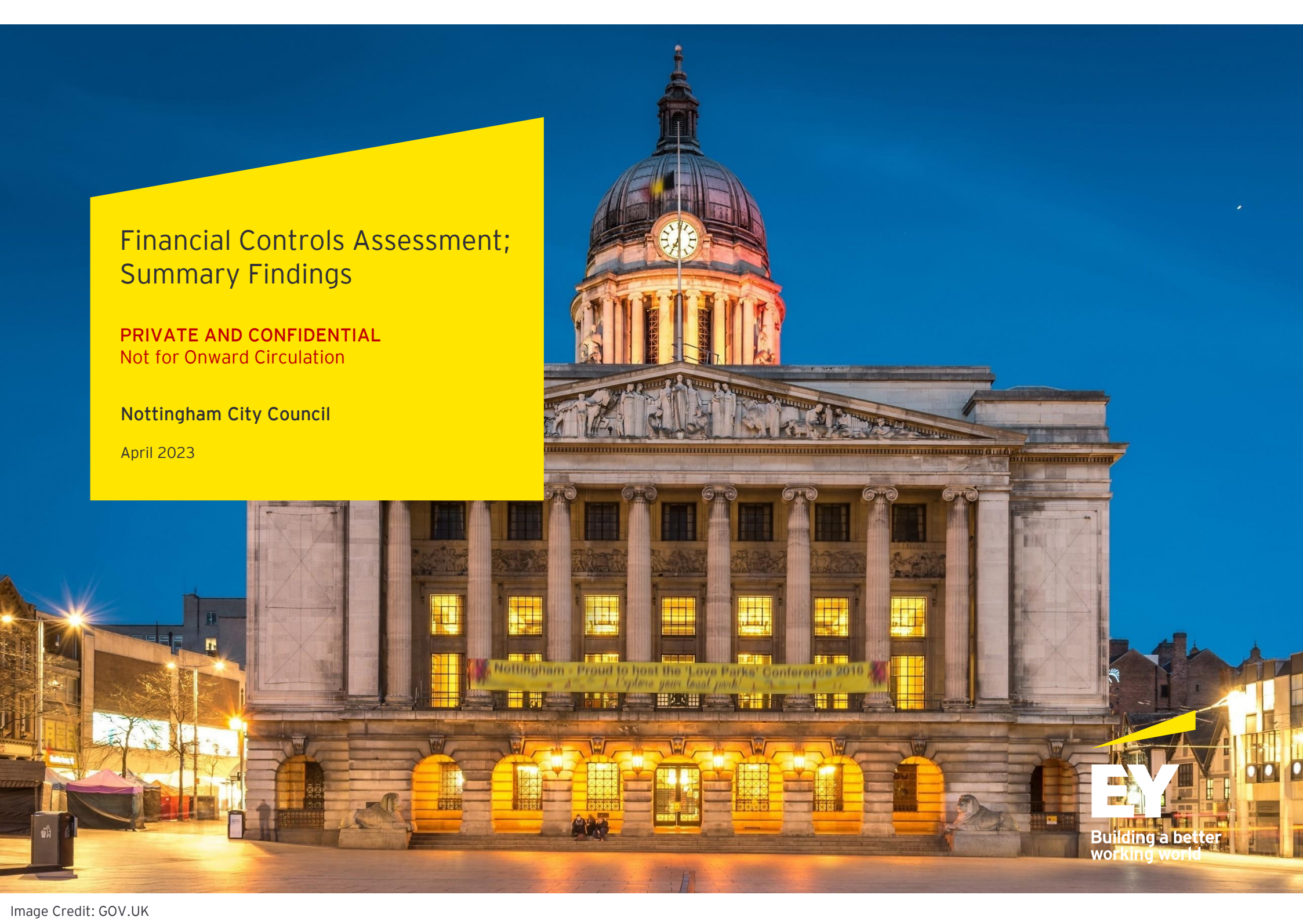


# Financial Controls Assessment; Summary Findings

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Nottingham City Council

April 2023





24<sup>th</sup> April 2023

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Further details can be found at [https://www.ey.com/en\\_uk/legal-statement](https://www.ey.com/en_uk/legal-statement).

Dear Ross,

### Nottingham City Council: Financial Controls Assessment; Summary Findings

In accordance with your instructions, we ("EY" or "We") have performed the work set out in our Engagement Agreement dated 11 January 2023 (the "Engagement Agreement").

#### Purpose of our report and restrictions on its use

This report was prepared on the specific instructions of Nottingham City Council ("the Council") for the purpose set out in this report and should not be relied upon for any other purpose. Because others may seek to use it for different purposes, this report and its contents may not be quoted, referred to or shown to any other parties unless so required by court or a regulatory authority, without our prior consent in writing. Any third party should recognise in writing that we assume no responsibility or liability to them in respect of the contents of our deliverables.

In carrying out our work and preparing our report, we have worked solely on the instructions of the Council. We accept no responsibility or liability to any person other than to the Council, and accordingly if such other persons choose to rely upon any of the contents of this report they do so at their own risk.

We note that there is a separate engagement with regards to the Agreed Upon Procedures being performed in relation to the Council's ring-fenced funds, the findings of which are delivered in a separate report.

#### Nature and scope of the services

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement. We have not validated information provided to us by the Council for the purposes of this Controls Assessment.

If you would like to clarify any aspect of this Report or discuss other related matters, then please do not hesitate to contact me.

Yours sincerely,

EY

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1	<b>Executive Summary:</b> <ul style="list-style-type: none"> <li>- Overview of Findings</li> <li>- Summary Table</li> <li>- Control Maturity Dimension</li> </ul>
2	<b>Controls Remediation Plan - Purpose, Activities and Milestones</b>
3	<b>Approach and Definitions</b>
4	<b>Controls Assessment of Six Financial Arrangements Within Scope</b> <ul style="list-style-type: none"> <li>- Parking Enforcement</li> <li>- Better Care Fund (BCF)</li> <li>- Capital</li> <li>- Transforming Cities Fund (TCF)</li> <li>- Dedicated Schools Grant (DSG)</li> <li>- Licensing</li> </ul>

# 1. Executive Summary

# EY Executive Summary

## Purpose of Report

This Controls Assessment report focusses on the control environment at Nottingham City Council (NCC) and considers the strength of controls across six areas:

- Licensing;
- Better Care Fund;
- Capital;
- Transforming Cities Fund;
- Dedicated Schools Grant; and,
- Parking Enforcement.

## Approach to the Controls Assessment

The following method was adopted for the Controls Assessment:

1. All items identified within the Gap Analysis and Agreed Upon Procedure (AUP) process as control failures, errors or anomaly's were drawn into a Risks and Controls matrix and classified.
2. A determination was made whether controls existed or not, and the primary reason for control weakness or failure identified.
3. The broader control environment was investigated; whether this weakness could have been prevented or detected through differing policy, evidence, approval or other actions.
4. Each financial arrangement in scope was assessed against a Control Maturity Framework to provide a view on the strength or weakness of NCC's Control Environment.
5. Interviews of key staff were undertaken and documentation assessed. An aggregate perspective was formed on NCC's Controls Environment, and recommendations were developed into a Control Remediation Plan.

To note, in the proceeding pages, 'issues' refers to observed examples of where controls have been observed to be ineffective, not followed appropriately or data has been provided that was insufficient to evidence process.

## Controls Assessment - Key Observations

The work undertaken across financial periods 2019 to 2022, has identified a number of significant concerns within NCC's control environment. Observations indicate a weak controls environment, ineffective systems and associated management information and a culture which is not focused on the value of compliance. Key observations include:

- An **ineffective audit trail** that didn't provide appropriate evidence to support transactions, with extensive records either incomplete, onerous to draw from systems or in many cases, missing. Of the issues identified, 50% of them could be attributable to lack of, or inappropriate, evidence.
- A **high incidence of issues** across the AUP sample with a wide range of causes from transactions classification, application of accounting policy, and transaction timing through to more substantive control weaknesses in transaction recording, approvals, and error. Across all samples, 60% were identified to have issues, with 50% of these attributable to lack of appropriate evidence and 50% attributable to an identified transaction error or control short-falling.
- Ineffective means to reconcile and identify process error, resulting in **limited preventative and detective controls**. This is further compounded by limited means to extract relevant management information from systems to help inform management of control breaches.
- A **culture where policy adherence along with process and control knowledge is weak**. This was evidenced both in relation to adherence with NCC's own policies, particularly within procurement activity along with grant policies and permissibility.
- A **high risk of controls being circumnavigated through management override**. It is recognised that there may be range of reasons for why controls are overridden by management that may include both active decisions by management to override, along with unintentional override which then isn't flagged by a system. However, such risks are at the core of an ineffective control environment and hinders the ability of NCC to effective proper financial stewardship.

## EY Executive Summary

### Conclusions drawn from the Key Observations

The findings of the Controls Assessment underpin a conclusion that NCC is operating with a considerably weakened control environment which is not fit for purpose in allowing a Local Authority to enact effective financial stewardship in line with the CIPFA Financial Management Code.

The following conclusions are drawn from the observations:

- The current state of controls in operation require urgent intervention to avoid the risk of inappropriate financial activity. This should initially focus on establishing interim controls along with an organisation wide health check to determine how prevalent issues identified as part of this process exist elsewhere within NCC.
- Whilst urgent action is required to establish grip on NCC's financial activities, it also needs to be recognised that the scale of change required to establish an effective control environment is a transformative process and will take a number of years to implement and deliver.
- Whilst the observations identify clear risk and evidence of management override, this doesn't suggest that the responsibility for the weakened controls environment sits solely with management. Rather, ineffective systems and processes, that in many cases are inefficient and lack sufficient agility and automation, contribute to a culture where compliance is not valued nor seen as a priority.
- NCC needs to ensure that lessons are learnt, especially with regards to future IT systems that will need to be adopted and implemented to support the Council's operation. In particular, this references the need to ensure that the control environment is core to NCC's systems, along with ensuring that the appropriate skills and capabilities are utilised during their design and implementation.
- Key to NCC transforming its control environment is the need for a shift in culture within the organisation. Steps need to be taken to improve skills and capabilities that support effective financial management and thereby establish a culture where compliance is valued and controls are recognised for the outcomes they seek to achieve.

### Controls Remediation Plan

To intervene with the objective of strengthening the Council's control environment and associated financial stewardship a Controls Remediation Plan composed of four steps is recommended to be implemented with urgency. This is further detailed in Section 2 and its key steps are summarised below:

1. **Establishing Grip** - Designing and integrating new and in some cases interim controls into policy and process that safeguard NCC and its subsidiaries.
2. **Improving Capability** - Defining accountability for control, and identifying and closing training needs across NCC divisions with an overarching focus on transforming the culture of compliance.
3. **Developing Enhanced Control Processes and Supporting Monitoring Tools** - Developing detective and preventative controls and exception reports at entity level, supporting improved management information to maintain a view on control performance.
4. **Optimising the Enabling Systems** - Determining the controls that can be automated within technology platforms and embedding within NCC's future system design and implementation activities.

Engagement with CLT, NCC's External Auditors, and Finance Improvement leadership will provide a platform for collective ownership of the recommendations made in this report and the associated opportunity to enhance the lines of defence in the control environment in FY23/24 and beyond.

# EY Executive Summary

## Summary of Areas In Scope

Across the six financial arrangements in scope, the following conclusions were drawn, with further detail provided in Section 4:

In-scope area	Parking, Traffic Regulation and Bus Lane Enforcement	Better Care Fund (BCF)	Capital Expenditure	Transforming Cities Fund (TCF)	Dedicated Schools Grant (DSG)	Licensing Income	
Description	NCC generates income from civil enforcement operations including Parking, Traffic and Bus Lane Enforcement	The BCF requires NHS and local government to create a local pooled budget to incentivise closer working, placing wellbeing at the focus of health and care services, shifting resources into social care and community services.	NCC expenditure incurred either to purchase or build a non-current asset, or to improve or upgrade an existing non-current asset. Capital and revenue expenditure should be identified separately in the financing statements.	NCC and Derby City Council jointly received a four year £161m capital grant from the TCF to strengthen connections between major employment sites, upgrade public transport, and improve options for people on foot or bike.	The DSG is a ring-fenced to fund school budgets and services that directly support the education of pupils. It is divided into four blocks: Schools Block, Central School Services Block, High Needs Block and Early Years Block.	NCC are responsible for administering a range of licences and approvals relating to both national legislation and discretionary functions that are agreed locally.	
FY19/20 Spend	£8.4m	£42.0m	£171.7m	£8.0m	£109.5m	£5.4m	
FY20/21 Spend	£6.3m	£43.6m	£150.0m	£20.3m	£114.9m	£5.4m	
FY21/22 Spend	£4.8m	£44.9m	£100.8m	£62.6m	£120.7m	£5.2m	
AUP Sample Issue Rates	18 of 24; 75% Issue Rate	21 of 27; 78% Issue Rate	10 of 24; 42% Issue Rate	21 of 24; 88% Issue Rate	10 of 24; 42% Issue Rate	8 of 24; 33% Issue Rate	
Lack of Evidence	15	18	16	24	12	7	
Identified Error	17	22	6	25	3	19	
<b>Total Issues Identified</b>	<b>32</b>	<b>40</b>	<b>22</b>	<b>49</b>	<b>15</b>	<b>26</b>	
Risk Rating	Audit Trail	47%	45%	73%	49%	80%	27%
	Control Environment	1.8 / 5	2.3 / 5	3.0 / 5	1.7 / 5	2.8 / 5	2.0 / 5
	Management Override	High	Medium	Low	Medium	Medium	Medium
Primary Control Weakness	<b>Preventative:</b> Lack of Evidence <b>Detective:</b> Review Procedures	<b>Preventative:</b> Lack of Evidence <b>Detective:</b> Review Procedures	<b>Preventative:</b> Policy & Guidance, Approval <b>Detective:</b> Reconciliation	<b>Preventative:</b> Lack of Evidence <b>Detective:</b> Reconciliation	<b>Preventative:</b> Lack of Evidence <b>Detective:</b> Review Procedures	<b>Preventative:</b> Lack of Evidence <b>Detective:</b> Review Procedures	
Overarching Risk Materiality	High	High	High	High	High	High	

# EY Executive Summary

## Overview of Financial Areas In Scope

As summarised in Figure 1, the six financial areas in the scope of this review related to spend amounting to £339m in 2021/22. Four of the six areas were identified as having a medium risk of management override of controls being prevalent within the arrangements within each area. One area, namely Parking, Traffic Regulation and Bus Lane Enforcement was identified as having a high risk of management override of controls. Whilst this area encompasses spend of a much less material value than other areas in scope, it nonetheless represents a significant risk contributing to challenges in NCC providing adequate financial stewardship within the financial activities that are in operation within this area.

Figure 2 sets out the range of issues identified across the financial areas in scope. The total issue rate for the samples gathered across all areas in scope amounted to 60%, considered high and indicative of a weak control environment. Some areas incurred very high issue rates, with 88% of the Transforming Cities Fund samples returning an issue.

The identified issues were initially categorised between whether this was due to incomplete samples or inappropriate evidence, or whether it was due to a more substantive control failure. Of the issues identified, 50% were due to incomplete samples or inappropriate evidence, and 50% were due to a controls failure. However, these figures ranged across the areas in scope. Within the Dedicated Schools Grant analysis, 80% of the issues identified were due to incomplete samples or inappropriate evidence, pointing towards an ineffective maintenance of the audit trail. Within Licensing Income, 73% of issues were due to a control failure, pointing towards an acutely weak control environment.

Fig 1: 21/22 Expenditure of In-Scope Financial Areas

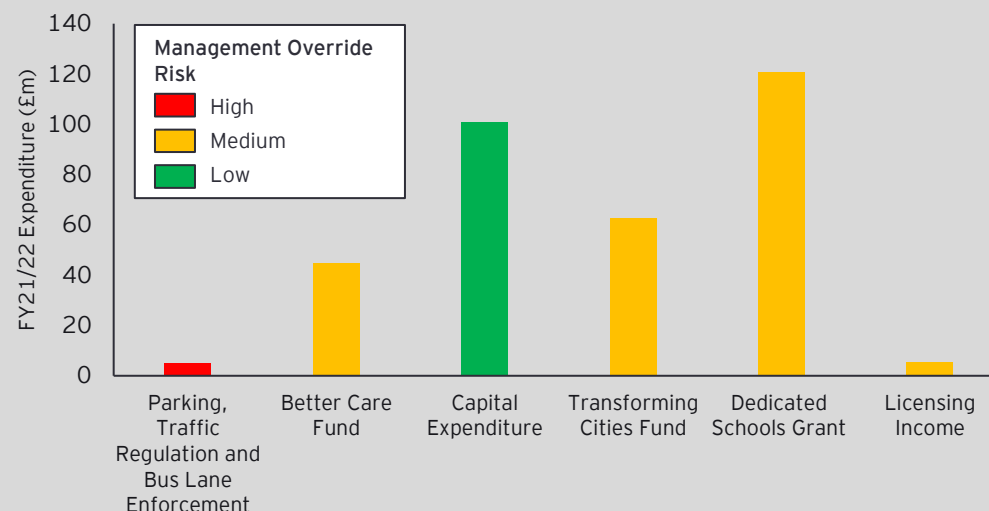
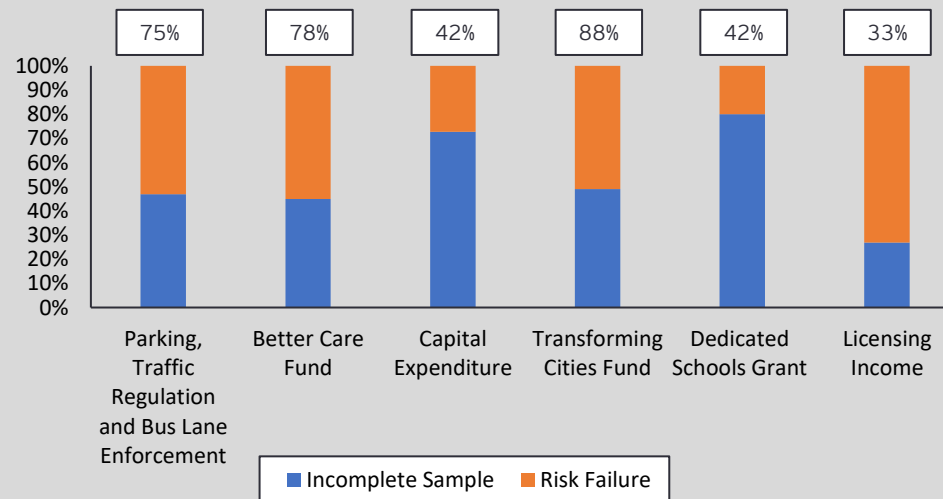


Fig 2: Control Failure and Incomplete Sample Rate





# EY Executive Summary

## Overview of Financial Areas In Scope (cont.)

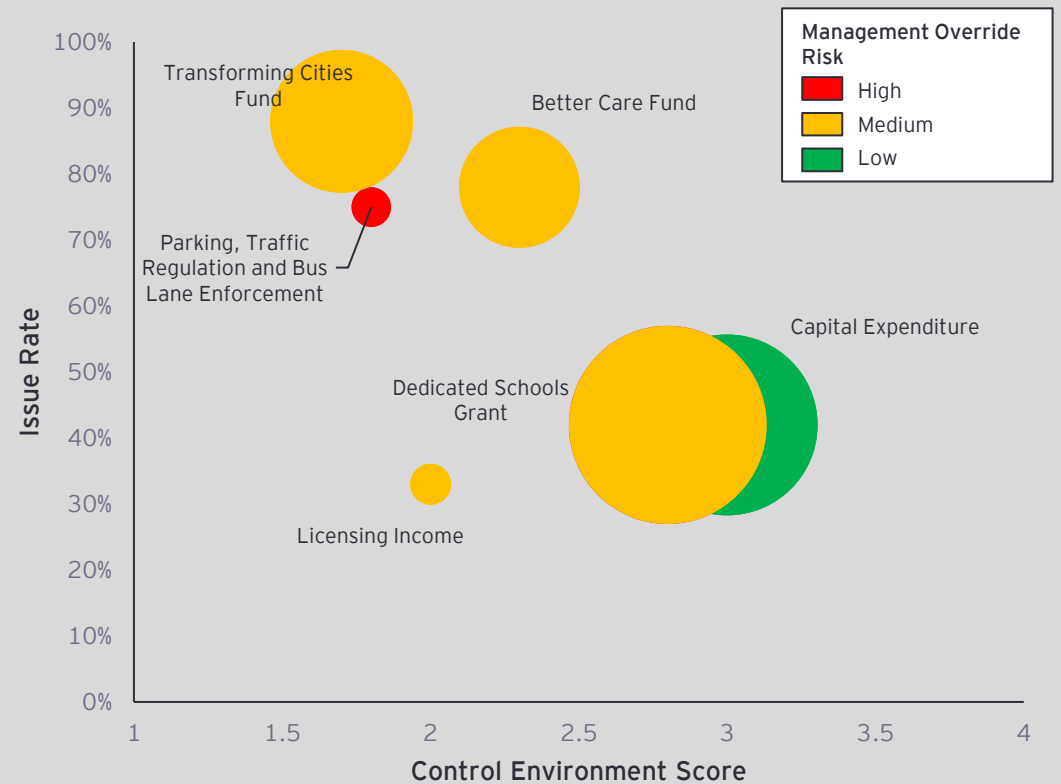
Figure 3 sets out the range of control performance scores identified across the areas in scope.

Whilst this assessment identifies that improvements to the control environment is required across the breadth of the organisation, it highlights where findings suggests that the issues likely various across different areas in scope and where priority focus may need to be applied.

The analysis also identifies that although the value of expenditure in scope and sampled varied significantly between the areas in scope, even for those with lower values of spend where deemed to represent a high materiality of risk, due to the consequences of error or mismanagement within these services.

Such analysis can be helpful in assessing other areas in scope within NCC, plotted against existing analysis, as well as comparing and tracking mitigating measures and the impact it has on the control environment scores and issue rates of each area in scope.

Fig 3: Issue Rate over Control Environment Score



# EY Executive Summary

## Control Maturity Dimensions

To assess the Control Environment the following maturity framework was adopted that evaluates eight control dimensions at the NCC Entity, Business and IT Systems control levels. The average NCC score against the Control Maturity Dimensions across the six financial arrangements is shown below. To note, there is variability between different financial arrangements in scope, which are further detailed in section 4.



Control Level	Control Maturity Dimension	Description	1	2	3	4	5	
NCC Entity Level	Maturity of Policy and Control Environment	Completeness of the policy, guidance and key control processes across NCC. For example clear approaches exist around the Internal Audit Plan, Scheme of Delegation, Corporate Risk Register and Whistleblowing, and regular horizon and threat scanning is undertaken.					●	
	Control Definition	Assessing the extent to which key processes are mapped and extent of risk and control definition, ownership and integration across the NCC entity.				●		
Business Process	Defined and Detailed Processes and / or Policy	Extent to which a particular business process or policy has been executed in accordance with its intended objectives and specifications. In a strong environment all the necessary steps, tasks, and activities required to accomplish the process have been performed, in line with approved Policy, and no significant steps have been omitted or left incomplete.		●				
	Knowledge and Application of Processes and / or Policy	Knowledge refers to the understanding of the procedures, policies, and regulations. This includes a clear understanding of the inputs, activities, and outputs of the process, as well as associated risks and control objectives. Application reflects following the prescribed procedures and policies, ensuring that the process is executed in a controlled and consistent manner, and taking corrective action where necessary	●					
	Preventative Controls	Purposeful design of controls to stop errors, fraud, or other problems from occurring in the first place. These are proactive and aim to prevent problems from happening.		●				
	Detective Controls	These are designed to detect or identify errors, omissions, or other irregularities that may occur in a business process. These controls are put in place to identify problems that have already occurred, rather than preventing them from happening in the first place.				●		
IT Systems	Management Override	Ability of management/TCWG to manipulate accounting records / prepare fraudulent FS by overriding controls even when they appear to be operating effectively		●				
	Automated Controls	Controls that are built into computer systems and applications to ensure the accuracy, completeness, and validity of data, as well as to prevent and detect errors or fraud.		●				

## 2. Controls Remediation Plan – Purpose, Activities and Milestones

# EY Controls Remediation Plan - Introduction and Purpose

## Introduction

To promptly strengthen the weak control environment identified within this report the Council is recommended to:

1. Engage with key stakeholders on the conclusions within this report: internally this should include the Corporate Leadership Team and Business Owners of the six financial arrangements in scope. Externally, this should include the External Auditor.
2. Evaluate how the proposed Controls Remediation Plan operates alongside existing improvement activity being undertaken at NCC such as the NCC Financial Improvement Plan (FIP). It is recognised that improvement activity influencing 22/23 financial year has not been in scope of this report. Activities within both Control Remediation and FIP plans will require a coordinated approach, and clear prioritisation should be applied based on the organisations exposure to risk.
3. Apply accountability for the activities across service, audit and finance teams. In undertaking this exercise review the Councils capacity and capability to deliver the Controls Remediation Plan in full within the next three months to protect 23/24 Financial Year.

## Purpose of the Controls Remediation Plan

The Controls Remediation Plan defines steps to be undertaken across the next quarter to stabilise then enhance the controls environment at NCC. Designed and implemented effectively the Controls Plan will reduce NCC's risk exposure across the six financial arrangements in scope, founding a proactive and solution focussed response to the findings within this Controls Assessment report amongst other recent Public Interest and Audit Reports, embedding a culture of compliance across NCC divisions and its subsidiaries, and safeguarding financial stewardship at the Council. The plan is comprised of four themes of activity:

Control Remediation Activity	Rationale for Inclusion
<b>Establishing Grip</b> - Designing and integrating new and in some cases interim controls into policy and process that safeguard NCC and its subsidiaries.	<ul style="list-style-type: none"> <li>- Urgent requirement to close control gaps identified as not existing, or not operating.</li> <li>- Further policy and procedure safeguards are required in the form of preventative and detective controls.</li> </ul>
<b>Improving Capability</b> - Defining accountability for control, and identifying and closing training needs across NCC divisions with an overarching focus on transforming the culture of compliance.	<ul style="list-style-type: none"> <li>- Responsibility for approval and reviewing evidence for transactions was opaque.</li> <li>- A high frequency of human error and incorrect interpretation and application of Policy and processes were identified.</li> </ul>
<b>Developing Enhanced Control Processes and Supporting Monitoring Tools</b> - Developing detective and preventative controls and exception reports at entity level, supporting improved management information to maintain a view on control performance.	<ul style="list-style-type: none"> <li>- A strengthened entity level risk and control matrix and exception reporting can be a key line of defence in the safeguarding of transactions.</li> </ul>
<b>Optimising the Enabling Systems</b> - Determining the controls that can be automated within technology platforms and embedding within NCC's future system design and implementation activities.	<ul style="list-style-type: none"> <li>- Automated controls remove the risk of human error and allow an efficient method for blocking incorrect transactions.</li> </ul>

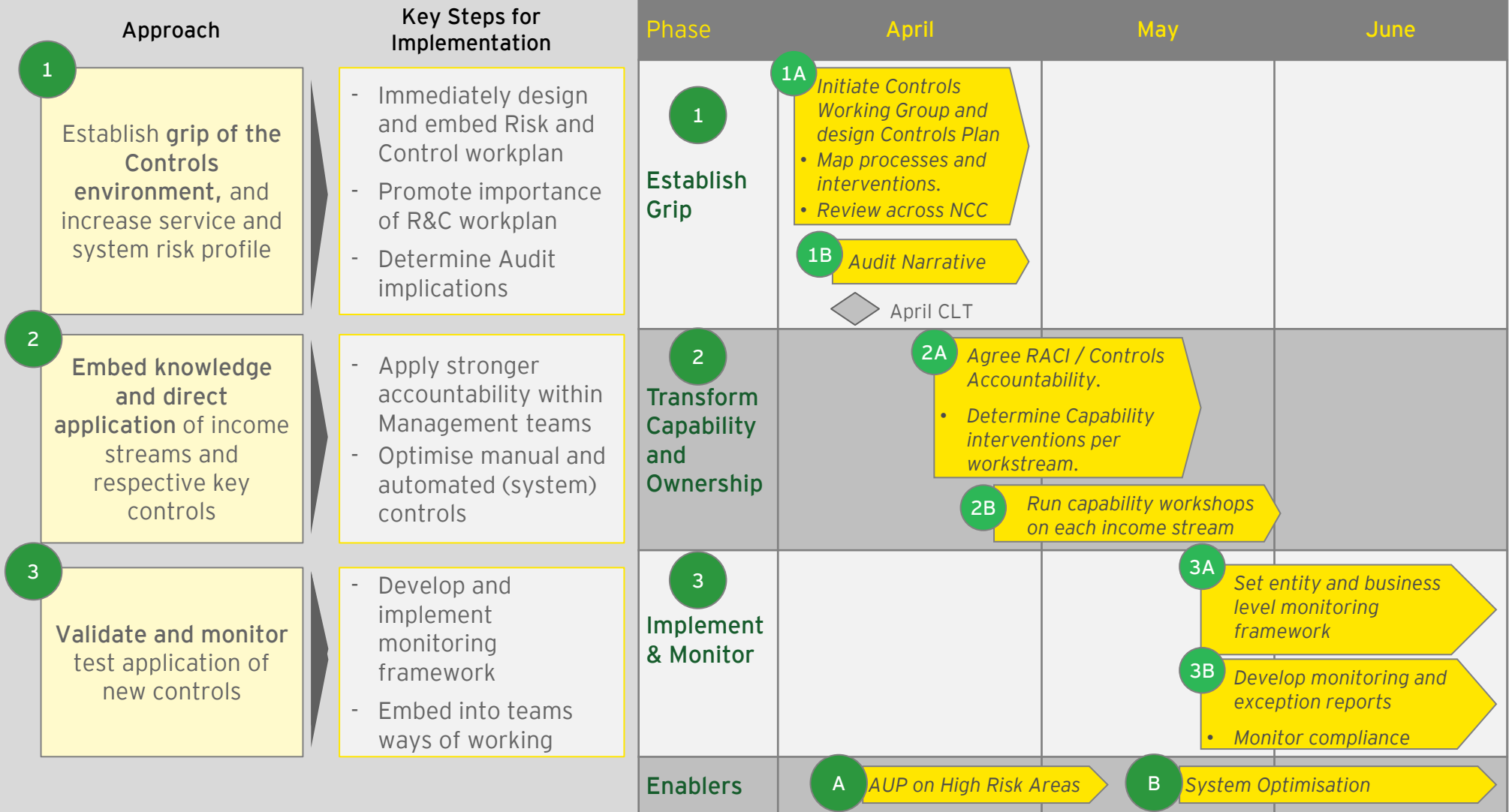
# EY Controls Remediation Plan - Key Activities

Thirteen activities are viewed as fundamental to strengthening the control environment across the next three months, ensuring a holistic approach is adopted to drive a lines of defence and compliance culture throughout the NCC perimeter (Council and group companies).

	Activity	Proposed Approach
1. Establish Grip	1 Risk and Control Workplan	Risk and Controls workplan details how to implement the necessary controls, capability and monitoring interventions needed to strengthen environment, identifying delivery leads.
	2 Map Income Processes	Process maps for each areas curated, or if they already exist, validated. The Preventative and Detective controls identified in Phase 1 are mapped onto processes.
	3 Develop New Interim Controls	Develop new documents, approvals, review methods and reconciliation models that underpin the newly strengthened control environment and culture in the future.
	4 Enhance Whistleblowing Mechanism	Seek to enhance the existing whistleblowing mechanism to help identify and communicate a wider range of issues relating to non-compliance across NCC.
	5 Control Review across other Council functions and Key Subsidiaries	Deepening the review of controls within the NCC Group, provide insight and intelligence on the effectiveness of control across NCC and its group structure.
2. Capability Improvement	6 Define Accountability for Application, Prevention and Detection	Strengthen role clarity utilising the Risks and Controls matrix developed in the Establish Grip phase to apply Responsibility, Accountability. Consultation and Informed (RACI)
	7 Undertake Capability Training to embed a Compliance Culture	Identify the capability needs and gap analysis across Service Management Teams. Undertake process walkthroughs, best practice evidence and controls through workshops and exercises.
	8 Refine and review Controls With Teams	Draw from workshops whether additional controls are required, review approval matrices and refresh for example. Determine best practice evidence examples.
3. Validate and Monitor	9 Incorporate into the Entity Level Framework	Assess how the entity level Risk and Control framework is to incorporate the Business level controls, and roles of Finance, Audit and Financial Systems in control.
	10 Develop Monitoring and Exception Reports	Develop the entity level Control Monitoring process and flagging approach, determine procedure model
	11 Set Grant and Policy Operating Model	Determine the systems, data and ownership of the Grant Register, and Policy Unit.
4. Enablers	12 Undertake AUP's on Other High Risk Areas	Employ AUP process to assess high risk areas; Collection Fund, DfG Contributions for Care
	13 Optimise System Controls	Assess which of the identified controls can be underpinned through automation within the Financial System.

# EY Controls Remediation Plan - Work Programme

The key activities are mapped into a Programme Plan below across the next quarter, targeting strengthening the control environment early within the Financial Year by broadening the systemic, human and cultural protections and safeguards within key risks areas:

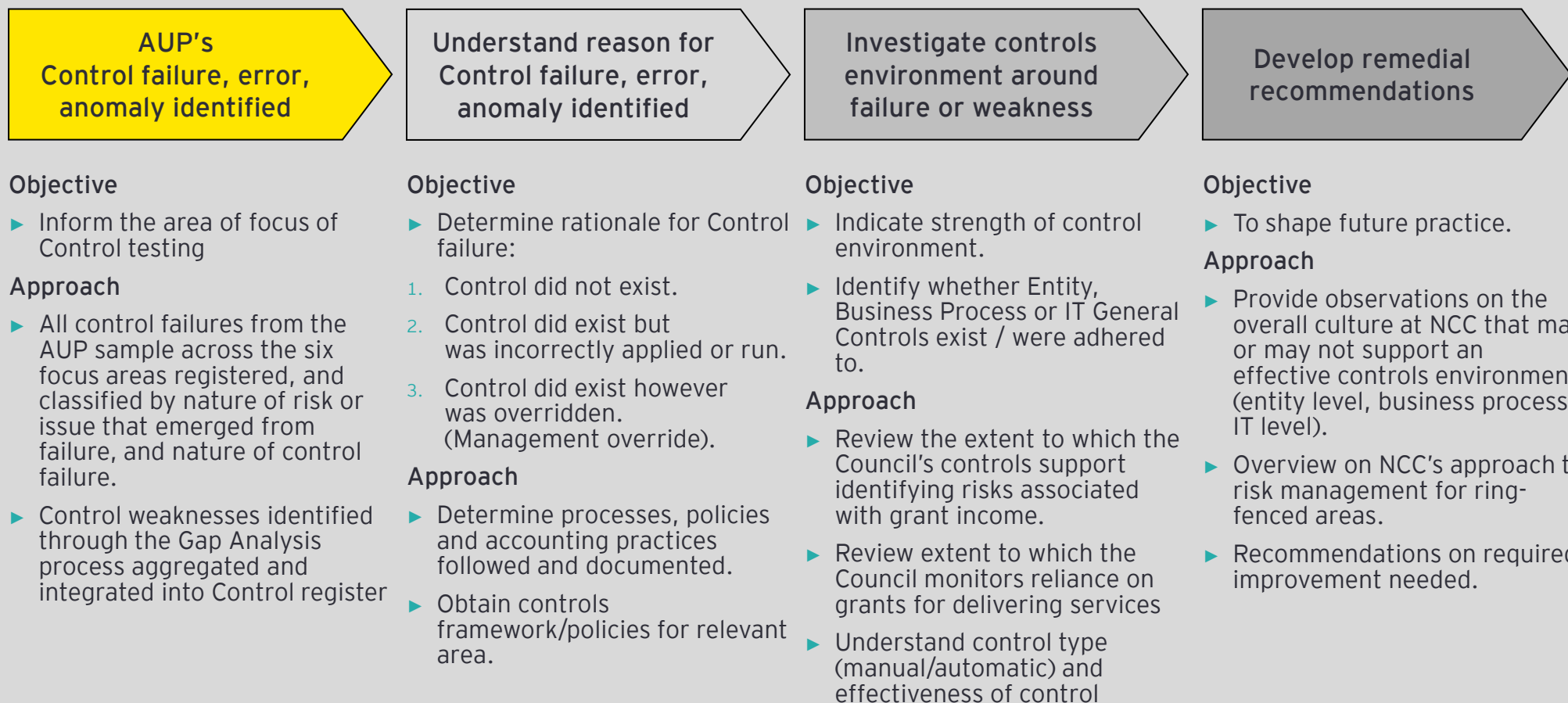


# 3. Approach and Definitions

# EY Controls Assessment Approach

## Controls Assessment Approach

The Controls Assessment approach has been comprised of four core steps that are underpinned by the AUP's, Gap Analysis findings and document reviews. Undertaken in conjunction with the Service areas:





## EY Controls Assessment Approach - Management Override

### Definition of Management Override

A consideration within the Controls Assessment was that of Management Override, defined as follows:

#### Context

The system of internal control can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives. The likelihood of their achievement is also influenced by the inherent limitations of internal control such as the human interactions, and controls being circumvented by **management override**.

#### Definition

Where management purposefully override controls that are designed to protect the organisation and secure financial stewardship. The decision to override controls could be taken for a broad range of reasons that could include expediency or efficiency, self-interest or fraud.

#### Examples of 'Management Override of Controls'

- ▶ Recording, or instructing others to record, fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives
- ▶ Inappropriately adjusting assumptions and changing judgments used to estimate account balances
- ▶ Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period
- ▶ Omitting, obscuring or misstating disclosures required by the applicable financial reporting framework, or disclosures that are necessary to achieve fair presentation
- ▶ Concealing facts that could affect the amounts recorded in the financial statements
- ▶ Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.
- ▶ Altering records and terms related to a significant and unusual transaction

### EY assessment on Management Override of Controls

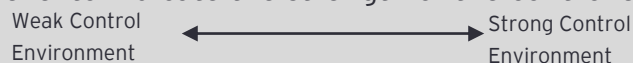
Each of the six financial arrangements within scope were assessed against a High, Medium, Low framework as follows:

- ▶ High - High frequency of risk areas and / or incidences identified where controls have been overridden on high value activity.
- ▶ Medium - Some examples of risk areas and / or incidences where controls have been overridden on activity.
- ▶ Low - No examples of risk areas and / or incidences where controls have been overridden.

# EY Controls Assessment Approach - Maturity Dimensions and Scoring Model

## Introducing the Control Maturity Scoring Model

The Controls Maturity for each of the six financial arrangements in scope was assessed against a series of statements at an Entity, Business Process and IT level to indicate the strength of the control environment:



Control Level	Control Maturity Dimension	1	2	3	4	5
Entity Wide	Maturity of Policy Environment		●			
	Control definition and maturity			●		
Business Process	Defined and Detailed Processes				●	
	Knowledge and Application of Processes		●			
	Preventative Controls			●		
	Detective Controls				●	
	Evidence of Management Override		●			
IT Systems	Automated Control Maturity			●		
	Extent and frequency of Control Failures				●	

Informed by interviews with Internal Audit and aggregated evidence base

Assessment undertaken against each of the six workstreams

### Scoring Chart for Control Environment

Level 1: Weak	Level 2: Immature	Level 3: Defined	Level 4: Mature	Level 5: Strong
Controls are poorly defined or missing.	Controls are starting to become formalised, however gaps remain	Controls are formalised and consistently applied	Controls are regularly monitored and improved	Controls are integrated with business processes
Lack of formal controls and processes, reliance on manual controls. Control failures frequent.	Some controls in place, but not consistently applied or monitored. Control failures still frequently evidenced.	Controls are documented and communicated, processes are in place to monitor and report on controls	Continuous monitoring and improvement of controls, use of automation to increase efficiency	Control environment is forward-looking and engages different types of manual and automated controls.

# 4. Controls Assessment Findings

## EY Controls Assessment - Findings

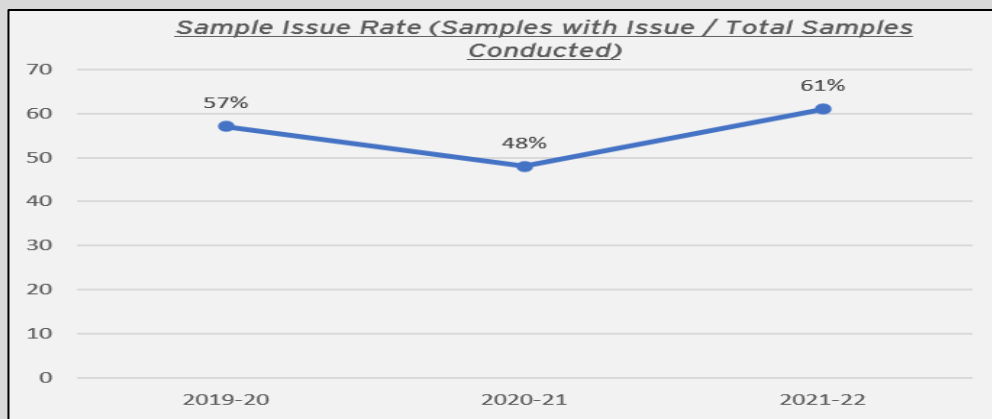
Across the subsequent pages in this report, the individual assessments conducted on the six financial arrangements in scope are captured. Alongside the maturity dimensions and AUP consolidated viewpoints, each assessment indicates the findings of the Preventative and Detective controls that should have been in place to protect the issue occurring. These controls are defined as follows:

Preventative Controls	Description of Control	Example
Approval	Certain actions within a process be authorized and approved by designated individuals before they can be carried out.	A scheme of delegation exists determining authorisation limits for expenditures, and approval requirements for purchase orders.
Policy and Guidance	Documented guidelines that employees must follow when performing certain tasks. By establishing clear policies and procedures, organizations can ensure that employees are aware of what is expected of them and reduce the risk of errors or fraud.	A capital accounting policy is developed and applied effectively.
Training	Educating employees on proper procedures and policies to ensure they understand the importance of following these guidelines to prevent errors or fraud.	New employees are onboarded and taken through Corporate and local Business Policies.
Evidence	Used to demonstrate that a control is working as intended and to help identify any weaknesses or areas for improvement in the control.	Documentation, testing results, monitoring data and incident reports.
Assessing Completeness	Evaluating whether all necessary steps have been taken to implement the control and ensure it is functioning as intended.	Process mapping, checklist review, independent verification and testing.
Detective Controls	Description of Control	Example
Reconciliation	To detect errors and unauthorised transactions	Reconciliation of bank statements to detect unauthorized transactions
Variance Analysis	To identify transactions that require further investigation and determine when corporate or budget thresholds have been broken	Exceptions Reports identify transactions that fall outside of normal parameters and require further investigation.
Review Procedures	To detect errors or omissions and track changes made to important data or systems	Review of access logs to detect unauthorized access to systems or data
Sampling	Practice of selecting and testing a representative subset of transactions or data to detect errors, omissions, or other irregularities that may have occurred in a business process.	An auditor may select a random sample of transactions from a large population of sales orders to test for accuracy and completeness.
Estimating	Using statistical techniques to estimate the occurrence of errors or irregularities in a population of transactions or data, based on a sample of that population.	Valuations

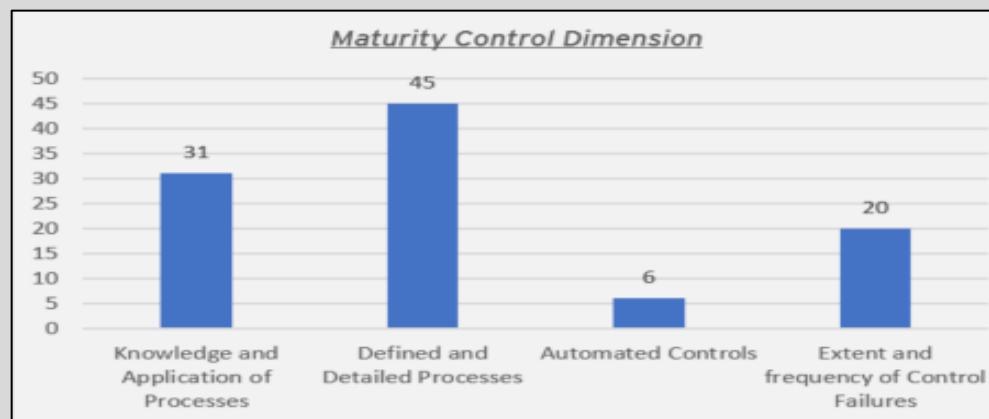
# EY Controls Assessment - Findings

## Controls Assessment Summary

The aggregate metrics for the six income streams are detailed below:

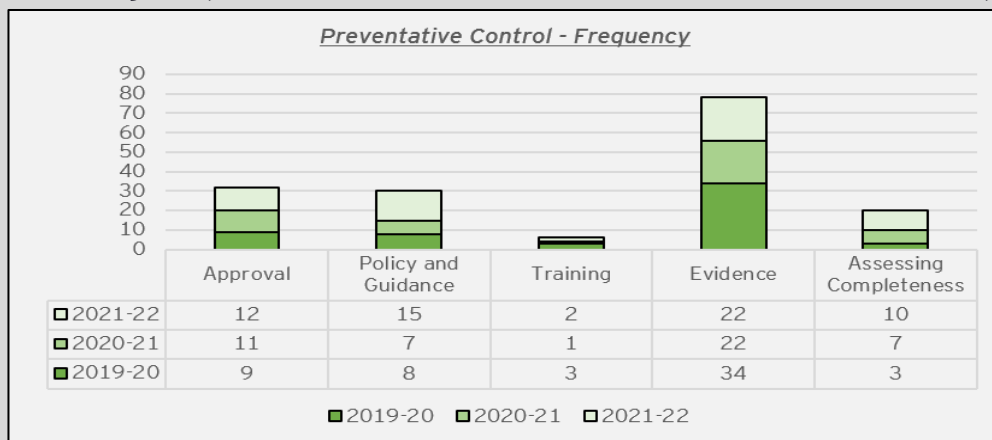


NCC's has a significantly high sample issue rate, that has trended at well above 45% across the last three years. This timeseries does not demonstrate an improvement in the control environment across this period.

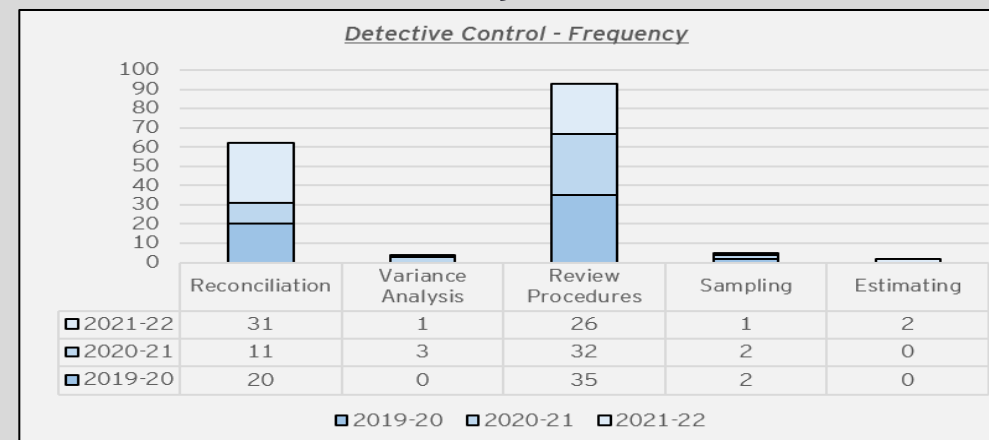


NCC's highest control weakness is in relation to Defined and Detailed Policy and Process. Automated Control are operating more effectively, however there are 20 sample issues where a control failure existed.

Evaluating the preventative and detective measures that would have prevented these issues from occurring conclusions are:



Across the financial arrangements in scope the sample indicates NCC has a poor record in being able to garner access to evidence, or providing evidence to substantiate, transactions. Additionally Policy and approval preventative controls are required.



In detecting issues, Management are not adopting strong enough review procedures, or utilising reconciliation models to ensure that transactions can be substantiated.

# NY Parking, Traffic Regulation and Bus Lane Enforcement - Overview

## Parking, Traffic Regulation and Bus Lane Enforcement

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix

FY19/20 Spend	£8.4m
FY20/21 Spend	£6.3m
FY21/22 Spend	£4.8m

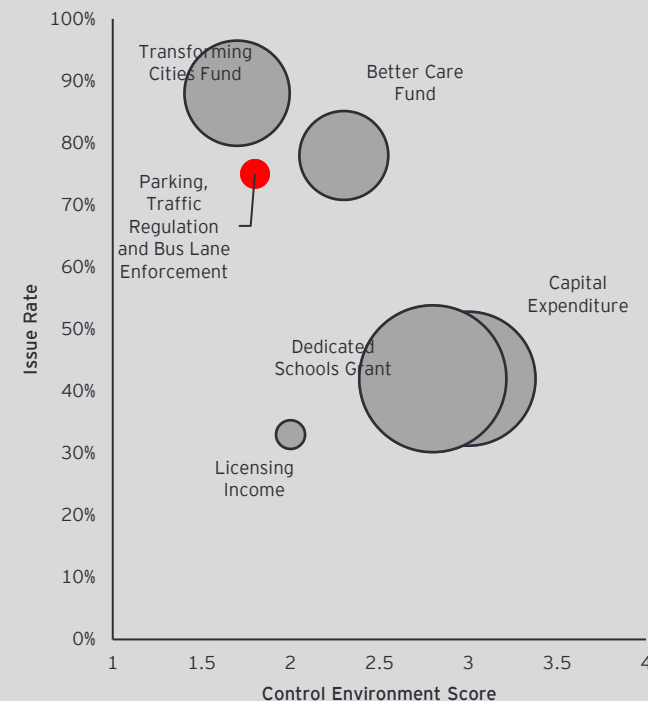
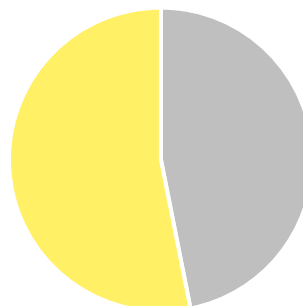
### Analysis Overview

- AUP Samples: 24
- AUP Samples with Identified Issues: 18
- Issue Rate: 75%
- Total Issues Identified: 32

Audit Trail Risk Score	47%
Control Environment Risk Score	1.8
Management Override Risk Rating	High
Overarching Risk Materiality	High

### Issue Categorisation

- Lack of Evidence: 15
- Identified Control Error: 17



### Key Management Override Considerations

- Example of Tender not provided to highest rated party as per Tender Evaluation
- Expenditure undertaken on an expired contract
- Unable to determine if contracted staff provide services only for parking/traffic enforcement
- Gap analysis identified perception of surpluses absorbed into GF without appropriate governance

### Overarching Comments

- A materially high evidence of issue rate and limited adherence to regulations indicates a weak control environment. Lack of effective ring fencing also further inhibits the effective stewardship of funds. These factors contribute to an environment where, although the total value of financial activity is low, the risk of breaches in compliance is high.

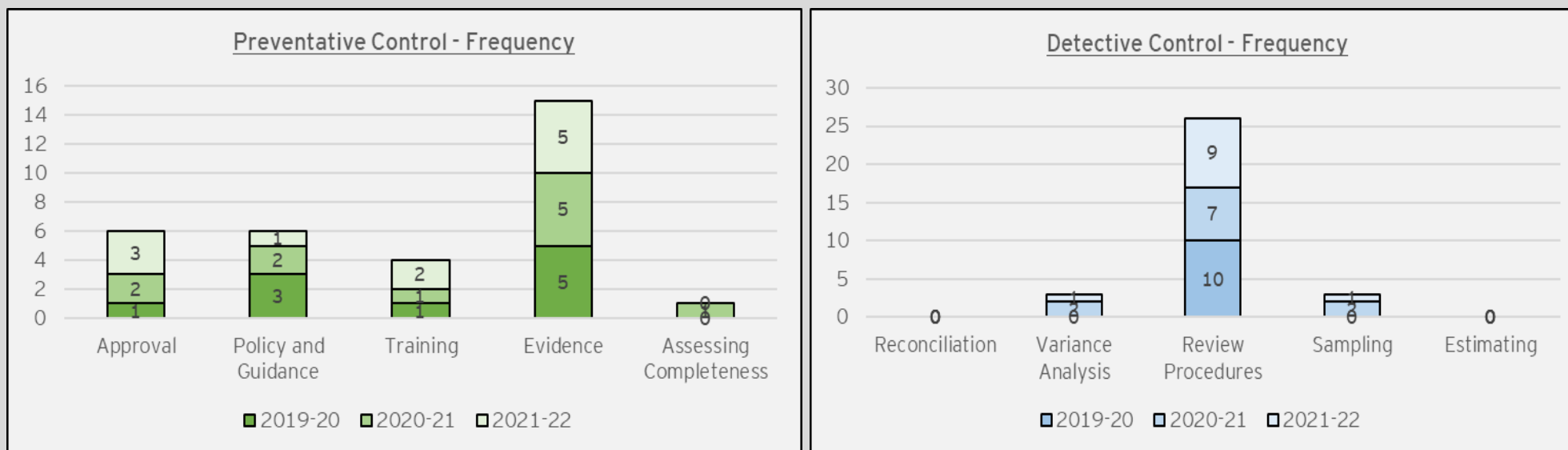
# EY Parking, Traffic Regulation and Bus Lane Enforcement - Control Maturity

The Control Maturity assessment for Parking is detailed below:

Control Level	Control Maturity Dimension	1	2	3	4	5	Key Control Observations
Business Process	Defined and Detailed Processes		●				<ul style="list-style-type: none"> <li>- Patrol report produced by Council and links with accounts.</li> <li>- Sample indicates incorrect accounting treatment (1/24, £356k)</li> <li>- Insufficient evidence to prove funds used as per regulation (3/24, £120k)</li> <li>- Unable to explain variance between contract and invoice (3/24, £32.5k)</li> <li>- Unable to obtain contract award or procurement forms. (1/24, £49k)</li> <li>- Basis of recharges utilising GY 14/15 budget (2/24, £214.8k)</li> </ul>
	Knowledge and Application of Processes		●				<ul style="list-style-type: none"> <li>- Administration costs relating to the regime are clear and linked via individual budget cost centres</li> <li>- Unable to determine if contracted staff provide services only for parking/traffic enforcement (2/24, 68.3k)</li> <li>- Sample indicates GL classification of transaction incorrect (4/24, £779.2k)</li> <li>- Lack of support to determine appropriateness of amount allocated (3/24, £491.7k)</li> <li>- Risk identified within Financial Strategy on knowledge of the use of surpluses.</li> <li>- Lack of knowledge in service on how below the line charges have been identified</li> </ul>
	Preventative Controls		●				<ul style="list-style-type: none"> <li>- Sample indicates no preventative control on recharges. (2/24, £249.4k)</li> <li>- Sample indicates expenditure on expired contract (1/24, 12k)</li> </ul>
	Detective Controls		●				<ul style="list-style-type: none"> <li>- Sample indicates no review of charges allocation has been undertaken or requested.</li> </ul>
IT Systems	Automated Control Maturity	●					<ul style="list-style-type: none"> <li>- Lack of controls and undeveloped review optimisation observed over processing of unauthorised journals into the GL.</li> </ul>
	Extent and frequency of IT Control Failures		●				<ul style="list-style-type: none"> <li>- Sample indicates GRN and approval tracing frequently unavailable (4/24, £416,3k)</li> </ul>

# EY Parking, Traffic Regulation and Bus Lane Enforcement - Control Environment

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix



**Observations on Extent of Preventative Controls**

**Preventative Controls**

- Emerging requirement to develop Parking Control Account guidance that's understood, applied and easily accessible to all employees. The Recharges Policy and Modelling must be refreshed frequently, and reflect annual expenditure.
- To reinforce guidance specific to regimes (for reasons of compliance with regulations), training must be conducted to close the maturity gap in understanding accounting treatment and policies.
- The maintenance of contract registers and monitoring of contract renewals will help avoid risks to supply chain/loss of occupancy.
- Procurement policies should be reviewed, and spend reconciled to a live contract register.

**Detective Controls**

- Focus is needed on 'Review Procedures' to identify issues of non-compliance with regulation, posting of incorrect GL entries and approving internal recharges to ring-fenced regimes.
- Key controls must include finance approval of journals and restricting GL codes by role. This will help flag incorrect entries and detect non-compliant costs.

**Conclusions on Control Environment**

- **Across the 24 samples, 6 samples passed without an issue and 18 had one or more issues. (75%)**
- **32 issues were identified. Of these 15 issues are assigned as having incomplete samples and / or a lack of evidence. Of the remaining issues 17 the risk failure relates to 'Defined and Detailed Process' and 'Knowledge and Application of Processes'.**
- Regime guidance, whilst developed, is not implemented effectively.
- A lack of effective review poses risk to Parking Control Account.



# EY Better Care Fund - Overview

## Better Care Fund

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix

FY19/20 Spend	£42.0m
FY20/21 Spend	£43.6m
FY21/22 Spend	£44.9m

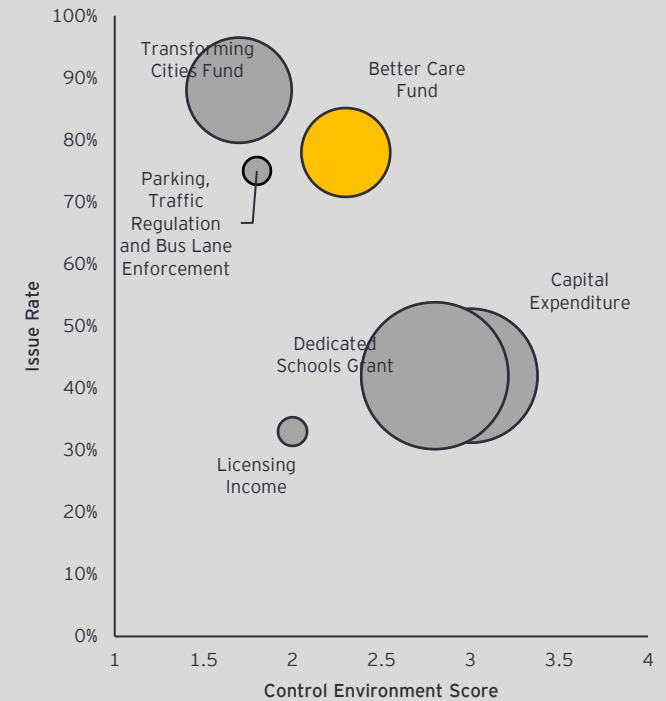
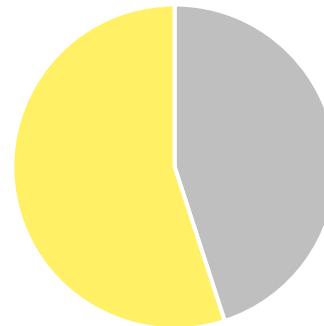
### Analysis Overview

- AUP Samples: 27
- AUP Samples with Identified Issues: 21
- Issue Rate: 78%
- Total Issues Identified: 40

Audit Trail Risk Score	45%
Control Environment Risk Score	2.3
Management Override Risk Rating	Medium
Overarching Risk Materiality	High

### Issue Categorisation

- Lack of Evidence: 18
- Identified Control Error: 22



### Key Management Override Considerations

- Two examples where usage of funds could be outside regulations.
- One transaction indicates transactions that belong to a different accounting year.

### Overarching Comments

- Noting the scale and materiality of spend associated with the BCF, the issue rate indicates significant risk in the control environment that may result in material error.

# EY Better Care Fund - Control Maturity

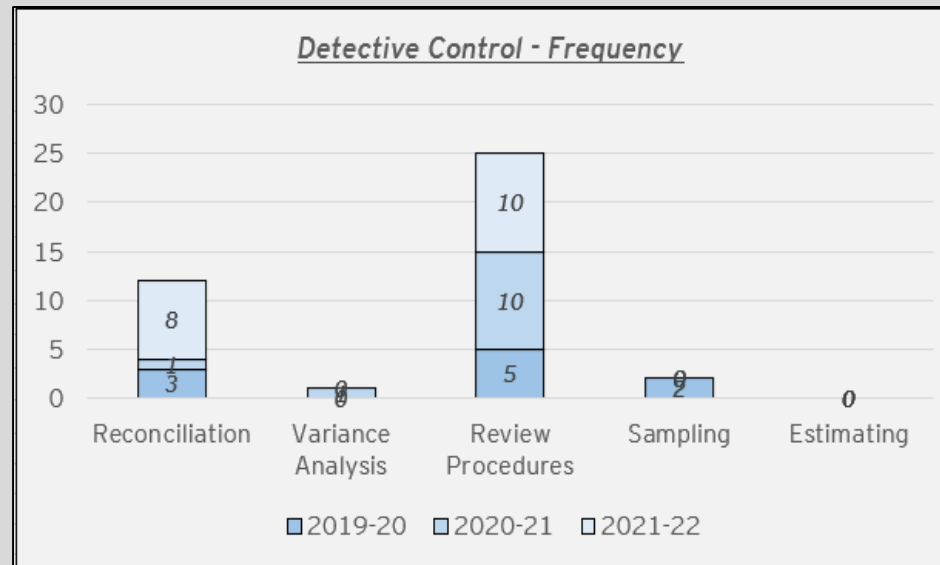
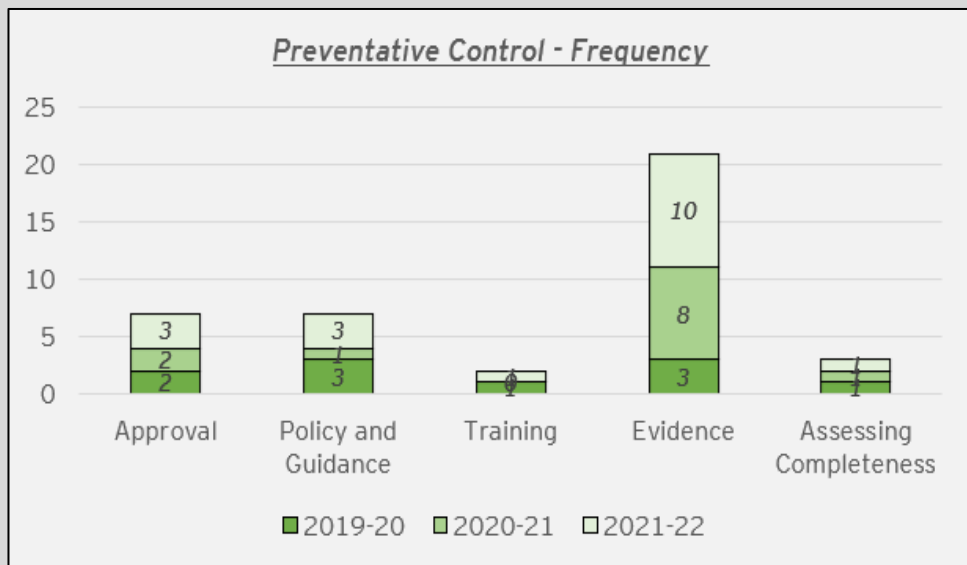
## Better Care Fund

The Control Maturity assessment for the BCF is detailed below:

Control Level	Control Maturity Dimension	1	2	3	4	5	Key Control Observations
Business Process	Defined and Detailed Processes	●					<ul style="list-style-type: none"> <li>- Sample indicates incorrect accounting treatment (9/27, £1,320k).</li> <li>- Sample indicates unable to explain variance between contract and invoice (2/27, £164.1k)</li> <li>- Sample indicated unable to obtain contract award or procurement forms. (6/27, £240.1k)</li> <li>- Sample indicates GRN and approval tracing frequently unavailable (10/27, £815.6k)</li> <li>- There are GL entries missing purchase order details</li> </ul>
	Knowledge and Application of Processes		●				<ul style="list-style-type: none"> <li>- <b>Administration costs relating to the regime are clear and linked via individual budget cost centres</b></li> <li>- Sample indicates usage of funds could be outside regulations (2/27, £604.5k).</li> <li>- Unable to determine usage also case (1/27, £18.5k)</li> <li>- Risk identified of transactions belonging to a different accounting year.</li> </ul>
	Preventative Controls		●				<ul style="list-style-type: none"> <li>- Sample indicates no evidence of approval on journal entries (8/27, £1,390.8k)</li> </ul>
	Detective Controls				●		<ul style="list-style-type: none"> <li>- Sample indicates no review of charges allocation has been undertaken or requested.</li> </ul>
IT Systems	Automated Control Maturity		●				<ul style="list-style-type: none"> <li>- Weaknesses identified in the 3 way matching process in raising an invoice and specifically in relation to flagging of unauthorised journals.</li> </ul>
	Extent and frequency of IT Control Failures			●			<ul style="list-style-type: none"> <li>- Sample indicates no finance review preventative control in place for journal entry authorisation (2/27, £554.1k)</li> </ul>

# EY Better Care Fund - Control Environment

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix



## Observations on Extent of Preventative Controls

### Preventative Controls

- There is a weaknesses in supporting evidence for transactions, which was either unavailable or poor quality, an example is a number of samples did not share Purchase Orders.
- Guidance requires frequent, and at a minimum, annual review. The Council must regularly review the grant conditions so they are informed on amendments to the conditions
- Guidance is required on procedure to expense; considering correct GL Code, timing and appropriateness of expense.
- Samples identified entries logged onto the general ledger without authentication. All journal entries should be authenticated by management before posted onto the GL.
- One example of a project were charging against an outdated budgets.

## Conclusions on Control Environment

### Detective Controls

- Focus is required on Review Procedures, to identify where supporting evidence is either weak or incomplete.
- **Across the 27 samples 8 passed without issue and 21 had one or more issues. (78%)**
- **40 issues were identified; of these 18 issues are assigned as having incomplete samples and / or a lack of evidence. The remaining 22 issues are; Automated Controls, Knowledge and Application of Processes and Defined and Detailed Processes.**
- A lack of clear guidance on processing purchase orders within the correct period, collecting the relevant information when invoicing, and obtaining the correct approval.
- There is one indication of management override of controls, where accounting treatment was incorrectly applied, however risk of management override in BCF was considered low.

# EY Capital - Overview

## Capital Expenditure

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix

FY19/20 Spend	£171.7m
FY20/21 Spend	£150.0m
FY21/22 Spend	£100.8m

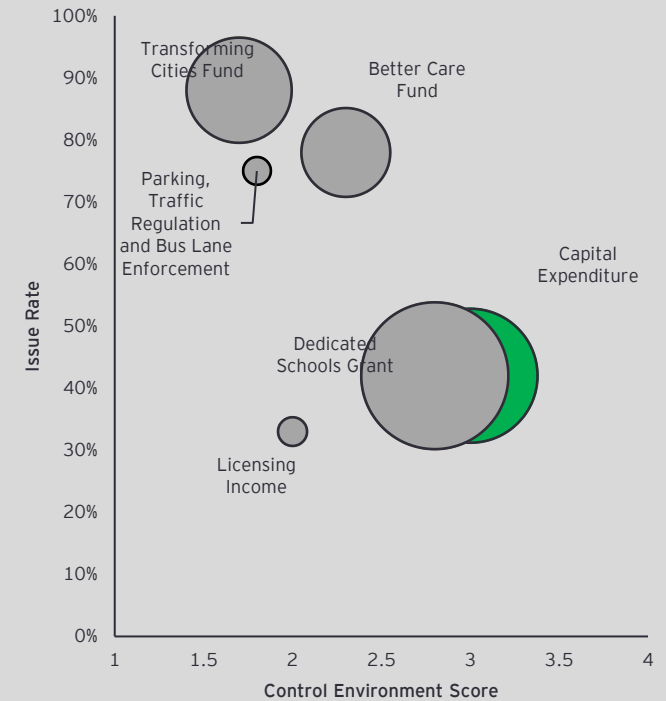
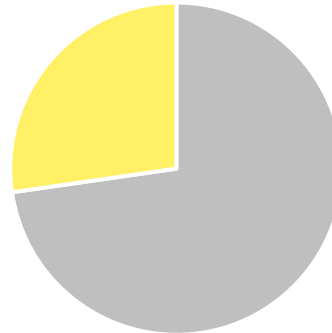
### Analysis Overview

- AUP Samples: 24
- AUP Samples with Identified Issues: 10
- Issue Rate: 42%
- Total Issues Identified: 22

Audit Trail Risk Score	73%
Control Environment Risk Score	3.0
Management Override Risk Rating	Low
Overarching Risk Materiality	High

### Issue Categorisation

- Lack of Evidence: 16
- Identified Control Error: 6



### Key Management Override Considerations

- No evidence of material management override found

### Overarching Comments

- Whilst management override risk within capital was deemed to be low, an ineffective audit trail environment along with weak controls that verify the use of funds post transaction results in a high risk materiality rating, noting the potential impact on NCC's general fund of any transaction adjustments.

# EY Capital - Control Maturity

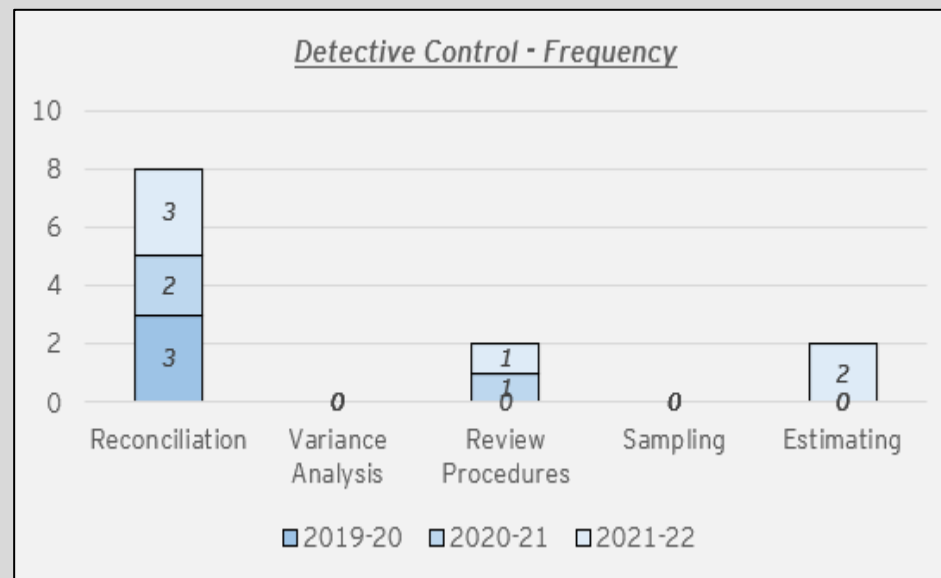
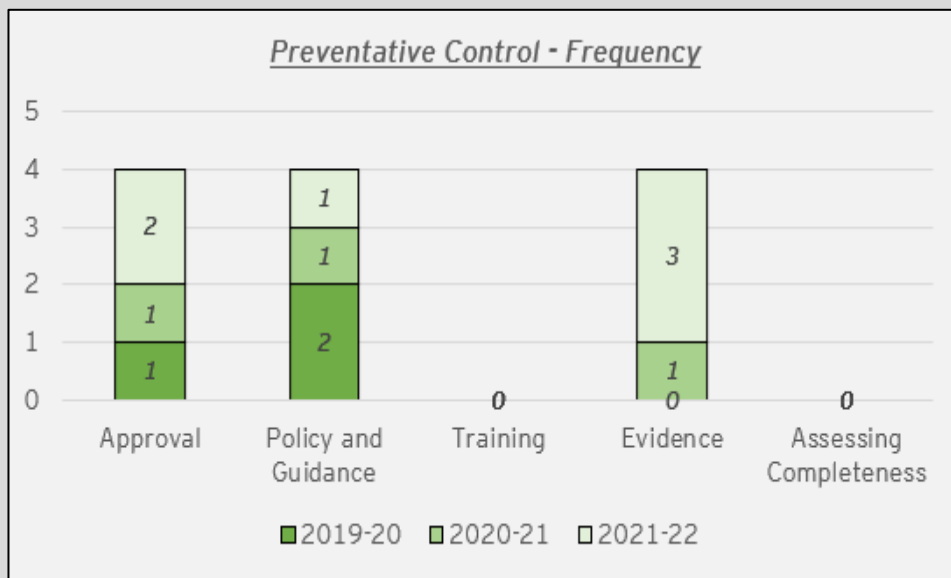
## Capital

The Control Maturity assessment for Parking is detailed below:

Control Level	Control Maturity Dimension	1	2	3	4	5	Key Control Observations
Business Process	Defined and Detailed Processes				●		<ul style="list-style-type: none"> <li>- Capital Accounting team run a monthly report to identify variances and review all journal entry descriptions.</li> <li>- Sample indicates unable to verify funds are used for their purpose they were released (2/24, £12,808.7k)</li> </ul>
	Knowledge and Application of Processes		●				<ul style="list-style-type: none"> <li>- Capital Team report monthly to the Capital Programme Board, and reports go to Executive Board on quarterly basis.</li> <li>- Sample indicates no review of charges allocation has been undertaken or requested.(4/24, £23,050.4k)</li> <li>- Sample indicates lack of evidence for journal authorisation (6/24, £12,980.9k)</li> </ul>
	Preventative Controls		●				<ul style="list-style-type: none"> <li>- Automated control in place to prevent Project Managers posting journals between capital and revenue.</li> <li>- Sample indicates no evidence of approval on journal entries (6/24, £12,980,9k)</li> </ul>
	Detective Controls				●		<ul style="list-style-type: none"> <li>- Identified risk against design costs not being reversed when aborted.</li> <li>- Reconciliation risks have emerged when not conducted at major milestones or programme points.</li> </ul>
IT Systems	Automated Control Maturity				●		<ul style="list-style-type: none"> <li>- Lack of controls and undeveloped review optimisation observed over processing of unauthorised journals into the GL.</li> </ul>
	Extent and frequency of IT Control Failures				●		<ul style="list-style-type: none"> <li>- Sample indicates internal transfer journals are posted in accounting system without authorisation (4/24, £7,719.9k)</li> </ul>

# EY Capital - Control Environment

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix



## Observations on Extent of Preventative Controls

### Preventative Controls

- Lack of defined processes and knowledge of applying the process.
- Samples identify entries logged onto the GL without authentication. All journal entries should be authenticated by management before posted onto the GL.
- There is a lack of process to verify grant has been used for the purpose they were release. All funds released should be reviewed, agreed and signed off by all parties

### Detective Controls

- To effectively manage postings to the GL, a suitable system in place to prevents unauthorised journal entries.
- All estimates above a set threshold should be reviewed, with supporting evidence prior to processing and approval on GL.

## Conclusions on Control Environment

- Across the 24 samples 14 passed without issue and 10 had one or more issues (42%).
- 22 issues were identified. Of these 16 issues are assigned as having incomplete samples and / or a lack of evidence. Of the remaining issues risk failure are; Defined and Detailed Processes, Knowledge and Application of Processes and Automated Control.
- There needs to be a process in place to review and verify that the funds are being used for their intended purpose once they are released
- There needs to be a system and process in place that ensures journal entries are authorised by the correct personnel

# EY Transforming Cities Fund - Overview

## Transforming Cities Fund

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix

FY19/20 Spend	£8.0m
FY20/21 Spend	£20.3m
FY21/22 Spend	£62.6m

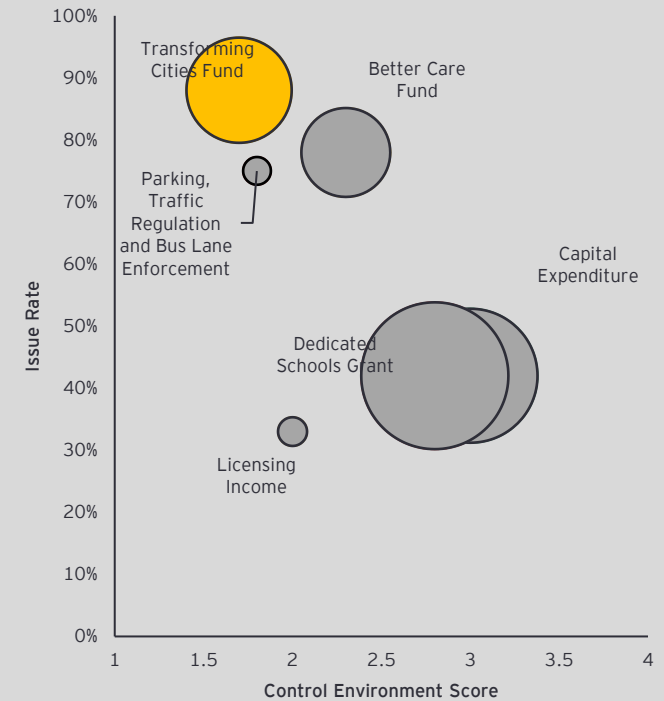
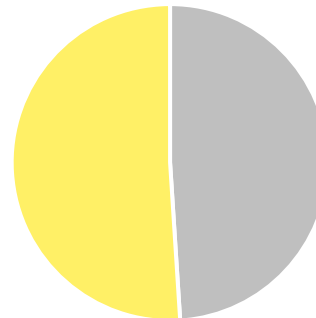
### Analysis Overview

- AUP Samples: 24
- AUP Samples with Identified Issues: 21
- Issue Rate: 88%
- Total Issues Identified: 49

Audit Trail Risk Score	49%
Control Environment Risk Score	1.7
Management Override Risk Rating	Medium
Overarching Risk Materiality	High

### Issue Categorisation

- Lack of Evidence: 24
- Identified Control Error: 25



### Key Management Override Considerations

- Identified approver of transactions not on approvals list
- High level of divergence from procurement policy.
- Significant weakness in provision of supporting evidence

### Overarching Comments

- The TCF analysis identifies a materially high issue rate within the sample of transaction, along with evidence of management override of key controls and policies. Material spend within this area, along with such short-fallings means that the risk materiality for the TCF is identified to be high.

# EY Transforming Cities Fund - Control Maturity

## Transforming Cities Fund

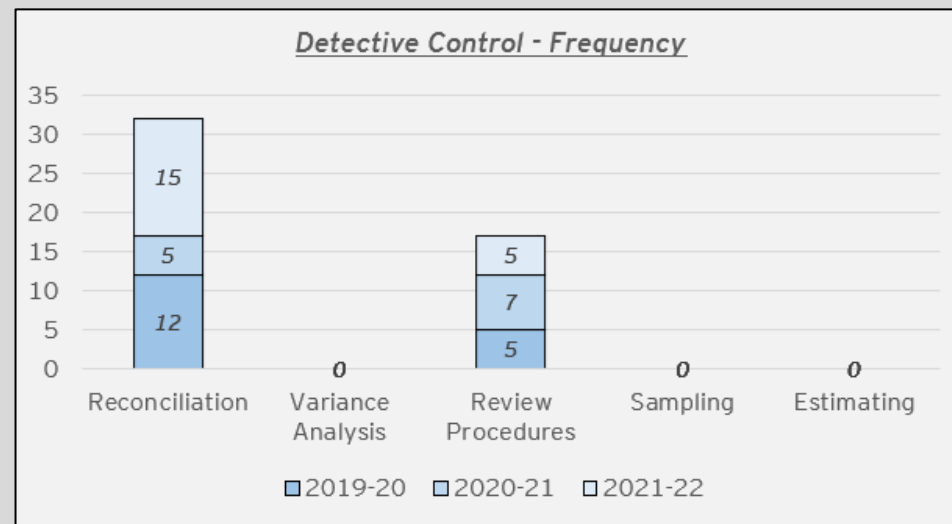
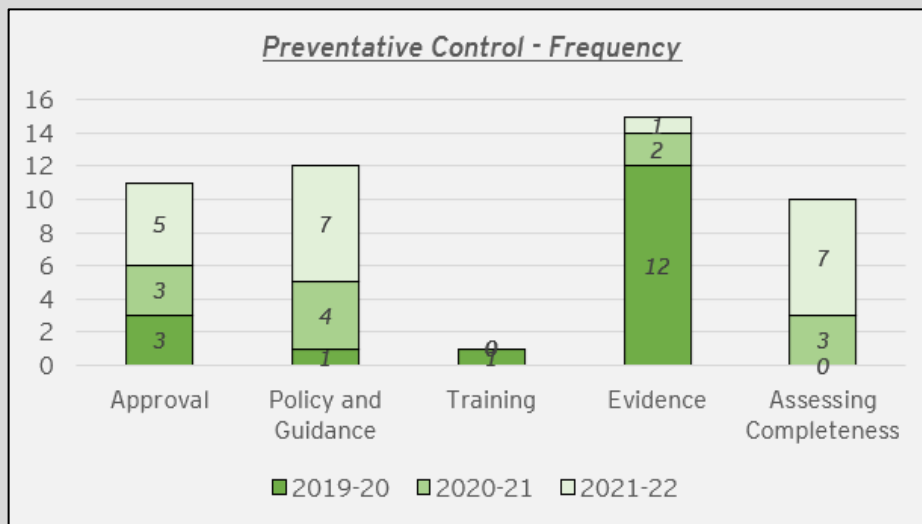
The Control Maturity assessment for TCF is detailed below:

Control Level	Control Maturity Dimension	1	2	3	4	5	Key Control Observations
Business Process	Defined and Detailed Processes		●				<ul style="list-style-type: none"> <li>- Schemes were agreed with the DfT providing a high level of confidence overall schemes in target funding</li> <li>- Sample indicates Internal transfer journals are posted in accounting system without authorisation (8/24, £1,544k)</li> <li>- No approval from project manager on internal recharge (4/24, £674.4k) and lack of support behind internal recharge (1/24, £41.8k)</li> <li>- High level of capital expenditure incorrectly accrued.</li> </ul>
	Knowledge and Application of Processes	●					<ul style="list-style-type: none"> <li>- Budgets greater than £1m are subject to a monthly review by the PMO.</li> <li>- Insufficient evidence / lack of evidence to prove correct application of capital funds / non-compliance with programme funding conditions (5/24, £647.1k)</li> <li>- Capital expenditure has been incorrectly accrued (1/24, £2.273k)</li> <li>- PO's for expenditure not approved (1/24, £195.6k)</li> <li>- Identification within gap analysis of incorrect application of capital funds and risks of non-compliance with funding conditions</li> </ul>
	Preventative Controls		●				<ul style="list-style-type: none"> <li>- Insufficient evidence indicates procurement undertaken with undue care or without subsequent checks on quality and service (5/24, £561,1k)</li> <li>- Ensure all expenditure on programme is reviewed, agreed and signed off by all parties to ensure thorough compliance with programme conditions (8/24)</li> </ul>
	Detective Controls		●				<ul style="list-style-type: none"> <li>- Assessment indicates lack of review of journals prior to posting within the GL.</li> </ul>
IT Systems	Automated Control Maturity		●				<ul style="list-style-type: none"> <li>- Lack of controls and undeveloped review optimisation observed over processing of unauthorised journals into the GL.</li> </ul>
	Extent and frequency of IT Control Failures	●					<ul style="list-style-type: none"> <li>- Sample indicates AP procedures (3 way matching) not adhered to (7/24).</li> <li>- Approval matrix not operating as intended leads to risk of management override (4/24)</li> </ul>



# EY Transforming Cities Fund - Control Environment

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix



**Observations on Extent of Preventative Controls**

**Preventative Controls**

- 'Policy and Guidance' weaknesses include consistent awareness and application of capital accounting policy, and adherence with procurement policy.
- Approval of transactions also an identified weakness; which would enhance accounting standards application through senior review and increase compliance with programme conditions.

**Detective Controls**

- Weaknesses were identified in reconciliation practice; particularly with 3 way matching processes within the accounting system to ensure all approvals take place prior to expenditure being incurred.
- Enhanced Audit of annual reports viewed key.

**Conclusions on Control Environment**

- Across the 24 samples 3 samples passed without issue, 21 had one or more issues (88%).
- 49 issues in total were identified. Of these 24 issues are assigned as having incomplete samples and / or a lack of evidence. Of the remaining issues the risk failure pertains to 'Defined and Detailed Process,' 'Knowledge and Application of Processes' and 'Extent and frequency of IT Control Failures.'
- Issues were distributed across a number of the control maturity dimensions, with significant issues identified with adherence to accounting policies and manuals.
- Several examples of Management Override were identified: an approver of a transaction was not on approvals list, there was a high level of divergence from procurement policy on several transactions, and significant weakness in provision of supporting evidence. This concluded a Medium Risk score of Management Override in TCF.

# EY Dedicated Schools Grant- Overview

## Dedicated Schools Grant

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix

FY19/20 Spend	£109.5m
FY20/21 Spend	£114.9m
FY21/22 Spend	£120.7m

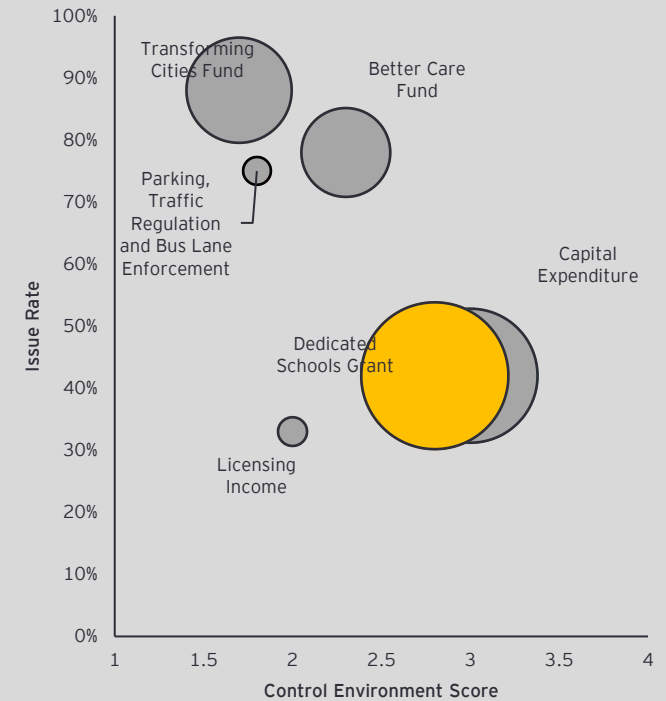
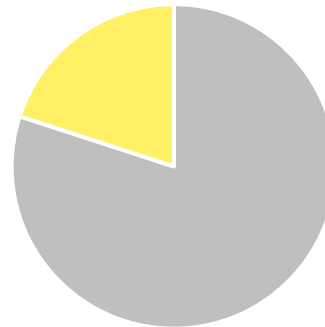
### Analysis Overview

- AUP Samples: 24
- AUP Samples with Identified Issues: 10
- Issue Rate: 42%
- Total Issues Identified: 15

Audit Trail Risk Score	80%
Control Environment Risk Score	2.8
Management Override Risk Rating	Medium
Overarching Risk Materiality	High

### Issue Categorisation

- Lack of Evidence: 12
- Identified Control Error: 3



### Key Management Override Considerations

- Three examples of incorrect GL classification, expenses recorded as income

### Overarching Comments

- The DCF demonstrates a significantly weak audit trail, with material short-fallings in the degree of data and documentation maintained that can evidence financial activity. This is further compounded by an ineffective approval control, resulting in a high risk materiality assessment.

# EY Dedicated Schools Grant - Control Maturity

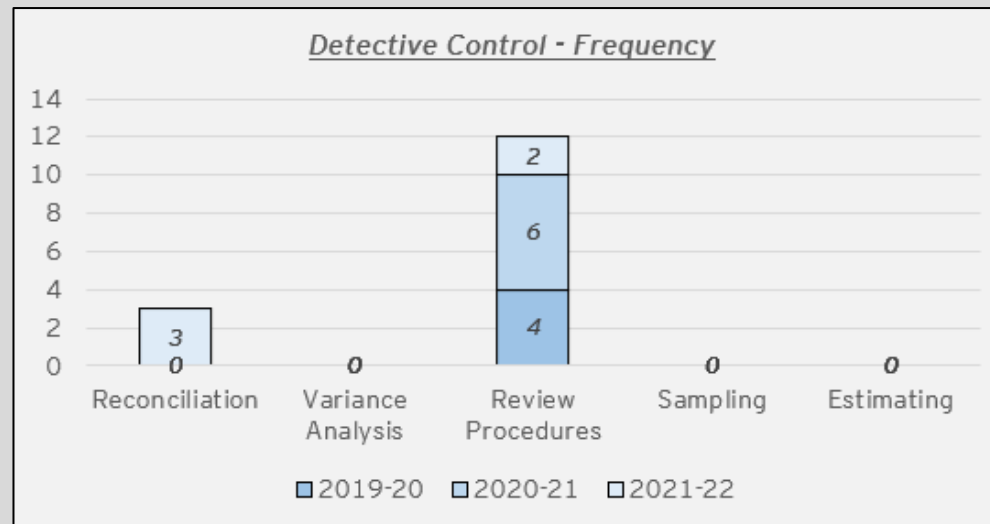
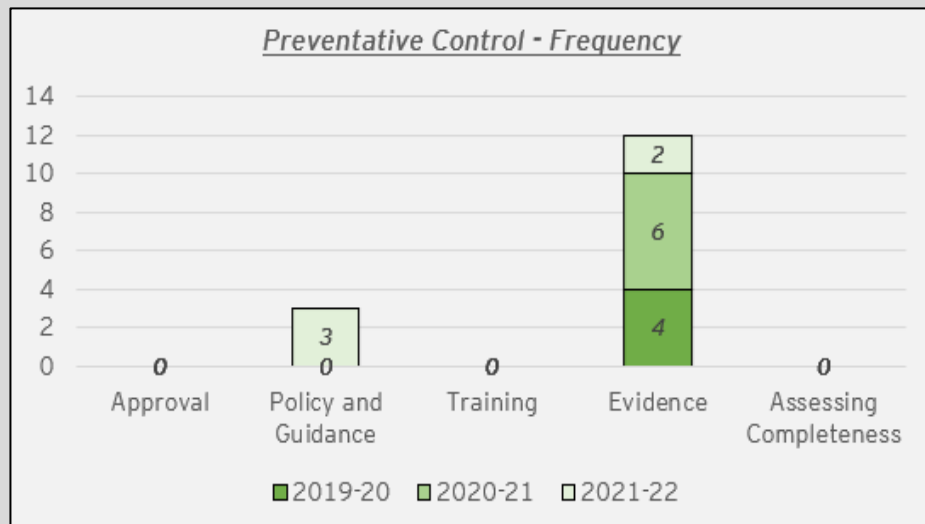
## Dedicated Schools Grant

The Control Maturity assessment for DSG is detailed below:

Control Level	Control Maturity Dimension	1	2	3	4	5	Key Control Observations
Business Process	Defined and Detailed Processes			●			<ul style="list-style-type: none"> <li>No evidence of approval from project manager was received for recharge (5/24, £1,579.9k)</li> <li>Lack of a defined process to record approval on recharges</li> </ul>
	Knowledge and Application of Processes		●				<ul style="list-style-type: none"> <li>Samples indicated payment evidence were not provided (5/24, £1,937k)</li> <li>Samples indicated transaction evidence not received (2/24, £3,873.5k)</li> </ul>
	Preventative Controls		●				<ul style="list-style-type: none"> <li>Samples indicated GL classification not appropriate (3/24, £4,701k)</li> </ul>
	Detective Controls					●	<ul style="list-style-type: none"> <li>Review of GL entries before approval to flag errors.</li> </ul>
IT Systems	Automated Control Maturity			●			<ul style="list-style-type: none"> <li>Lack of controls and undeveloped review optimisation observed over processing of unauthorised journals into the GL.</li> </ul>
	Extent and frequency of IT Control Failures			●			<ul style="list-style-type: none"> <li>IT system to flag reconciliation errors, where there are differences between planned payment verse what's entered in the system</li> </ul>

# EY Dedicated Schools Grant - Control Environment

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix



**Observations on Extent of Preventative Controls**

**Preventative Controls**

- Samples identified 'Evidence' preventative controls weaknesses of missing evidence of payments and approval.
- Samples identified 'policy guidance' weaknesses of general ledger containing incorrect classification, expense entry recorded as income

**Detective Controls**

- Weaknesses were identified in reconciliation practice; particularly where there are differences
- There is also weaknesses with the review procedure, to ensure that all payments have obtained the correct approval and that evidence of the payment and approval are stored

**Conclusions on Control Environment**

- Across the 24 samples 14 samples passed without issue, and 10 had issues (42%).
- 15 issues were identified. Of these 12 issues are assigned as having incomplete samples and / or a lack of evidence. Of the remaining issues the risk failure pertains to 'Knowledge and Application of Processes'.
- There is lack of application of obtaining approval and storing evidence of payments
- A lack of effective review poses risk to the accuracy of the general ledger.

# EY Licensing- Overview

## Licensing

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix

FY19/20 Spend	£5.4m
FY20/21 Spend	£5.4m
FY21/22 Spend	£5.2m

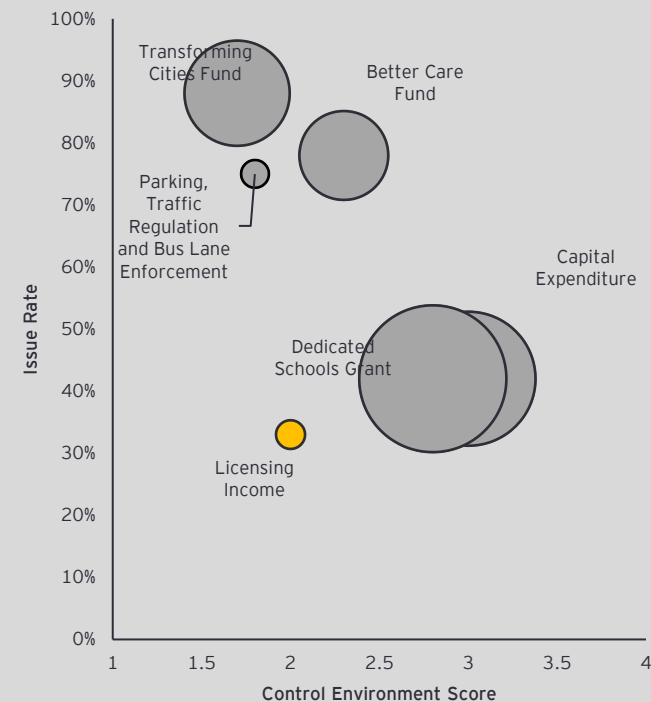
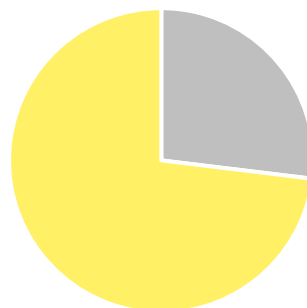
### Analysis Overview

- AUP Samples: 24
- AUP Samples with Identified Issues: 8
- Issue Rate: 33%
- Total Issues Identified: 26

Audit Trail Risk Score	27%
Control Environment Risk Score	2.0
Management Override Risk Rating	Medium
Overarching Risk Materiality	Red

### Issue Categorisation

- Lack of Evidence: 7
- Identified Control Error: 19



### Key Management Override Considerations

- Significant weakness in provision of supporting evidence behind resourcing costs to regime.

### Overarching Comments

- The review of Licensing indicated an service whereby compliance to necessary regulation was not effectively reviewed and controlled. Lack of effective ring fencing also further inhibits the effective stewardship of funds. These factors contribute to an environment where, although the total value of financial activity is low, the risk of breaches in compliance is high.

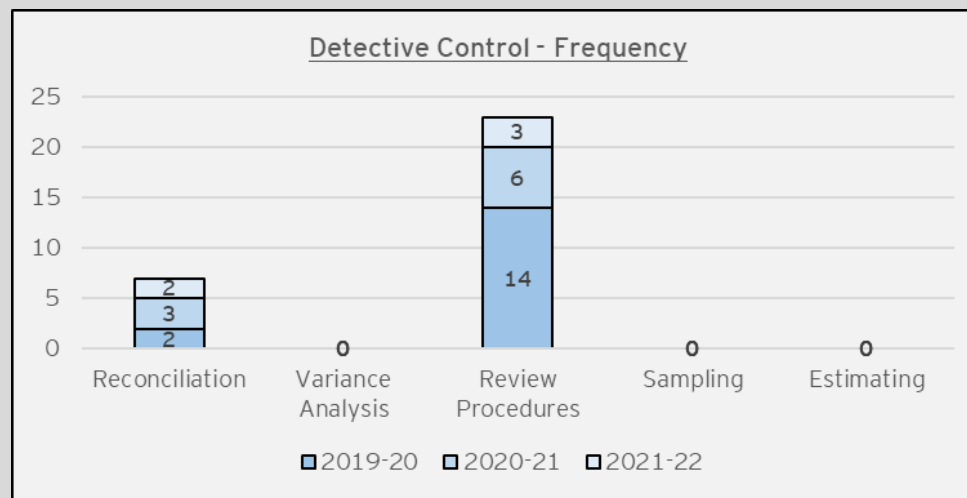
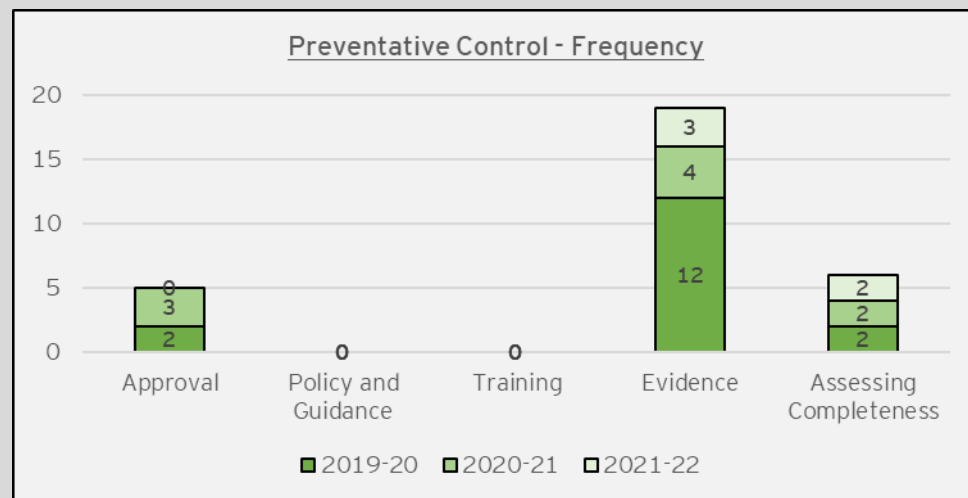
# EY Licensing - Control Maturity

The Control Maturity assessment for Parking is detailed below:

Control Level	Control Maturity Dimension	1	2	3	4	5	Key Control Observations
Business Process	Defined and Detailed Processes	●					<ul style="list-style-type: none"> <li>- Unable to obtain evidence to ascertain the amount of the recharge or whether these employees had licencing related employment duties (11/24, <b>£880.6k</b>)</li> <li>- Lack of authorisation behind processing of journals (4/24, <b>£174.6k</b>)</li> <li>- No PO was available to review (1/24, <b>£7k</b>)</li> </ul>
	Knowledge and Application of Processes		●				<ul style="list-style-type: none"> <li>- Lack of support to determine appropriateness of expenses as per payslip (2/24, <b>£49.8k</b>)</li> <li>- PO issued after issue of invoice (1/24, <b>£5k</b>)</li> <li>- Lack of evidence received in relation to journal authorisation (5/24, <b>£201.2k</b>)</li> <li>- No supporting evidence received (7/24, <b>£256.6k</b>)</li> </ul>
	Preventative Controls		●				<ul style="list-style-type: none"> <li>- Dominating issue is the lack of evidence to support transactions processed within licensing regimes.</li> </ul>
	Detective Controls			●			<ul style="list-style-type: none"> <li>- Assessment over Licensing population indicates the biggest deficiency is lack of review processes.</li> </ul>
IT Systems	Automated Control Maturity		●				<ul style="list-style-type: none"> <li>- Lack of controls and undeveloped review optimisation observed over processing of unauthorised journals into the GL.</li> </ul>
	Extent and frequency of IT Control Failures		●				<ul style="list-style-type: none"> <li>- Sample indicates lack of GRN review (5/24)</li> </ul>

# EY Licensing - Control Environment

Evidence drawn from AUP's, Interviews, Gap Analysis and Risk and Controls Matrix



**Observations on Extent of Preventative Controls**

**Preventative Controls**

- Emerging requirement to ensure evidence is obtained and substantiated for every journal processed. This is to enable a thorough review of the costs and to determine compliance with licensing regime conditions.
- Develop and distribute guidance to show what 'good and suitable' evidence is to ensure all evidence processed can then be validated.
- To reinforce guidance specific to regimes (for reasons of compliance with regulations), training must be conducted to close the maturity gap in understanding appropriate spend and evidence.

**Conclusions on Control Environment**

**Detective Controls**

- A major focus is needed on 'Review Procedures' in relation to posting entries and approving internal recharges to ring-fenced regimes.
- Key controls must include finance approval of journals and restricting GL codes by role. This will help flag incorrect entries and detect non-compliant costs.

- Across the 24 samples, 16 samples passed without an issue and 8 had one or more issues (33%).
- 26 issues were identified. 7 samples were assigned as having incomplete samples and / or a lack of evidence. Of the 26 issues identified, the risk failure relates to 'Defined and Detailed Process,' 'Knowledge and Application of Processes' and 'Extent and frequency of Control Failures.'
- Regime guidance, whilst developed, is not implemented effectively.
- A lack of effective review poses risk to Licensing regimes.