

Interim memo

Oxford City Council

Audit 2008-2009

September 2009



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Status of our Reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Review of key financial systems

Introduction

- 1 This report sets out the findings from our interim audit in preparation for our work on the 2008/09 financial statements for the Council. The report covers the following areas:
 - our audit approach to ensure compliance with the International Standards on Auditing;
 - identification of any issues found during our review of the control environment operated by the Council; and
 - an assessment of the key controls in the material information systems that we use to inform our financial statements planning.
- 2 Our respective responsibilities and work carried out are described below, followed by our main conclusions and the detailed report.

Background

- 3 When planning and performing our work we have a statutory duty to comply with the Commission's Code of Audit Practice and must also meet the requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I).
- 4 The Code of Audit Practice requires review and reporting on the Council's financial statements and Annual Governance Statement (the opinion). This will be completed as part of our opinion process undertaken later this year.
- 5 The work we carry out at the interim stage of the audit informs this opinion process. In particular, ISA (UK&I) 315 requires us to gain an understanding of the Council and its systems to identify risks of material misstatement in the financial statements, particularly surrounding the Council's internal controls.
- 6 This requires us to look at each of the main information systems that drive the balances and disclosures within the financial statements.

Audit approach

- 7 There are two stages to the audit approach where we are considering the controls within material information systems:
 - Understanding the entity - the design and implementation stage; and
 - Addressing identified risks in the audit.

- 8 ISA (UK&I) 315 sets out the need to gain an understanding of the entity; a stage which is necessary to be able to assess risks of material misstatement of the assertions within the financial statements and to design further audit procedures. Understanding the entity has a number of elements to it including an understanding of the Council's control environment, information systems and their control activities. The information system includes the general ledger and all the sub-systems (both financial and non-financial) that produce material entries in the financial statements.
- 9 We have used a four stage approach to do this:
 - Map the interfaces of all information systems to the general ledger to establish which systems provide the data for the material balances within the financial statements (i.e. the material systems);
 - Document the processes by which the Council initiates the transactions, records them in the information system, processes them through the system into the general ledger and then reports them in the financial statements;
 - Check that the controls are operating as documented by conducting implementation testing; and
 - Evaluate the risks of material misstatement from the results in the steps above.
- 10 Once the 'design and implementation review' had been undertaken, and in conjunction with assessing other risks of material misstatements, we assess whether we intend to rely on the operation of key controls (from those documented) or undertake substantive testing to reduce the risk of material misstatement to an acceptably low level.
- 11 ISA (UK&I) 330 requires the testing of operational effectiveness of those controls chosen to rely on for the accuracy of the balances and disclosures within the financial statements. For each information system we have made the decision of whether to rely on an internal control or on substantive testing, whichever is both the most effective and resource efficient.
- 12 We highlighted a number of key controls, which depended on the particular risks at the Council and the characteristics of the internal controls within particular information and financial systems, and tested the operating effectiveness of those controls applying Audit Commission sample sizes.
- 13 We identified the following systems as significant in producing the figures within the financial statements: main accounting system, debtors, creditors, payroll, treasury management, NNDR, council tax, capital, housing benefits, housing rents, car parking.
- 14 We have relied upon the work of your internal auditors to document the majority of these systems from the initiation of transactions through to the ledger. We then re-performed walkthrough testing and testing of some key controls.

Review of key financial systems

Main conclusions

Control environment

- 15 Our review of the control environment has not revealed any issues that may lead to a material misstatement of the financial statements.
- 16 We are currently updating our IT risk assessment to assess whether we can rely upon the IT control environment and to consider any issues arising and the impact they have on our opinion testing plan.

Material information systems - key controls

- 17 Our review of the material information systems is substantially complete. Our review comprised of confirming that systems are operating as described (and documented) and testing the controls to confirm that they are actually operating effectively to prevent or detect/correct material misstatements (compliance testing).
- 18 The table below summarises our findings in relation to all material information systems and whether we are able to place reliance on the key controls within the systems or will need to undertake additional substantive testing during the opinion audit:

Table 1 System findings

System	Findings	Impact on opinion work
General ledger	Journals are input and authorised by the same member of staff.	We will use the high risk testing factor for testing of year end journals.
Housing rents	System and controls in system operating as designed. Key control over occurrence outstanding will be tested during final accounts visit.	Test final key control over occurrence. Take a controls based approach.
Capital	Interim work postponed due to staff changes in the year and Internal Audit work being delayed.	Interim work to be completed at final accounts visit.
Debtors	System and controls in system operating as designed.	Take a controls based approach.
Creditors	System and controls in system operating as designed except the servitor creditor feed to a grosso which is reconciled at Oxford City Homes is not signed as evidence of review.	Take a controls based approach except substantively test the year end servitor creditor reconciliation.

System	Findings	Impact on opinion work
Housing benefits	System and controls in system operating as designed.	Take a controls based approach.
Payroll	Although the Council maintains that significant resources had been devoted to validating payroll numbers there is no evidence to substantiate this eg Heads of Service certification of lists of staff.	Substantive testing of the payroll figure at the year end.
Treasury management	System and controls in system operating as designed.	Take a controls based approach.
Council tax	System and controls in system operating as designed.	Take a controls based approach.
Car parking	No controls in the system - Audit tickets not received from the contractor in 2008/09 and reconciliations not being completed. Officers have subsequently obtained the audit tickets and propose undertaking a full reconciliation for 2008/09.	Await outcome of Council's reconciliation of income.
NNDR	System and controls in system operating as designed.	Take a controls based approach.

Source: Interim audit work

- 19 A summary of the key issues arising from our interim work is attached at Appendix 1 together with our recommendations.

Appendix 1 – Action Plan

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Response / Responsible Officer	Date
Key issues: Core Financial Systems				
Journals				
Our systems work found that the council does not have any written journal procedures; consequently the approach taken to journal documentation is variable and frequently does not always provide a full audit trail.	R1 Produce and adopt journal procedures to ensure that journals are entered correctly and with appropriate backing documentation	2	The journal procedure was reissued in April 2009. The revised journal procedure distinguishes between reposts of miscodes and internal recharges. The new journal procedure will be reviewed in Sept 09 to ensure it incorporates appropriate backing documentation where required. Anna Winship, Financial Accounting Manager	Sept 2009
There is no separation of duties between preparation and input of journals.	R2 Journals should be reviewed by a different officer prior to input.	2	Reposts and internal recharges do not require review. The journal procedure issued April 2009 means that all other journals are parked pending review. Anna Winship, Financial Accounting Manager	Complete

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Response / Responsible Officer	Date
Creditors				
The servitor creditor feed to Agresso is reconciled at Oxford City homes; however they are not usually signed as evidence of review.	R3 Ensure the servitor creditor feed reconciliation is reviewed and signed as evidence of review.	2	Roy checking whether signed off or not – if not will implement now Roy Summers	Sept 2009
Car Parking				
The Council have not been receiving audit tickets from the contractor running the car parks.	R4 Ensure the contractor provides the Council with all the audit tickets.	3	Received weekly for 2009/10 Andrew Bradfield- Barnes, Parking Manager	Complete
There are differences in the reconciliations that have taken place between cash banked and audit tickets.	R5 Ensure differences between audit ticket value and cash collection are followed up on a timely basis.	3	Unexplained differences are immaterial. Larger difference relate to instances where a car park machine has broken and required repair. Andrew Bradfield-Barnes Anna Winship	Complete
The contractor appears to be banking amounts that combine collections from different days causing timing differences and problems with reconciliations.	R6 Ensure the contractor banks income the next day as set out in their contract.	3	Contractor despite reminders is still combining banking. Contract compliance letter will be sent Sept 7th, Anna Winship	Sept 2009

Appendix 1 – Action Plan

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Payroll				
There is no evidence available of the monthly review of staff on the payroll by Heads of Service i.e. signature.	R7 Ensure payroll lists are evidenced as reviewed every month by Heads of Service.	3	The Council operates an establishment control process for any change in the establishment. This has been monitored throughout the year. Salary monitoring and establishments have been reviewed monthly with finance officers. In addition much detailed work on salaries was undertaken in 2008/9 due to both restructures in each service area and Single Status work. Whilst evidence of meetings has been provided, the Council can not categorically prove that establishment lists have been reviewed. The Council will therefore ensure that the work on establishments can be evidenced. An updated monitoring process note has been prepared for issue in September 09. Emma Burson, Corporate Accounting Manager	Sept 2009

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk