were

investigated to check that these had been appropriately coded to the correct ledger and that payments had been authorised by an appropriate approver; transaction logs were also investigated for any duplicated payments. In all cases tested by the auditor, the transactions had been authorised by the relevant approver. There was just one duplicated payment where the cardholder had uploaded the same receipt for two transactions of the same amount; however, this was rectified by the GLM. Payments were generally authorised in a timely manner: five within the same month as the transaction, fourteen within one month of the transaction and one within two months of the transaction. Fourteen of the twenty transactions had been authorised by the 7th calendar day following the 28th monthly. Of the six outstanding authorisations, five of these cardholders were emailed to reiterate expected administration requirements.

Monthly expenditure journals include the value, description, delivery point and product code for each transaction. Each journal includes the NET expenditure as well as the total VAT for all PCard expenditure made during that month. A number of transactions were investigated to check that these had been appropriately coded to the Ci Anywhere journals. The delivery and product codes were also checked to ensure that these were correct. In all cases tested, the transactions were reflected in the corresponding Ci Anywhere journals. Fifteen transactions had the correct delivery/product codes; however, five of these had to be amended by the GLM as they had been incorrectly completed by the individual cardholder. Cardholders are made aware of the product code guides through the card agreement, Intranet pages and communications from the GLM, including automatic reminders from the SDOL system.

A number of transactions were also investigated to check that the VAT had been calculated correctly. In fourteen cases, the VAT had been correctly calculated; in just one case, the VAT was not applicable and so the expenditure had to be reviewed and amended by the GLM. An email has been distributed to cardholders to highlight the calculation that should be used where a receipt or invoice has no VAT breakdown. A new FAQ has also been added to the Intranet page instructing cardholders on how to manually calculate the VAT amount on a card payment.

4.3   Legal and Regulatory Risks

4.3.1   Potential Risk: Failure to comply with key legislation or legal requirements.

There have been no recent changes in legislation. Any applicable changes would be cascaded via email to Senior Management, as well as to all cardholders and approvers.

Cardholders are informed of their responsibilities and obligations when using their PCard. The PCard agreement form outlines the terms and conditions to which cardholders must adhere when using their PCards. The cardholder's guide is emailed to new cardholders as soon as their card has been ordered, although it can also be found on the PCard Intranet page; a guide to the UK VAT Rates is also available for cardholders on the Intranet. The product code guide is available on the Intranet and highlights the product name and product key words to ensure that transactions are appropriately coded to the SDOL system.

New cardholders are required to sign the PCard agreement form before being issued a card. In all cases tested by the auditor, a card agreement was held on file which had been signed by the relevant cardholder. Thirteen cardholders emailed the GLM to advise that they had received their card within the same week as the card agreement being signed; one card had been received beforehand as this was needed for an immediate start in a new role. The cardholder was contacted and confirmed that the card agreement had been signed upon receipt of the card.

A cardholder guide has been compiled which aligns with the SDOL banking system. This guide reiterates the Council's policy on PCard usage and provides step-by-step instructions on how to log into the SDOL system. The guide also outlines general instructions for the use of the online banking system, including how to view transactions, handle VAT receipts, upload receipts, split transactions and save information. This guide was last updated in September 2022 and is available on the Council's Intranet. Similarly, a guide has been compiled for approvers when using the SDOL system. This highlights how to review and authorise transactions and was last updated 20 October 2022.

There is no formal training with regards to usage of the PCards, as the GLM will provide instructions in an email to all new cardholders, which has the cardholder guide attached. The GLM has emailed Senior Management with methods of contact should they require business support. Cardholders are actively encouraged to email the PCard inbox with any queries, in order to avoid inappropriate usage and errors. The GLM will also hold MS Teams-calls for officers in need of assistance when using the SDOL system.

4.3.2 **Potential Risk: Failure to protect financial data.**

In the event that a card is lost, damaged or stolen, cardholders are instructed to immediately notify NatWest Bank, then advise their Head of Service and the GLM. Telephone numbers for the NatWest Customer Service Centre and NatWest Fraud Hotline are outlined in the cardholder guide. The audit found no cards to have been lost, stolen or damaged.

The Council adheres to the Local Government Transparency Code (2015). Local Authorities must publish details of each individual item of expenditure that exceeds £250. In light of this, card transaction logs are uploaded to the Council's website. These are appropriately formatted to ensure that any secure data is protected and redacted from public view. Transaction logs outline the service area, the transaction dates, the merchant's name, NET, VAT and GROSS amounts, description of goods and the merchant category. Cardholders are reminded not to use staff or customer names within the descriptions. Staff are also not permitted to include long-winded explanations for purchases or use the description fields to explain why a purchase was made from a particular merchant. Most data published on the internet was found by the auditor to have been appropriately redacted in line with GDPR requirements. The auditor located just one instance on the monthly transaction logs wherein an officer's name had been included in January-2022. The GLM has since corrected this and republished the redacted report.

4.3.3   Potential Risk: Ineffective monitoring of PCard contract.

The contract for the PCard software began on 10 August 2020 and is not due to expire until 9 August 2024, following several contract extensions. Currently the Council incurs no annual contract fee but instead receives a rebate for any expenditure; thus, the more the Council spends through the PCard system, the more cashback they will receive. The cashback received for 2021 amounted to £903 and £1,173 for 2022. The GLM also advised that, because it is a zero-value contract, meetings to discuss the contract with NatWest do not take place. Any issues with the SDOL system are flagged on an ad-hoc basis. The GLM can also contact the NatWest Account Manager or Implementation Manager should assistance be required.

4.3.4   Potential Risk: Cardholder breach of terms and conditions e.g., circumnavigating WDC spending limits.

A list of current cardholders and approvers is maintained on the Council's Intranet. The GLM maintains a draft spreadsheet in which upcoming changes to the list of cardholders are outlined. Changes include any employees leaving the organisation, employees internally transferring to another role, or employees whose credit limits have been amended.

Since the last audit, two forms have now been merged together: the card request form and the card agreement. New cardholders are instructed to complete a 'New Card Request and Agreement' form, located on the Council's Intranet. Applicants are required to submit personal information to satisfy the anti-money laundering guidelines of NatWest. Forms must be signed by an appropriate Head of Service to ensure PCards are only issued where there is a legitimate business need. Previously, staff who did not sign a card agreement within seven days of a card request, had their card blocked. Given that it takes seven to ten days for a cardholder to receive a card, this process was no longer viable; however, with the newly combined card agreement and application form, cardholders are now required to sign the agreement prior to the card being ordered. Card agreements signed by both the Head of Service and the individual officer are approved by the GLM before being saved to the network files. HR Support also obtain a copy of any card agreements; it was found during testing that 90% of card agreements had been sent to the HR Support team within the same week as the agreement being signed. As PCards are sent to the applicant's home address, applicants are expected to email the GLM to confirm receipt of the card. It is also imperative that up-to-date officer address details are passed onto the GLM.

A sample of new card application forms was interrogated to check that these had been appropriately authorised. The testing focused on the newly-merged card agreement and card application forms. In all cases, a reason for the card had been provided on the application form. In two cases, the application form had been signed by the relevant Head of Service. In one case, the application was not signed by the Head of Service but instead by a line manager. There was, however, an email from the relevant Head of Service delegating the authorisation of PCards to a Senior Manager. Two applications had no signature provided from the Head of Service but instead an email from the Head of Service confirming authorisation of the card. The cards were ordered in a timely

manner following the applications. One was ordered two days prior to the application being signed; however, the card agreement was received in advance of the card being delivered.

Methods of non-compliance with the PCard scheme are outlined on both the Intranet and the PCard agreement. Inappropriate usage or failure to meet the administration requirements of the scheme may potentially lead to the card facility being withdrawn and/or disciplinary action being taken dependent on the circumstances; reminders to this effect are circulated by the Chief Executive. There are automated emails set up on the NatWest card system which will be sent to cardholders with outstanding transactions for review. This warns them of the deadline should any transactions remain outstanding.

Instances of non-compliance result in cards being blocked. This includes cardholders who have failed to review transactions or approvers who have neglected to authorise transactions. Failure to adhere to authorisation timescales will result in the PCard being blocked until all transactions from the previous statement have been authorised.

4.4   **Reputational Risks**

4.4.1   **Potential Risk: Decline in public trust due to lack of transparency regarding purchases.**

All monthly transactions are uploaded to the Council's website. This is in line with the Code of Recommended Practice for Local Authorities on Data Transparency. There is also information within the FAQ section of the PCard Intranet page. The FAQ information refers to the Local Government Transparency Code (2015) which dictates the publishing of all card transactions on the Council website. The Local Government Transparency Code (2015) mandates that the following details must be published:

- Date of the transaction
- Local authority department which incurred the expenditure
- Beneficiary
- Amount
- VAT that cannot be recovered
- Summary of the purpose of the expenditure
- Merchant category (e.g., computers, software)

The Local Government Transparency Code (2015) also requires the Council to publish PCard transaction data no later than one month after the quarter to which the data and information is applicable.

Monthly reports from January 2022 to April 2023 were interrogated by the auditor, to ensure that the figures published on the internet matched those of the journals and transaction log data. In fifteen cases, the internet GROSS, NET and VAT figures all matched the journal data and transaction logs. This was not, however, the case for the February 2022 report; although the total expenditure figure was a match, the NET and VAT journal figures were not the same as those published on the internet. The GLM advised that, when the finance management system changed from TOTAL to Ci Anywhere, journals could not initially be

created. This led to a backlog of three months' work, followed by a change in structure of the previously named Financial Services team. Whilst TOTAL allowed VAT to be debited automatically from the VAT code, Ci Anywhere did not have this function. Therefore, the GLM had to extract a journal report from the SDOL system, which the Strategic Finance Manager converted to process the recharges. This resulted in a change of some of the NET and VAT figures; however, there is now an ETL (extract, transform, load) process on Ci Anywhere which is used directly to process the SDOL journal without the need for intervention.

All transactions are checked by the GLM on a monthly basis through a checking spreadsheet. This determines the type of expenditure, whether it has been appropriately coded and whether the transactions have been posted to the correct account. In 90% of cases tested by the auditor, the checking spreadsheet fully matched the figures shown on the internet and journal reports. The monthly checking for September 2022 was out by £45. The GLM ran a transaction report following the closure of the statement period and copied all the transactions over to the checking spreadsheet. The transaction of £45 was posted on the 28th (the last day of the statement period). This appeared on the reports from two days after the closure of the statement period which the GM had not noticed as the transactions had already been copied to the checking spreadsheet. The GLM is the only officer who performs monthly transaction checks. Best practice dictates that these quality control tasks should be segregated amongst a team of people; however, available resources mean that this is difficult to achieve. Nevertheless, the reconciliation process is incredibly comprehensive. The GLM checks that every transaction made within the month has a valid VAT invoice and has the correct VAT, delivery point and product codes assigned.

4.5   **Fraud Risks**

4.5.1   **Potential Risk: Cards used for personal expenditure.**

Cardholders are required to use their PCard for appropriate reasons and must report expenditure in line with compulsory procedures. When a PCard is cancelled, the GLM requests photographic evidence that the card has been destroyed. Cards are cancelled if the cardholder leaves the organisation, transfers to an internal role that no longer requires the card or does not make use of the card in their current role. I-Trent alerts are sent to the PCard inbox which highlight any leavers or internal transfers. If a cardholder left the organisation without returning the card, the card would be blocked. The GLM can also reduce the credit limit to £0, meaning that any attempted purchases could not go ahead due to insufficient funds; the user is then deleted from the system.

A number of card cancellations for 2022/23 were obtained through the network files. These were inspected to check that they had been cancelled in a timely manner, following a leaver/change notification. The test revealed that eight cards were cancelled one month in advance of the effective date of change; a further eight cards were cancelled within the same month. Two cards were cancelled retrospectively, as the relevant cardholder was on long-term sick leave. Moreover, two cards were cancelled due to them not being used and the

cardholder failing to keep up with administration requirements; no effective date of change was required in these circumstances. In all cases, the card was appropriately destroyed with evidence held to substantiate this.

Transactions in which a card is used for personal expenditure in error should be raised with the GLM. If staff continued to pay for personal items with a PCard, the card would be blocked. Purchases made through Amazon must be completed through the Council's Amazon Business account. Cash withdrawals are also blocked and cannot be performed by cardholders. PCards must not be used for:

- Personal transactions
- Personal/subsistence expenses, for example: meals, snacks, drinks, fuel for personal vehicles
- Leaving/retirement/birthday/get well soon/condolence/well done/thank you gifts such as cards, flowers, chocolates, wine.
- Buffets or meals for personal events such as staff members leaving/retiring/birthdays.
- Fines that individual staff members have received by not adhering to the law/enforceable regulations such as parking fines, speeding fines, penalty fines such as mobile phone usage whilst driving.

Any personal transactions made in error are included on the monthly transaction logs uploaded to the Internet. This is evidence of an honest and transparent culture, in line with the Local Government Transparency Code (2015). The GLM often issues PCard scheme reminders in which staff are reminded that PCards must only be used for official Council business and failure to adhere to this policy will lead to the card facility being withdrawn.

Only an actual cardholder should make a transaction with their card; although cardholders can make transactions themselves on behalf of colleagues, the actual card or the card details must not be given to colleagues to use. Cards are not 'team cards' but instead for the sole use of the individual cardholder and remain the responsibility of that individual. If other staff regularly need to make transactions or need access to a card as a business contingency, they should have their own PCard; this is to support budget control and anti-fraud. Cardholders are also prohibited from circumnavigating credit limits i.e., splitting transactions in order to prevent them from being declined due to insufficient balance. Credit limits are in place as a form of financial control, authorised by Heads of Service. Staff are reminded to first ask colleagues with sufficient balance to make the transaction on their behalf or request an increased spending limit from their Head of Service if their current limit is insufficient. Limits cannot be increased or decreased for one-off transactions due to administrative time and resources. The cardholder limit should be of sufficient level to cover all card spend eventualities. The GLM will send advisory emails to this effect; if financial controls are not adhered to, cards will be withdrawn. The GLM, during monthly transaction checking, will inform the relevant cardholder of any potential breaches of use. This includes circumnavigating credit limits, personal transactions, and non-cardholder use. In most instances, the cardholder is given a warning and accepts not to repeat the action.

Across all forms of testing, transactions were reviewed by the auditor to ensure that these were relevant to Council business. The test revealed what appeared

to be ten parking fines that had been charged to the PCard. The GLM advised that these were for parking bay suspensions which were needed in order to close specific roads during events; all ten transactions had receipts to verify this. Five transactions were identified that appeared to contravene the PCard usage policy. These included the purchase of flowers, vouchers, and a retirement gift. In two of these instances, the cardholder had been emailed to warn that repeat behaviour would lead to the card being withdrawn. Since the card guidance has been extended to outline that gifts cannot be purchased through the PCard scheme, these events have become rarer. 75% of transactions had been appropriately authorised by the 7th calendar day following the 28th monthly. Of the four outstanding transactions, two of these cardholders had been emailed to warn them about maintaining administration requirements.

4.5.2 **Potential Risk: Unauthorised individuals authorise/approve/review transactions.**

The overall responsibility for ensuring the accuracy and timeliness of transaction reviews rests with the approvers. Approvers check that all transactions:

- Are legitimate business expenses.
- Have the correct VAT figures included and have the correct VAT code input.
- Have the correct delivery points and product codes.
- Have an expense description that makes sense and is a comprehensive description of the purchase.
- Includes a receipt for the purchase and a VAT receipt if the transaction includes VAT.

Cardholders cannot authorise or reconcile their own transactions. Approvers are instead responsible for ensuring that all information is correct before authorising any transactions. If satisfied that the cardholder has correctly completed the transaction review, the transaction can be authorised. In instances where information is found to be incorrect or incomplete, the approver sets the transaction back to the review stage on the SDOL system and provides feedback to the cardholder outlining any changes that need to be made. Some users of the SDOL system are both cardholders and approvers. In these instances, the individual is not permitted to authorise their own transactions. A segregation of duties exists between the cardholders and the approvers performing the reconciliations. Approvers can authorise any cardholder transactions within their service area, providing that it is not their own transaction. This is to ensure that in the absence of an approver, transactions can still be authorised. Transaction descriptions are also checked and amended by the GLM to ensure that these are concise and professional; the GLM can authorise, unauthorise, review and unreview changes. If transactions are incorrect and have been wrongly authorised by the approver, the GLM will unreview a transaction and notify both the cardholder and approver for future reference. It should be noted that the GLM is not a cardholder.

The SDOL system also has controls in place to prevent unauthorised access; the system sends a smart one-time passcode to the individual, at which point the system will highlight when that individual last logged in. The SDOL system also displays all cardholders and their approvers. Names that appear twice indicate

that the person is both an approver and a cardholder; a closed account denotes that a particular card has been cancelled.

The GLM will only upload new delivery codes or product codes onto the SDOL system if they have been authorised by the Principal Accountant or Strategic Procurement and Creditors Manager.

4.6   Other Risks

4.6.1   Potential Risk: Loss of IT/key records resulting in inability to manage purchase card transactions.

Images of receipts are extracted to the network files, as the SDOL system retention policy (3 years) does not align with the Council's document retention policy (6 years + current). A number of transactions were investigated to check that relevant receipts corresponded to the journal figures. In all cases tested, the transaction had a valid receipt saved to the network files which appropriately substantiated the payment.

NatWest continue to send monthly statements to the Council, meaning that in the event of an SDOL system failure, receipts and invoices could be reconciled against these monthly statements.

5   Summary and Conclusions

5.1   Section 3.2 sets out the risks that were reviewed as part of this audit. Reassuringly, the review did not highlight any significant weaknesses against these risks.

5.2   In overall terms, therefore, we can give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Purchasing Cards are appropriate and are working effectively to help mitigate and control the identified risks.

5.3   The assurance bands are shown below:

Level of Assurance	Definition
Substantial	There is a sound system of control in place and compliance with the key controls.
Moderate	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited	The system of control is generally weak and there is non-compliance with controls that do exist.

6   Management Action

6.1   There are no formal recommendations arising from this report.

Richard Barr
Audit and Risk Manager

WARWICK DISTRICT COUNCIL	**INTERNAL AUDIT REPORT**

FROM:	Audit and Risk Manager	**SUBJECT:**	Refuse Collection & Recycling
TO:	Head of Neighbourhood & Assets	**DATE:**	25 August 2023
C.C.	Chief Executive		
	Head of Finance		
	Neighbourhood Services Manager		
	Portfolio Holder (Cllr Roberts)		

1 Introduction

1.1 In accordance with the Audit Plan for 2023/24, an examination of the above subject area has recently been completed by Emma Walker, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.

1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

2.1 A new joint waste and recycling collection contract was launched in partnership with Stratford-on-Avon District Council (SDC) in August 2022. The new 123+ collection service includes a food waste collection every week, a recycling and garden waste collection every two weeks and a refuse bin collection every three weeks. As part of this system households were provided with blue-lidded recycling containers and food caddies free of charge. The waste collection provider is currently Biffa Waste Services Ltd.

2.2 The 123+ collection serves approximately 126,000 households and aims to reduce waste and the cost of treatment and disposal of refuse. The launch of the separate food waste collection aims to reduce the amount of waste sent for incineration and prevent greenhouse gases from entering the waste stream. Collecting waste every three weeks saves 102,796 miles per year, which equates to 2,650 tonnes of CO_2 emissions per year.

3 Objectives of the Audit and Coverage of Risks

3.1 The management and financial controls in place have been assessed to provide assurance that the risks are being managed effectively. It should be noted that the risks stated in the report do not represent audit findings in themselves, but rather express the potential for a particular risk to occur. The findings detailed in each section following the stated risk confirm whether the risk is being controlled appropriately or whether there have been issues identified that need to be addressed.

3.2   In terms of scope, the audit covered the following risks:

1. Costs of contract exceeding allocated budget.
2. Failure of SDC to reimburse WDC with charges owed to them.
3. Failure to meet statutory/regulatory requirements.
4. Risk of contractor going into administration or deciding to withdraw from the contract.
5. Appropriate levels of insurance are in place.
6. Service level not clearly defined.
7. Failure of contractor to deliver services/performance of contractor not to contract specification.
8. Sub-standard delivery leading to customer complaints/damaged reputation.
9. Service disruption leading to inability to meet performance targets.
10. Breakdown in partnership with SDC.
11. Green waste collected at properties who have not paid the service charge.
12. Staff evade paying bin fees/green waste service charge.
13. Accidents/health and safety of contractors.

3.3   A 'risk-based audit' approach has been adopted whereby key risks have been identified during discussions between the Internal Auditor and key departmental staff. The Significant Business and Neighbourhood & Assets Risk Registers have also been reviewed.

3.4   These risks, if realised, would be detrimental to the Council with regards to meeting the external 'Services' element of the Fit for the Future Strategy. The Council has a responsibility to focus on customer needs, continually improve processes and work towards lower carbon emissions.

4   **Findings**

4.1   **Recommendations from Previous Reports**

4.1.1   There were no recommendations arising from the previous report.

4.2   **Financial Risks**

4.2.1   **Potential Risk: Costs of contract exceeding allocated budget.**

There are several budgets for the service including general expenditure, the integrated waste collection contract, general contract management and the joint waste contract with SDC. Based on the figures provided by the Contract Manager at SDC, the budget is reviewed on a monthly basis. The Neighbourhood Services Manager (NSM) also conducts quarterly budget meetings with the Strategic Finance Manager to discuss any variables in the contract and the costs associated with the new Materials Recovery Facility (MRF). The full year budget for 2022/23 was £8,044,400. Total expenditure was £9,361,659, meaning that there was an overspend of £1,317,259; however, this was due to the implementation of the new waste contract. The current waste management budget for 2023/24 is set at £6,908,000. Total expenditure to date has only equated to £931,161.

The last budget review took place in January 2023. There were several issues highlighted regarding the waste management and joint waste contract consultancy with SDC, relating to either miscodes or over-expenditure. The actions taken to rectify these issues were, reassuringly, recorded. This involved transferring monies from other codes to cover the costs.

The fees and charges were formulated in accordance with SDC as both Councils approached a merger. Had the merger been successful, Warwick District Council's (WDC) charges would have been aligned to SDC. However, WDC Councillors made the decision to pitch WDC's waste charges at a lower rate as the Council is not permitted to make a profit from these charges. The fees and charges for 2022/23 were agreed at Cabinet on 4 November 2021. The fees and charges for 2023/24 were agreed at Cabinet on 3 November 2022. The published fees on WDC's Internet page fully match the fees agreed by Cabinet. Whilst SDC charge based on bin capacity, WDC charge a standard fee for all-sized wheelie bins. In contrast, WDC charge for recycling boxes where SDC does not. However, both authorities charge the same fee for reusable green waste sacks, replacement kitchen caddies and replacement food bins. Although there would appear to be some discrepancies between the bulky waste collection charges, WDC offer concessions on these for residents who are on state pension, registered disabled or in receipt of income support whereas SDC does not offer this discount.

The Council spends approximately £165,000 per annum on the provision of waste containers. Due to a significant reduction in central government funding, the Council can no longer afford to provide new or replacement containers entirely at its own cost. Section 93 of the Local Government Act 2003 allows Councils to charge for discretionary services such as the provision of containers. The charges therefore cover the supply and delivery of the containers, as well as administration costs. The charge does not, however, pass ownership of the container to the resident; containers remain the property of WDC. Prior to the commencement of the contract, funding was provided for blue-lidded bins and food caddies; a charging policy for grey wheelie bins has been in place since 2016.

A number of garden waste permits were investigated by the auditor to ensure that the correct fee had been charged. In all cases tested, the correct fee of £40 had been charged to the resident and received by WDC. Residents are requested to pay for their permit during the application stage. Once payment is made for a green waste permit, Permiserve automatically generates a permit which is then posted out to the resident. This information is then provided to the contractor via SDC. All green waste permits are valid until 31 March regardless of when they were purchased during the financial year. There is no limit as to how many green waste permits can be purchased by one household. Households are also permitted to share bins where private arrangements have been made between neighbours.

A number of payments made to SDC were also interrogated to ensure that these were reflective of the invoices received. In all cases tested, the amount paid to SDC fully reflected the invoice. All payments had been coded to the correct ledger and evidence of this was corroborated through the accounts payable

module on Ci Anywhere. There were just five instances where the remittance advice had been mislabelled.

Advisory - Consideration should be given to reminding the Purchasing & Payments team to ensure that remittance advice reflects the exact wording of the invoices received from SDC.

Reviews for cost-of-service provision take place as part of the quarterly meetings with the Strategic Finance Manager; costings are also discussed at Contract Partnership Board meetings. The monthly contract charge is one twelfth of the annual contract rate. Biffa are entitled to make a fair net profit of up to 9% on the cumulative net profit in any contract year. Where Biffa generates a cumulative net profit which is in excess of the agreed net profit margin, this excess profit is then divided. One third is split between both local authorities, one third is retained by Biffa and the remaining third is ring-fenced as part of cost-saving initiatives agreed to by the Contract Partnership Board.

4.2.2 **Potential Risk: Failure of SDC to reimburse WDC with charges owed to them.**

SDC process and take payment for all orders related to the purchase of new, replacement or additional bins. WDC monitor the fees that they are owed and corroborate these against the income received from SDC. WDC receive a reconciliation spreadsheet that breaks down the income and details the individual transactions between SDC and the resident. As per the inter-authority agreement, SDC maintain complete records of all financial transactions and make these available to WDC for inspection upon request. WDC reconcile financial matters on a quarterly basis and report any concerns or issues within one month of that reconciliation. The NSM also keeps track of the fees that WDC are owed.

WDC finance the purchase of any frontline vehicles from Biffa and invoice 50% of the costs to SDC. Therefore, SDC are the beneficial owners of 50% of the frontline vehicles financed by WDC and should the contract cease, SDC are entitled to their 50% share of the vehicles. Invoices were located by the auditor relating to the payments received from SDC for the waste collection vehicles. The monies paid by WDC to Biffa amounted to £5,165,470.20. 50% of this amount was reimbursed in full to WDC by SDC.

SDC are responsible for receiving and paying invoices from Biffa in respect of the core waste collection services on behalf of both Councils. SDC then recharge Warwick 50% of the monthly invoice for the core services and WDC pay the sum due prior to SDC's payment to Biffa. For bulky waste collections, the recharge by SDC to WDC is based on the number of collections multiplied by the unit rate set out in the contract. The contract has an annual base quantity of 4,106 collections of bulky waste: if this base quantity is not reached, Biffa are entitled to a payment for the shortfall, which would be split 50:50 between WDC and SDC. The liability for the gate fees at the MRF is determined by the number of vehicle deliveries to the MRF, load tonnage, contamination, and their district origin. Sherbourne Recycling Limited issue a single invoice to SDC. WDC are then invoiced according to the percentage of actual tonnage of recycling within

the Warwick district. Waste collections for events are paid for by the Council in whose district the event takes place.

4.3 Legal and Regulatory Risks

4.3.1 Potential Risk: Failure to meet statutory/regulatory requirements.

Under the Environmental Protection Act 1990, local authorities have a responsibility for waste collections. Section 45 requires waste collection authorities to collect household waste unless it is in an isolated location or arrangements can reasonably be expected to be made by the person who controls the waste. It is a statutory requirement to collect domestic waste within the district; however, the Council is not allowed to charge for the collection of domestic waste under the Environmental Protection Act 1990. The collection of garden waste is a discretionary service and so a charge is imposed for this.

4.3.2 Potential Risk: Risk of contractor going into administration or deciding to withdraw from the contract.

Whilst SDC are the lead authority on the contract, the roles and responsibilities of both Councils are outlined in the inter-authority agreement. No issues with roles and responsibilities were recorded in either the contract operation minutes or the Contract Partnership Board minutes. There was a slight amendment to the roles and responsibilities; however, these were agreed and signed off by both Deputy Chief Executives in January 2023.

The only significant issue identified with the contract related to the quantity cost. The starting property count number was incorrect as it did not include farms and there were several property duplications meaning that the figure was approximately 1,000 properties lower than it should have been. The contract fee increases with the more properties that are added to the database. Consequently, Biffa rebased the number and backdated the payment to September 2022. As a result, the local authorities were obliged to pay Biffa a combined sum of £15.5k for a third rebasing of the contract. This cost was divided equally between both authorities; invoices corroborating this were provided to the auditor by the Contract Manager.

SDC have been provided with copies of the business continuity and emergency plans from Biffa. The business continuity plan is to be invoked following a disruptive event that impacts the ability to operate on a normal daily basis. The plan provides an overview of the operations, and also acts as a guide to providing continuity of service. Biffa are responsible for managing and maintaining refuse, green waste, food, and recycling activities. An essential activity that needs to be conducted as part of the continuity process is to inform customers, stakeholders, suppliers, and service providers that Biffa has been impacted by a disruptive event. Whilst SDC are listed as a customer, WDC are not and therefore WDC is heavily reliant on communication coming from SDC.

Advisory – Consideration should be given to asking Biffa to include WDC as a dependent customer on the business continuity plan.

Biffa have also provided SDC with their emergency and incident response plan which outlines emergency contacts, isolation points, evacuation procedures and fire responses. Biffa are expected to prepare an exit management plan six months prior to contract expiry including a handover, the return of all data to the relevant authorities, the return of all authority assets and the return of all authority vehicles and depots in serviceable conditions.

4.3.3 Potential Risk: Appropriate levels of insurance are in place.

As lead authority, SDC have been provided with copies of the contractor's insurance. Biffa have employer's liability insurance which is valid until 31 March 2024. A certificate of motor insurance was also provided, covering all Biffa Limited vehicles until 31 March 2024. This insures any person driving on the order or with permission of Biffa Limited, providing that the person driving holds a valid licence. The contractor is further insured for public and products liability.

It is outlined in the inter-authority agreement that each Council will ensure that adequate insurance cover is maintained in respect of their respective liabilities under the contract, including where necessary professional indemnity insurance. Each Council shall indemnify the other against injury and death to any persons or for loss or damage to property which may arise out of default or negligence of their respective employees, agents, or contractors. WDC is not liable for any claims due to negligence of the contractor. Neither would WDC pay any claims for loss or damage caused by Biffa.

Recommendation – Copies of contractor insurance should be obtained and passed on to the WDC's Risk and Insurance officer.

4.4 Reputational Risks

4.4.1 Potential Risk: Service level not clearly defined.

The strategic aims and objectives of the joint venture with SDC are formalised in the contract. These aims have been agreed to by both Chief Executives and include:

- Delivering maximum value for money and maintaining and enhancing a financial position.
- Delivering continuous improvement in carbon emissions with the aim of being as close as possible to net zero carbon and zero air pollution by 2030.
- Ensuring that the residents are at the centre of service delivery and the contractor works in partnership with the authorities to address the needs of residents in an efficient and effective manner.
- Retaining flexibility to consider future changes, including new environmental legislation and national, regional, and local policies.

All bins, containers and caddies required for the commencement of the contract were purchased by WDC. WDC were supposed to have invoiced SDC for the containers required for properties in the Stratford district prior to the commencement of the contract; however, the auditor was unable to locate any invoices of this nature through Ci Anywhere. The NSM advised that they would be raising this at the next Contract Operations meeting.

Recommendation – Any waste container charges incurred by WDC, of which 50% are rechargeable to SDC, should be included on separate invoices and raised against SDC as a sundry debtor.

Residents can order new or replacement bins through the WDC website. SDC are responsible for collecting all other miscellaneous income, including additional bin capacity permits and bulky waste collections; they then account to WDC for the income received in respect of properties in the Warwick district. Garden waste income is currently distributed to WDC on a fortnightly basis; bulky waste income is distributed monthly. Any marketing, communications, printing, and design costs are split 50:50 between the Councils unless it is specific to a single Council. Each Council is responsible for its own waste permit.

The contractor must collect all waste on the same day as outlined in the collection schedule. They cannot change the scheduled collection day of any household without prior written consent, specifying the proposed change and the rational for this request, including the impact on households and the benefits of changing the day. Working hours are between 6.30am and 18:00pm for collections Monday to Friday unless otherwise agreed. In exceptional circumstances, such as inclement weather, the Council may permit the contractor to change or extend the operational hours/days. Bank Holidays and Public Holidays are classed as working days.

Containers should be returned in an upright position, with lids closed, or neatly stacked. Gates and doors should be shut and locked in communal collection areas. A missed collection must be reported within two working days of the scheduled collection day. Where the contractor investigates a missed collection and they can evidence that the container was not presented, not presented on time, or presented in an incorrect collection point, then it is not classed as a missed collection. Prior to emptying any container, Biffa are expected to visually inspect the visible contents of the containers for any contrary materials. Where they find contrary materials, they should separate the contrary materials from the acceptable materials that can be safely removed. Where it is impractical to separate the materials, the container is left unemptied and a notification left with the household, informing them of the reason why the materials were not collected. Contrary materials are recorded through Biffa's Whitespace system, where households can be instructed to dispose of waste appropriately by the Council.

It is outlined in the contract that Biffa provide a monthly collection of patient-returned sharps from pharmacies located across the district. However, pharmacies were contacted in August 2022 to advise that sharps would only be collected as an on-request service, meaning that Biffa will only attend the pharmacy as and when requested. Biffa also collect dry recycling from schools in the area, although they are not permitted to schedule the collection within close proximity of school drop off and pick-up times. The Contract Services team maintain spreadsheets detailing the lists of schools, pharmacies, communal areas, and properties commercially owned by WDC requiring collection.

WDC offer assisted collections to those residents who are unable to physically move bins to the kerbside due to age, disability or infirmity. A list of assisted collections is maintained by the Contract Services team. In such cases, the

contractor shall provide a scheduled collection from an agreed collection point within the boundary of the property. Biffa are provided with a list of the households that qualify for an assisted collection. When an assisted collection is no longer required, this can be cancelled through the Whitespace system.

4.4.2 **Potential Risk: Failure of contractor to deliver services/performance of contractor not to contract specification.**

The contract with SDC commenced on 1 August 2022. This is in place for eight years and not due to expire until 31 July 2030. The approved spending limit is £80,000,000. Expenditure thus far has amounted to £5,079,565.59; therefore, the remaining approved limit is £74,920,434.41. The contract is divided into service specifications and payment and performance.

Biffa are expected to provide, operate, and maintain all vehicles and equipment and are responsible for purchasing any additional vehicles required as suitable replacements for those that are not fit to deliver the service. Biffa are also responsible for licensing all vehicles and equipment including taxes, fuel, and insurance premiums as well as the maintenance and upkeep of the vehicles to ensure they are in good serviceable repair; this includes making good any accidental damage. It remains Biffa's responsibility to ensure that vehicles and equipment meet UK emission standards and noise legislation requirements. The contractor is required to pay for the replacement or repair of any containers where damage to the containers has been caused by their negligence. Biffa are also responsible for delivering containers to new properties, replacing lost, stolen, or damaged containers and collecting unwanted containers from households.

Biffa provide additional waste capacity for households that contain:
- 6 or more permanent occupants in the household.
- 2 or more children in disposable nappies.
- Residents with a medical need using incontinence products.

SDC verify and approve applications from households for additional residual waste capacity. A list of households that qualify for this service is then sent to Biffa through Whitespace. Likewise, any households in which additional waste capacity is no longer required are cancelled through this system.

Biffa are not expected to collect waste (be that garden waste, food waste or household waste) that is set out other than in the wheeled bins. Neither are they expected to empty the wheeled bins if they are too full for the lids to fully close. Households that are unsuitable for a wheeled bin (e.g., flats above shops, terraced houses) receive a sack collection once every fortnight. No more than two sacks of waste per household can be collected unless the household has met the criteria for additional waste capacity. Any households that set out excess waste will have a note affixed to the container informing them of why the waste was not collected.

Biffa are expected to report any defects to doors, locks, lighting, damaged bins or where bin stores are left in an inappropriate state (e.g., broken glass on the floor). Any spillages that occur whilst Biffa are undertaking collection should be

thoroughly cleaned. For this reason, brooms, shovels, dustpans, and spill kits are located in each of the waste collection vehicles.

Households are entitled to present more than one designated container for dry recycling and food waste. Households that subscribe to more than one garden waste permit are also entitled to have additional green waste containers emptied as part of their routine collection. New participants to the garden waste collection service are reported to the contractor through Whitespace. Biffa then provide new containers and commence the collection service within ten days of notification. Households wishing to discontinue their participation in the garden waste collection service are expected to give four weeks' notice to the Council.

Households who have not renewed their garden waste permit are terminated from the system and their container removed. Bulky waste charges are set at the Council's discretion and can be changed at any time during the contract. The Council retains all income from bulky waste charges but is responsible for operating and administering a booking and scheduling system for the service. Biffa also collect clinical waste on a weekly basis; a list of households where this service is required is compiled through Whitespace.

KPIs/performance measures have been written into the contract; however, the Contract Operations & Performance Officer (COPO) advised that the figures include data from both WDC and SDC. Figures of where KPI's have not been met are indicative of cases where issues have not been rectified within the contractual timescale. Monitoring against performance indicators is completed on a monthly basis. Performance indicators include:

- Number of containers not returned to properties in the correct location.
- Number of containers delivered.
- Number of spillages.
- Missed collections per 100,000.
- Missed assisted collections per 100,000.
- Tonnages per waste stream.
- Near misses and personal accidents.
- Vehicle downtime.
- Insurance claims.

Biffa are responsible for monitoring and accurately recording their own performance and compliance with the contract. They notify the Council of any service failures by the end of each working day through Whitespace and summarise the service failures in the monthly and quarterly performance management reports.

All waste collection vehicles are fitted with GPS trackers and CCTV which records at all times when the vehicles are in operation. Footage is securely stored for a minimum of 30 days and can be requested by WDC. The Contract Manager confirmed that the CCTV footage from the collection vehicles is stored on the Contel system and can only be extracted by authorised users via their Intelligent Vehicle Monitoring System (IVMS).

A section of the Council-owned depot at Stratford Road in Warwick is primarily used by Biffa for the storage of containers; Biffa therefore manage the deliveries

of new containers to the depot and return any unwanted containers to storage for reuse. It became apparent during the audit that WDC are responsible for Non-Domestic Rates (NDR) at the depot; however, it is stipulated in the contract that Biffa are responsible for paying any NDR associated with designated areas of the depot; a sum of £10,416 has been outlined in the contract. The land is currently leased by IDVERDE, the grounds maintenance contractor. Whilst IDVERDE reimburse WDC for NDR (£18,000), it is not made clear as to whether Biffa reimburse IDVERDE for the rates owed. The COPO confirmed that the Senior Building Surveying Project Manager is currently compiling a lease. This will mean that peppercorn rent and NDR will be paid by Biffa directly to WDC.

The contract aims to deliver continuous improvement in carbon emissions with the aim as being as close as possible to net zero carbon and zero air pollution by 2030. As such, Biffa are expected to annually calculate and review the carbon emissions and report on progress against the carbon reduction plan. The COPO did advise that there have been preliminary discussions about procuring electric waste collection vehicles. As stated in the contract, the authorities seek to utilise vehicles that operate on clean, low emission technologies whenever this is financially and operationally practicable, thereby minimising carbon emissions and air pollutants arising from their usage. Biffa therefore developed a Quality Environmental Management Plan as part of their tender process, which sets out the aims and objectives for reducing carbon emissions.

4.4.3 Potential Risk: Sub-standard delivery leading to customer complaints/damaged reputation.

Complaints themselves are not viewable on the Whitespace system, although the system does indicate where a property has had a missed collection. The system does, however, require the user to already know which property has experienced issues in order to locate the corresponding information. Any issues are reported through a webform directly to SDC which is then uploaded to Whitespace. Worksheets against the property will show when missed collections were reported and their resolution date. The number of days to resolve a complaint is outlined in the contract. Any complaints not resolved within these timescales are classed as a service failure. As the Contract Services team have access to the Whitespace system, WDC can notify any affected residents, where Biffa have been unable to complete a collection round, through the 123+ app.

It is the resident's responsibility to make sure that their bins are kept safe. To prevent loss or theft, residents are advised to put house numbers or names on the containers. Residents are also advised to put containers out in the morning rather than the night before and make sure that they are returned to the home as soon as possible after collection. Communal refuse and recycling bins are the responsibility of the landlord, managing agents or residents' association. The Council aims to deliver all containers within five working days and does not take responsibility for any containers that go missing after delivery. It is stated in the contract that residents are expected to sign upon receipt of their bin/container; in April 2023 Biffa were provided with delivery notes to leave at a property once a new container had been delivered.

Advisory – Consideration should be given to asking Biffa to upload copies of container delivery notes to the Whitespace system.

In previous years, there have been performance bonds to protect the Council against financial loss in the event of a contractor failure. There are now penalty charges in place in the event that Biffa fail to perform the service as outlined in the contract. Performance Deductions apply where a service failure has not been rectified within a certain timeframe. This does not apply to Force Majeure events, civil emergencies, or inclement weather. Performance Deductions set out in the monthly performance management report are supposed to be included as a deduction against the charges in Biffa's monthly invoice. It was, however, found that deductions calculated in the performance review are not included on the invoices from Biffa.

Recommendation – Both SDC and the contractor should be reminded to highlight where performance deductions have been subtracted from the core waste service costs on monthly invoices.

The Contract Services team maintain a list of damaged communal bins reported by Biffa and the actions that have been taken to rectify this. This is to ensure that should residents contact either authority, officers can advise that the responsibility lies with the managing agents or owners to repair or replace a damaged bin. Managing agents are given a timeframe in which to repair or replace a damaged bin. If not completed by the date provided, then the bin will not be emptied; the bin will not be emptied if it is deemed to be unsafe to move or unsafe to place on the lifting arms of the refuse collection vehicle.

4.4.4 **Potential Risk: Service disruption leading to inability to meet performance targets.**

Monthly liaison meetings take place between WDC, SDC and the contractor. Performance is a standard agenda item, and any issues are flagged and actioned appropriately. These meetings not only review the performance management report but also aim to resolve any issues associated with the monthly invoices. Communication requirements to support the service delivery for the next quarter are also agreed. Contract Partnership Board meetings take place quarterly with Biffa. This comprises senior management from the authorities and the contractor. The Contract Partnership Board agree the performance management report, discuss performance trends, implement improvements to the service, reduce inefficiencies, discuss legislative changes, and discuss the overall contract.

4.4.5 **Potential Risk: Breakdown in partnership with SDC.**

There is an inter-authority agreement in place between SDC and WDC relating to the management and administration of the joint waste collection contract. This was signed 27 July 2022 by both Chief Executives. This includes the management of conflicts and disputes, confidential information, and contract termination. The agreement outlines that the Councils will work together in good faith to resolve and/or mitigate the consequences of a delay or contract failure in a timely manner.

The following costs were incurred by SDC prior to the commencement of the Contract and shared by WDC on a 50:50 split:

- costs arising from enabling payments to be processed at Stratford.
- costs arising from staffing the required contact centre to answer calls and take payments.
- costs associated with enabling communication systems between Stratford and Biffa.
- the development of ICT processes to support the Contract.
- costs arising from staff time mobilising the Contract.

Invoices confirming a 50:50 split were obtained and substantiated by the auditor. Each Council bore the procurement and legal costs incurred prior to commencement of the contract. Evidence of legal costs paid by WDC was located on Ci Anywhere. The costs arising from the daily monitoring and management of the contract are shared by WDC on a 50:50 split; this was confirmed by the auditor during testing. A number of invoices from Biffa to SDC were obtained. These were then reconciled against invoices from SDC to WDC to ensure that costs were equally split. In all cases tested, both the unit amounts and VAT amounts charged to WDC were representative of half of the costs charged to SDC by Biffa.

4.5 Fraud Risks

4.5.1 Potential Risk: Green waste collected at properties who have not paid the service charge.

Residents do not receive their bins until they have paid for them during the application stage. Residents are expected to purchase each container regardless of the waste stream; they are, however, only expected to pay a service charge for the collection of green waste. This is a £40 subscription per annum which is payable at the start of the financial year. In-cab technology provides Biffa crew members with a list of properties who subscribe to the green waste collection to avoid the risk of collecting from households with an out of date or incorrect permit; this also prevents collection from non-subscribing households. The in-cab system would also detect if a property presented a bin for collection for which payment had not been made. The contractor records all instances where garden waste is collected on the in-cab system. This record includes the address and details of any non-compliance or non-participation including, where appropriate, a digital photograph in order to provide real-time information to Whitespace.

4.5.2 Potential Risk: Staff evade paying bin fees/green waste service charge.

Management do not currently undertake reviews of which residents have paid for containers or green waste permits. The only way in which residents, including Council staff, could obtain a container or green waste permit is by applying for these through the website. The inter-authority agreement states that SDC deal with all first enquires which includes payment. Neither containers nor permits would be delivered without payment up front.

4.6   **Health and Safety Risks**

4.6.1   **Potential Risk: Accidents/health and safety of contractors.**

There are several risk assessments in place that cover the service. The portion of the storage depot covered by the risk assessment is for the area north of the Stratford Road site. The assessment was carried out in November 2022 and is not due for review until November 2023. The bulk delivery of bins is avoided during adverse weather conditions to avoid slips, trips, and falls. Site operatives wear protective footwear and allow safe access and removal of the containers to minimise damage of the containers during storage. The majority of the depot does not have external lighting facilities; therefore, operations are ceased when light conditions make normal operations impractical. There is a gate at the depot entrance and a further gate into the depot to prevent members of the public from entering the site. Mitigations for contractors include wearing protective equipment and hand washing to prevent disease or contact with chemicals. Staff are also provided with midsole and steel toe-capped shoes and gloves to protect against sharp objects. The contractor health and safety assessment is due for renewal in November 2023.

There are assessments in place for waste advice visits, lone-working and the use of the Contract Services garage in the Riverside House car park. The COPO confirmed that these are no longer relevant.

Advisory – Consideration should be given to removing redundant risk assessments from Assessnet, including the risk assessment for Recycling Bring Sites, as these were removed in February 2021.

The WDC Health & Safety Policy was last updated March 2023. This outlines that Heads of Service are responsible for ensuring that all personnel, including contractors, adhere to safety standards within the policies maintained by the Council. Similarly, any employees of WDC whilst out of the office or on site must comply with the safety requirements of the contractor.

The Contract Manager at SDC has received health and safety risk assessments from Biffa. These highlight the control measures implemented regarding manual handling, slip, trips or falls, movement of mobile vehicles, weather conditions, falling objects and unauthorised persons. Neither SDC nor Biffa have been provided with copies of WDC risk assessments for contract officer health and safety.

Recommendation – The WDC Contract Officer Health & Safety Risk Assessment should be shared with both SDC and Biffa.

The contractor is responsible for making sure that equipment is safe and suitable and operated by trained operatives. They are also responsible for providing health and safety equipment on board all vehicles, providing first aid facilities, PPE, and suitable clothing. Summary statistics relating to all health and safety accidents, incidents, and near misses are reported in the Contract Operations meetings. It should be noted that incidents reported during these meetings are not separated into those that occurred within the Stratford district

and those that occurred in the Warwick district. The COPO advised that Biffa had been asked to separate reports of accidents and near misses by district; however, WDC and SDC are treated as one unit under the South Warwickshire contract and so this is not currently feasible.

WDC Contract Officers conduct weekly health and safety inspections via crew monitoring. These observations relate to several different waste collections along various roads in the district. The aim of the monitoring is to ensure that:

- all manoeuvres are programmed, planned, and controlled.
- the route and time selected avoids peak times.
- a risk assessment of the vehicles has been conducted.
- manual handling techniques are adhered to.
- bin lift mechanisms are operated safely and in accordance with the manufacturer's instructions.
- appropriate uniform and PPE are worn.
- pedestrians are kept safe.
- staff practice single side of street collection where appropriate.
- staff cross the roads at the safest point.
- bins, boxes, and caddies are returned to the correct collection point.
- the crew can demonstrate use of emergency stop buttons.
- the vehicles are reversed safely where appropriate.
- any spillages are cleaned.
- vehicles are clean and reversing alarms, aids, lights, and mirrors are operating and being used appropriately.

A number of safety inspection sheets were obtained through the network files. This list was then interrogated by the auditor to ensure that these checks had been conducted appropriately. In fourteen of the fifteen cases tested, the outcome of the inspection had been declared as 'safe'. The remaining case was only declared safe once issues were rectified following discussions with the supervisor, as the incorrect loading procedure was used for overfilled bins and the incorrect uniform was worn by the crew. No accidents or near misses were reported during the monthly safety checks. In four cases, however, it was not made clear as to which waste collection round had been observed.

Recommendation - Staff should be reminded to include the type of waste collected during monthly safety checks on the observation reports.

Advisory – Consideration should be given to checking that contractors are inspecting bins for contaminants during health and safety checks, as dictated in the contract.

Advisory – Consideration should be given to conducting health and safety checks in alignment with the criteria set out in the contractor risk assessment.

5   **Summary and Conclusions**

5.1   Section 3.2 sets out the risks that were reviewed as part of this audit. The review highlighted weaknesses against the following risks:

- Risk 5 – WDC are not made aware of contractor insurance policies.
- Risk 6 – WDC may not have received charges owed for the purchase of containers to be used in the Stratford district.
- Risk 8 – WDC may not be aware of the performance deduction charges subtracted from the core contract costs.
- Risk 13 – Contractor may not be aware of WDC risk assessments with which they must comply. Records of observed collection routes are not always consistently detailed.

5.2   Further 'issues' were also identified where advisory notes have been reported. In these instances, no formal recommendations are thought to be warranted, as there is no significant risk attached to the actions not being taken.

5.3   In overall terms, however, despite the identification of several weaknesses, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Refuse Collection and Recycling are appropriate and are working effectively to help mitigate and control the identified risks.

5.4   The assurance bands are shown below:

Level of Assurance	Definition
Substantial	There is a sound system of control in place and compliance with the key controls.
Moderate	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited	The system of control is generally weak and there is non-compliance with controls that do exist.

6   **Management Action**

6.1   The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Refuse Collection and Recycling – August 2023

Report Ref.	Risk Area	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.3	Legal & Regulatory Risk: Appropriate levels of insurance are in place.	Copies of contractor insurance should be obtained and passed on to the WDC's Risk and Insurance officer.	Low	Contract Operations & Performance Officer	An email will be sent to SDC asking for copies of this.	Completed 3 Aug 2023
4.4.1	Reputational Risk: Service level not clearly defined.	Any waste container charges incurred by WDC, of which 50% are rechargeable to SDC, should be included on separate invoices and raised against SDC as a sundry debtor.	Medium	Neighbourhood Services Manager	SDC pay all invoices relating to Biffa and the MRF and then recharge the appropriate proportion to WDC. The only charges WDC incur are for waste containers and an email will be sent asking for this information.	End of Aug 2023
4.4.3	Reputational Risk: Sub-standard delivery leading to customer complaints/damaged reputation.	Both SDC and the contractor should be reminded to highlight where performance deductions have been subtracted from the core waste service costs on monthly invoices.	Medium	Neighbourhood Services Manager	An email will be sent to SDC to ask that this is highlighted on future invoices.	End of Aug 2023

Report Ref.	Risk Area	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.6.1	Health & Safety Risk: Accidents/health and safety of contractors.	The WDC Contract Officer Health & Safety Risk Assessment should be shared with both SDC and Biffa.	Low	Neighbourhood Services Manager	This will be sent via email to SDC.	8 Sept 2023
		Staff should be reminded to include the type of waste collected during monthly safety checks on the observation reports.	Low	Contract Operations & Performance Officer	An email will be sent to staff to remind them to ensure they include the waste type on the Health & Safety checks.	Completed 3 Aug 2023

* The ratings refer to how the recommendation affects the overall risk and are defined as follows:

High: Issue of significant importance requiring urgent attention.
Medium: Issue of moderate importance requiring prompt attention.
Low: Issue of minor importance requiring attention.

INTERNAL AUDIT REPORT			

FROM:	Audit and Risk Manager	**SUBJECT:**	Shared Legal Services
TO:	Head of Governance & Deputy Monitoring Officer	**DATE:**	27 July 2023
C.C.	Chief Executive Head of Finance Portfolio Holder (Cllr Davison)		

1 **Introduction**

1.1 In accordance with the Audit Plan for 2023/24, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.

1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 **Background**

2.1 The Council paid a total of £805,871 on legal services for the last financial year (2022-23), covering both the shared service with Stratford-on-Avon (SDC) and the contract with Warwickshire County Council (WCC). The bulk of the legal work is completed through the Shared Legal Service between Warwick District Council and SDC. This first came into effect in April 2022 for a period of five years, ending 31 March 2027.

2.2 The Service consists of a team, based at SDC, with the aims of improving resilience, maintaining sufficient capacity through fluctuations in demand and reducing reliance on external resources to the benefit of both parties.

2.3 Since 1 April 2023, the management of the agreement at the Council has been undertaken by the Head of Governance & Deputy Monitoring Officer (HG). Prior to this, the responsibility was with the Deputy Chief Executive.

2.4 WCC provide some ad-hoc legal support to the Council, mainly for employment law matters. As this is not part of the shared service, and as use of this service is infrequent, it hasn't been explored in as much depth within this audit. There is a contract in place for this work which expires in 2027.

2.5 SDC outsources its internal audits to WCC who confirmed that no audit had been completed for the legal service within the last eight years. Therefore, no additional assurance could be provided or relied on for this audit.

3   **Objectives of the Audit and Coverage of Risks**

3.1   The management and financial controls in place have been assessed to provide assurance that the risks are being managed effectively. It should be noted that the risks stated in the report do not represent audit findings in themselves, but rather express the potential for a particular risk to occur. The findings detailed in each section following the stated risk confirm whether the risk is being controlled appropriately or whether there have been issues identified that need to be addressed.

3.2   In terms of scope, the audit covered the following risks:
1.   Council incorrectly charged for the services provided.
2.   Council subjected to avoidable penalties or financial loss.
3.   Poor legal advice is given leading to inappropriate decisions being taken.
4.   Cases are not dealt with in accordance with required standards.
5.   Conflicts of interests where the cases involve both the Council and SDC and / or WCC.
6.   Staff resource / capacity unavailable.

3.3   These risks, if realised, would be detrimental to the Council as having an appropriate legal service in place contributes to the Council's objectives, set out in the Fit for the Future programme under the Council's business improvement plan, by ensuring legal compliance across all Council service areas.

4   **Findings**

4.1   **Recommendations from Previous Reports**

4.1.1   The current position in respect of the recommendations from the previous audit reported in July 2020 were also reviewed. The current position is as follows:

	Recommendation	Management Response	Current Status
1	The user guide should be updated to provide accurate, up-to-date information and should be rolled out to relevant staff.	The guide has been updated on a number of occasions and posted on the intranet for staff viewing. Further relevant changes will be made.	No guide in place at present. The below report includes information about this.
2	The procedure for updating the authorised commissioning officers list should be reviewed and the list updated.	The list has been updated on a number of occasions and will be reviewed again to make sure it is up to date.	The legal services cost is included in the centralised charges. As the costs paid are not linked to the use of the service, any Council officer can request legal work. Therefore, no authorised list is required.

	Recommendation	Management Response	Current Status
3	The level of service should be reviewed to ensure requests are dealt with promptly and efficiently.	Given the many hundreds of instructions that are made through the course of the year, I consider this to be a rarity with no service review necessary.	A new service level agreement has been in place since April 2022. The agreement includes various measures and requirements which can be used when completing monitoring to ensure that the level of service expected can be maintained.
4	Budget managers should be reminded of the need to set accurate budgets based on available information.	As acknowledged, it is very difficult to predict precise budgets at the beginning of the year. Variances are monitored on an ongoing basis and this process will continue.	Legal charges are now incorporated into the centralised charges. The budgets for these are set by the Accountancy team so budget managers do not need to set legal charges in their budgets.
5	The monthly coding spreadsheets, supplied by Legal Services, should be made available to all relevant (commissioning) staff.	Agreed. I will speak with the relevant finance officer so we can disseminate the relevant information.	This is no longer relevant with the move to the charges being included in the centralised charges.

4.2   **Financial Risks**

4.2.1   **Potential Risk: Council incorrectly charged for the services provided.**

The Service Level Agreement (SLA) with SDC sets out terms for the payment for the legal provisions, with the Council paying 60% of staff costs and SDC paying the remaining 40%. Where the Legal Services teams do not have the skills or specialisms required to carry out the work for the Council, they will seek three quotes from external providers and issue disbursements invoices to the Council. The SLA lists examples of costs that are not included in the annual budget where a disbursement invoice will be issued. The SLA terms request that invoices issued by SDC should have any queries raised within ten days of receipt, and that payments should be made within 30 days. Six invoices were identified for 2022-23 and all had been paid within 30 days of being received.

SDC issue a spreadsheet to the Strategic Finance Manager (SFM) on a monthly basis which details the staffing costs, admin charges and any disbursement amounts. In most cases, costs are not recharged to a cost code. Instead the legal costs are incorporated into the centralised charges. As the Council has committed to paying 60% of the staff costs, the service is paid for regardless of how much it is used. The costs which are recharged are

those associated with HRA (as this is a legal requirement) or when Legal Services have needed to outsource the work.

When work is requested by the Council, cost codes are obtained to allow the accountants to determine whether the costs are for HRA or capital. The codes ensure that the HRA is recharged appropriately as legislation states that HRA has to be recharged for legal work. Where bespoke work has been completed, the cost code enables the accountants to recharge the relevant service.

The estimated cost for year one, according to the SLA, was £566,400, with actual expenditure coming out as £567,605. The business case (schedule 2 in the SLA) sets out the previous costs for the provision of legal services (from WCC) as £650,000 per year, and estimates a saving of £88,000 per annum to the Council, should the SLA be agreed. This saving is reflected in the MTFS and the budget book across the years 2022-24.

The most recent quarterly invoice for staff costs, disbursements and admin charges was £166,619, giving a total predicted cost for the year of £666,476. The Legal Services Manager (LSM) at SDC advised that the service had not been fully staffed and there had been agency charges incurred. However, he confirmed that this is mostly resolved with the addition of more permanent staff, resulting in less spend on agency staffing.

Payments totalling £238,266 have been made to WCC against the contract. The costs in the early part of the year were higher, as the existing (legacy) casework from the previous year was completed, before the costs dropped significantly as the workload switched to employment related cases only.

The SFM confirmed that they are monitoring the spending to help ensure that it stays within or close to the estimated amounts. There are concerns that additional spending with other legal services is still required which is resulting in the combined legal costs being well over previous amounts. This monitoring also enables them to ensure that the costs are fairly and accurately reflected in the centralised charges. The decision to include legal provisions within the centralised charges is very recent so the monitoring helps to keep track of the spending and ensures that budgets are updated as needed to reflect any changes.

Recommendation

To ensure the Council is getting value for money the expenditure with all legal suppliers should be kept under review and the service requirements considered when the SLA is next renewed.

4.2.2 **Potential Risk: Council subjected to avoidable penalties or financial loss.**

Regular meetings are held between lead officers from the Council and Legal Services at SDC to discuss performance issues. The meetings are held on a bi-monthly basis and provide an opportunity to discuss staffing issues, performance measures and workloads.

The meetings have agendas and are minuted to ensure any actions are recorded and can be followed up. The agendas include an opportunity to raise any concerns or issues. The HG confirmed that, since becoming the officer responsible for the management of the SLA, they have begun to ask for feedback at Managers Forum prior to the bi-monthly meetings.

A selection of minutes and agendas were shared for the audit. The minutes showed that performance is discussed along with vacancies within the team, staff planning and workloads. The minutes are bullet pointed and list actions at the end. Actions are then followed up in subsequent meetings and the minutes provide outcomes.

4.3   **Legal and Regulatory Risks**

4.3.1   **Potential Risk: Poor legal advice is given leading to inappropriate decisions being taken.**

Feedback has not been gathered by SDC over the last year.. There are plans to implement the collection of feedback on a six-monthly basis from regular service users. This is due to the team managing 100's of cases each year and there not being the resource to compile the data generated for each and every case. The LSM suggested that feedback is more likely to be provided if officers are asked to provide it an intervals, rather than at the conclusion of every case.

The HG has recently taken on the role of managing the 'contracts' and, as highlighted above, plans to collect feedback at Managers Forum before the bi-monthly meetings held with SDC. This has been completed once and is on the agenda for the next meeting. Any relevant feedback will be reported to Legal Services staff at SDC for them to action as appropriate.

There is an opportunity to raise issues with the work completed and gather feedback at the bi-monthly meetings between the HG, SDC's LSM and the SDC Legal Team Leaders. The minutes and agendas provided show brief details of the main discussions covered. As reported at 4.2.2 above, they include staffing issues and work capacity as well as progress against work programmes, providing an opportunity to discuss any concerns and / or issues.

As mentioned in para. 2.5 there has not been an internal audit carried out for the legal service at SDC for over 8 years. This would help to provide additional assurance that the service is operating in line with legislative requirements.

Advisory

It may be worth discussing in bi-monthly meetings the potential additional assurance that would be provided by internal audits or peer reviews. Especially as legislation evolves and changes. This would help to provide assurance that SDC legal are operating effectively.

4.4   **Reputational Risks**

4.4.1   **Potential Risk: Cases are not dealt with in accordance with required standards.**

The SLA details the expectations of the Council and SDC. This includes set response timeframes for service requests, monthly updates to be provided on progress made, steps outstanding and material changes, and staff provisions. The costs and fees are covered within the SLA, with details of what is included in the quarterly payments and where additional costs will be incurred. The terms also refer to various legislation and standards which will be adhered to.

A copy of the business case is included with the terms which sets out the details of the SLA and any potential savings the Council can make. It also includes the key performance measures which are reflected in the SLA.

Monitoring of cases is completed on a monthly basis by two team leaders at SDC who review the status of cases, obtain updates and monitor work against KPIs. One manages the team who work on planning and regulatory cases and the other oversees the team who specialise in property and commercial cases. This is then fed back to WDC at the bi-monthly meetings with the HG.

Advisory

It may be worth considering the KPI's in the SLA, with relevant measures being included in the service area plan for Governance Services.

The HG confirmed that they are creating a Service Area Plan and Risk Register for Governance Services. The agreement with SDC for the shared legal services will be considered for inclusion in the risk register and monitoring of the agreement will form part of the workload for the Governance team.

Ad-hoc work is completed by WCC, who manage any employment law cases on behalf of the Council. There is a contract in place for this work which runs until April 2027. The contract states that services shall be provided in accordance with the standards, applicable laws and with reasonable skill and care. Monitoring is completed infrequently as there are few cases commissioned to WCC.

4.5   **Other Risks**

4.5.1   **Potential Risk: Conflicts of interests where the cases involve both the Council and SDC and/or WCC.**

There is potential for there to be conflicts of interests where the cases involve both the Council and SDC (or WCC). Both the SLA with SDC and the contract with WCC have a section covering conflicts which confirms that all parties shall comply with the 'conflicts protocol' and shall make the client aware of any potential conflicts of interest. The protocol is included in the appendices

of the agreements which helps to ensure that conflicts of interest are declared early and steps are taken to maintain independence and objectivity.

The LSM at SDC provided a complete list of cases from 1 January 2023 – 31 March 2023. There were 108 cases listed and all relevant details of the cases were provided so they could be reviewed. There were no conflicts noted in any of the cases and none were identified as having a potential conflict between the two Councils. The LSM confirmed that there are rarely conflicts of interest and that all staff are aware of the conflicts protocol should they have a concern.

4.5.2   **Potential Risk: Staff resource/capacity unavailable.**

Previously there had been a guide available for staff to use when requiring legal work. This is currently under review as the implementation of a micro-site will change how work is requested and commissioned.

The HG became responsible for the management of the legal services 'contracts' in April 2023 and has been gathering the relevant information since then. This information is to be used to redevelop the instruction and commissioning forms and the user guide to ensure it captures the information required and does not create extra work for staff where not needed.

The LSM provided blank copies of the instruction forms currently used by the Council to request legal services. There are two forms used, one for planning work and one for all other services. If Legal Services staff do not have the required skills for a case the work will be commissioned from external providers.

The instruction forms include a section for the officer requesting work to provide the cost code for the recharge, details of the work required, timescales and any key dates and milestones. This information can then be used by Legal Services to prioritise the work and plan workloads with the resource available.

The service was under-resourced when the SLA began in terms of permanent staff although the service was supplemented with agency staff. However, staff have been recruited into most of the vacant roles leaving only a couple of part time posts filled with agency staff. The staff list is provided on a quarterly basis with the invoice allowing the available resource to be reviewed. As highlighted above, staff resource is discussed at the bi-monthly meetings between the Council and SDC to ensure the capacity is there for the workload. Any staff shortages or concerns can be raised at these meetings.

Regular team meetings are held between the SDC Legal Team Leaders and their staff to review the workload and progress against plans, providing an opportunity to highlight any capacity issues.

Both the HG and the SFM confirmed that all Council staff are authorised to commission / instruct legal work. They have both requested that SDC's Legal Services staff ensure that they provide information on cases, including the

officers name who has instructed the work. This will allow monitoring to be completed to ensure that works requested are valid and necessary.

A sample of current cases was selected and a request was made to review the instruction forms for each sampled case. However, SDC were unable to provide instruction forms for any of the sample. In some cases, the requests were said to be for general advice / ad hoc queries which Legal Services suggest do not require instruction forms. Others were legacy cases which had been transferred over to the SDC from WCC at the start of the SLA.

The LSM confirmed that instruction forms are not always obtained as often the instruction is sent in an email or via phone call. As long as all information required is collected and the key information is understood, he advised that there is no need for Council officers to spend additional time completing the instruction form and instead the team can get on with the work.

No recommendation is being given regarding the use of instruction forms as the SLA doesn't specify that work can only be instructed through the use of forms and the previous method was that work could be instructed using the forms, email or phone call. Other than the information in the SLA there is currently no formal user guide or process in place, although this is being developed to be in line with the launch of a microsite.

Advisory

Monitoring of the SLA may need to be completed to ensure staff are providing valid information and disbursements are authorised.

The LSM advised that this legal microsite is currently in the process of being developed. The site will be accessible by both SDC and Council officers. The site will have the instruction forms available. It is expected that it will be completed and live within the next couple of months.

5   **Summary and Conclusions**

5.1   Section 3.2 sets out the risks that were being reviewed as part of this audit. The review highlighted weaknesses against the following risks:

Risk 1 – Council incorrectly charged for the services provided.

5.2   Further 'issues' were also identified where advisory notes have been reported. In these instances, no formal recommendations are thought to be warranted, as there is no significant risk attached to the actions not being taken.

5.3   In overall terms, therefore, we can give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Shared Legal Services are appropriate and are working effectively to help mitigate and control the identified risks.

5.4   The assurance bands are shown overleaf:

Level of Assurance	Definition
Substantial	There is a sound system of control in place and compliance with the key controls.
Moderate	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited	The system of control is generally weak and there is non-compliance with controls that do exist.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Shared Legal Service – July 2023

Report Ref.	Risk	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.1	Council incorrectly charged for the services provided.	To ensure the Council is getting value for money the expenditure with all legal suppliers should be kept under review and the service requirements considered when the SLA is next renewed.	Medium	Head of Governance and Strategic Finance Manager	Additional information has been requested to enable the spending to be monitored more efficiently. The spending with legal services will be kept under review and raised at bi-monthly meetings.	September 2023 August 2023

* The ratings refer to how the recommendation affects the overall risk and are defined as follows:

High: Issue of significant importance requiring urgent attention.
Medium: Issue of moderate importance requiring prompt attention.
Low: Issue of minor importance requiring attention.

	INTERNAL AUDIT REPORT

FROM:	Audit and Risk Manager	**SUBJECT:**	VAT Accounting
TO:	Head of Finance	**DATE:**	28 September 2023
C.C.	Chief Executive		
	Strategic Finance Manager		
	Portfolio Holder (Cllr Chilvers)		

1 Introduction

1.1 In accordance with the Audit Plan for 2023/24, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.

1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

2.1 Value Added Tax (VAT) is a subject highly familiar to businesses, the general consumer and the accountancy profession. It is complex to administer requiring effective financial systems, key staff with a measure of specialist understanding and checks and controls over financial operations throughout the Council.

2.2 As a substantially public-funded organisation, the Council is a net receiver of refunded VAT from His Majesty's Revenues and Customs (HMRC) that in the last financial year amounted to around £10 million. To receive this the Council must meet legislative obligations, which include:

- being registered for VAT;
- submitting monthly returns in the form and method determined by HMRC within strict deadlines;
- maintaining proper accounts and supporting records.

3 Objectives of the Audit and Coverage of Risks

3.1 The management and financial controls in place have been assessed to provide assurance that the risks are being managed effectively. It should be noted that the risks stated in the report do not represent audit findings in themselves, but rather express the potential for a particular risk to occur. The findings detailed in each section following the stated risk confirm whether the risk is being controlled appropriately or whether there have been issues identified that need to be addressed.

3.2 In terms of scope, the audit covered the following risks (overleaf):

1. Failure to meet deadlines and errors leading to financial loss – penalties, fines and reputation.
2. Opportunities to recover VAT are missed.
3. Breach of VAT legislation.
4. Intentional misrepresentation of VAT liability.
5. Loss of IT / system failure resulting in loss of records.

3.3 These risks, if realised, would be detrimental to the Council with regards to meeting the following corporate objectives, as set out in the Fit for the Future Strategy:

Principally related to compliance with statutory provisions with some relevance to 'Money' strand linked from Fit for the Future and related strategies.

4   Findings

4.1   Recommendations from Previous Reports

4.1.1 The current position in respect of the recommendations from the previous audit reported in May 2020 were also reviewed. The current position is as follows:

	Recommendation	Management Response	Current Status
1	VAT compliance in respect of e-receipting by the Council's on-line payment portals and systems processing telephone payments should be investigated.	Work with the Housing Services Team and Building Control teams (with potential IT support) to implement process to ensure compliance.	A number of e-receipts were reviewed for payments made online for services including building control. Ticket receipts for the RSC and car parking season ticket letters did not include the VAT number or provide information on how to obtain a VAT receipt.

4.2   Financial Risks

4.2.1   Potential Risk: Failure to meet deadlines and errors leading to financial loss – penalties, fines and reputation.

There is a VAT reference manual available which was last updated in financial year 2018/19. Although it is recognised that it is overdue a review, it has not yet been completed.

Recommendation

The VAT reference manual should be reviewed.

The VAT reference manual is usually available to all staff via the intranet. However, with the change to the new system, the link to the manual has been lost and is only available to staff who have access to a secure shared drive (all

finance staff, IT helpdesk and a handful of staff in other departments). This was raised with a Principal Accountant who promptly added the document to the intranet.

The Council subscribes to the 'VAT and All Taxes Helpline' hosted by KPMG at a cost of £1,800 a year. The most recent subscription started 1 April 2023.

There are no checks built into Ci-Anywhere regarding VAT. All VAT, whether it is input tax or output tax, is system generated based on the VAT code selected. In the case of payments this would be the VAT code selected on the purchase order/when a non-order payment is set up/on the purchasing card journal and, in the case of income, the VAT code selected when the periodic or ad-hoc debtor is set up. Enterprise Cash Receipting (ECR) does have some codes that were pre-set to have VAT allocation by default when the system was set up because the income coded there is 100% standard rated.

There are no generic VAT error reports that can be run off the system and no bespoke reports are completed. The Assistant Account has a spreadsheet to check that the totals on the VAT Control Account each month balance to the figures on the Tax Statement in Box 1 (Output Tax) and Box 4 (input Tax). If they don't balance then it is usually because a VAT posting has been made directly to the control account. In this situation the Assistant Account has to find and correct the error. The VAT transactions are downloaded and saved onto spreadsheets every month. If any of the figures look unusually high or low compared to previous months or years they are investigated. A recent example of this was a high output tax figure in May 2023 when we had billed Stratford District Council for their share of the cost of the refuse vehicles.

The Assistant Accountant exports the monthly Building Control Income, Land Charges Income and Planning Pre-Application Advice Income into spreadsheets and corrects any errors where VAT has not been taken-off the income. Normally there wouldn't be any errors as the codes are standard rated by default; however, if the income is cleared by Treasury from the suspense account the wrong VAT code is sometimes selected.

An exercise was completed when Ci-Anywhere was first set up where miscellaneous income codes were allocated a default VAT code. When completing the VAT return, errors were encountered so amendments were made to the codes to prevent the same corrections needing to be made each month.

A sample of random transactions was reviewed and it was confirmed that VAT had been appropriately applied.

The 'making tax digital' scheme rolled out in 2019 means that the returns are all completed online through Ci-Anywhere. This has been the main change since the last audit. The VAT returns are generated and filed electronically. The Tax Statement figures are generated by Ci-Anywhere with no manual intervention - it is an entirely automated process. All VAT must be system generated, postings cannot be made directly to either the input tax or output tax control account, as it will be out of balance with the monthly Tax Statement. Copies of the completed VAT returns for 2021/2022, 2022/2023 and 2023/2024 were provided. They show the payments made and received on a monthly basis.

There has not been a VAT inspection within the last five years, although there have been a couple of VAT Compliance Checks for Land Charges CON29 Fees and Elections Expenses. A HMRC Customer Contact Manager Introduction and Business Risk Review was completed in June 2021. Information was supplied for the review but a response or outcome of the review was not received.

Instructions for filing the monthly VAT return in Ci-Anywhere are available for staff to follow when the Assistant Accountant is unavailable to complete the task. They are easy to follow, complete with images and screen shots to ensure the user is completing the process correctly.

4.2.2 **Potential Risk: Opportunities to recover VAT are missed.**

The Council's constitution establishes the responsibilities of officers, detailing those who have the authority to ensure the responsibilities set out in the code of financial practice are carried out. The code of financial practice was approved by Council 22 April 2015. The responsibilities remain the same as when they were reviewed in the audit completed in 2020.

The Head of Finance has overall responsibility for the main accounting and control systems and production of relevant accounts including the administration of VAT. Heads of Services and budget managers are required to ensure their budgets are controlled in respect of the legality of expenditure and income including compliance with VAT regulations.

The Assistant Accountant has been designated as responsible for completing the VAT returns for a number of years. Another officer has been trained to complete the monthly returns, enabling them to provide cover for absence or annual leave. On the rare occasion that neither of these officers are available the Strategic Finance Manager would be responsible for ensuring the task is completed. There have been no changes to the job descriptions since the last audit and so VAT responsibilities are not documented in the Assistant Accountant's job description.

At the time of the audit there was only a VAT guide on the intranet for procurement card VAT codes. This was due to a recent change to the intranet provider and the relevant documents had not been transferred over to the new system. This was mentioned to the Principal Accountant who promptly ensured that the relevant guidance and policies were added. Where appropriate, documents had been updated to guide users when performing tasks using Ci-Anywhere.

4.3 **Legal and Regulatory Risks**

4.3.1 **Potential Risk: Breach of VAT legislation.**

The VAT registration document has not been renewed since the last audit so the VAT number and registered details on the certificate remain the same. The registered date on the VAT certificate is 11 June 1973 with the most recent update completed 6 March 2020. The renewal was completed in 2020 due to the

address of the Council needing to be changed as HMRC were no longer accepting PO Box addresses.

VAT certificates do not expire but details must be kept up to date. HMRC must be informed within 30 days if there are any changes. Changes include: change of name or address of business, change of accountant who deals with VAT, changes of members of the partnership or home addresses of any partners. Failure to notify HMRC of changes will result in a penalty. Changes can be made online through the VAT online account. The Strategic Finance Manager is aware of the requirement and will ensure that HMRC are informed when appropriate. They also plan to have the finance system and related stationary updated with the new details.

The published information for making payments to the Council was reviewed along with a variety of invoices, receipts, and other proof-of-purchase documents in order to check that the correct registration number is shown and printed on all relevant stationery and financial documents.

Building control fees are detailed on the Council's website. The application form states that VAT is included in the costs but there is no VAT number published. The online payment forms also do not include the VAT information. A recent receipt for a building control payment was reviewed and it provided the VAT number.

There is no information published for the cost of garage rents. A discussion with a rents officer confirmed that VAT is charged to non-Council tenants only. A copy of a rent increase letter was shared which displays the VAT number. Invoices are not sent to garage tenants, only notices of an increase in rent are sent. Although the VAT number is displayed, tenants should not be operating a VAT-registered business from the garage to claim back input tax on garage rent as this would be in breach of the tenancy conditions.

For the hire of facilities at the Royal Spa Centre (RSC), Pump Rooms and Town Hall, fees shown on the website include VAT but there is no VAT registration number provided. When booking tickets through the RSC website there is no indication whether VAT applies. A recent receipt from the RSC does not show a VAT number or provide information on how to obtain a VAT receipt.

The fees published on the Council's website for car park season tickets include VAT but no VAT number is provided. The receipt letter does not include the VAT registered number or an option for the buyer to obtain a VAT receipt.

Car parking fees are listed on the website but the information doesn't specify if the fees include VAT. A receipt from the Ringo (parking app) provides an option to download a VAT receipt which provides the VAT number.

Where VAT numbers were provided, testing by the auditor confirmed that they were all correct and matched the registered number for the Council. The VAT number doesn't need to be published online as it is only needed to claim back VAT paid on purchases. Therefore, it should be included for items such as RSC tickets and fees or car parking season tickets.

Recommendation

VAT details, if not included on receipts, should be available on request to customers. *This was also a recommendation in the previous audit of VAT Accounting.*

4.4   **Fraud risks:**

4.4.1 **Potential Risk: Intentional misrepresentation of VAT liability.**

The Finance Risk Register includes one risk regarding VAT, which is 'additional value added tax liabilities'. Mitigations include review of VAT returns, access to VAT helpdesk, a VAT manual for officers and other relevant controls.

The Assistant Accountant confirmed that VAT reviews are completed and help and advice is available from VAT and taxes helplines (which the Council subscribes to). A VAT manual is available on the intranet for all staff.

The change to Ci-Anywhere has meant that most VAT tasks are automatically processed. Previously the Assistant Accountant completed VAT partial exemption calculations. This has not been completed for either 2021/22 or 2022/23, however, as a new spreadsheet would have to be developed to incorporate the new ledger and coding system and there hasn't been the capacity to do it. The Strategic Finance Manager is aware of the capacity limitation.

Recommendation

A timetable of VAT tasks should be developed and progress regularly reviewed by the Strategic Finance Manager. .

4.5   **Other Risks**

4.5.1 **Potential Risk: Loss of IT /system failure resulting in loss of records.**

There are no workplans in place for VAT accounting. Loss of IT would result in the delay of checking and reviewing the calculations. As Ci-Anywhere is cloud-based the data would be available when the connection to the internet returns.

Ci-Anywhere is cloud-based with backups performed as part of the contract with T1. This was confirmed with information shared from an audit of Creditors completed earlier in the year. No internal backups are completed as they are not required with the cloud system in place.

5   **Summary and Conclusions**

5.1   Section 3.2 sets out the risks that were being reviewed as part of this audit. The review highlighted weaknesses against the following risks (overleaf):

Risk 1 – Failure to meet deadlines and errors leading to financial loss – penalties, fines and reputation.
Risk 3 - Breach of VAT legislation.
Risk 4 - Intentional misrepresentation of VAT liability

5.2   In overall terms, despite the identification of some weaknesses, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of VAT Accounting are appropriate and are working effectively to help mitigate and control the identified risks.

5.3   The assurance bands are shown below:

Level of Assurance	Definition
Substantial	There is a sound system of control in place and compliance with the key controls.
Moderate	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited	The system of control is generally weak and there is non-compliance with controls that do exist.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of VAT Accounting – September 2023

Report Ref.	Risk	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.1	Failure to meet deadlines and errors leading to financial loss – penalties, fines and reputation.	The VAT reference manual should be reviewed.	Low	Assistant Accountant (AA) / Strategic Finance Manager (SFM)	SFM to work with AA to find capacity to update VAT manual, including all statutory updates and to then publish on the intranet.	31 March 2024
4.3.1	Breach of VAT legislation.	VAT details, if not included on receipts, should be available on request to customers. *This was also a recommendation in the previous audit of VAT Accounting.*	Low	Assistant Accountant (AA) / Strategic Finance Manager (SFM)	To advice service area's to have VAT receipts available where possible and ensure that signposting to the intranet to inform the VAT registration number is available (and to update the internet is updated).	31 March 2024
4.4.1	Intentional misrepresentation of VAT liability	A timetable of VAT tasks should be developed and progress regularly reviewed by the Strategic Finance Manager.	Low	Accountant Assistant	Timetable to be produced annually in line with the Finance report timetable.	December 2023

* The ratings refer to how the recommendation affects the overall risk and are defined as follows:

High: Issue of significant importance requiring urgent attention.
Medium: Issue of moderate importance requiring prompt attention.
Low: Issue of minor importance requiring attention.