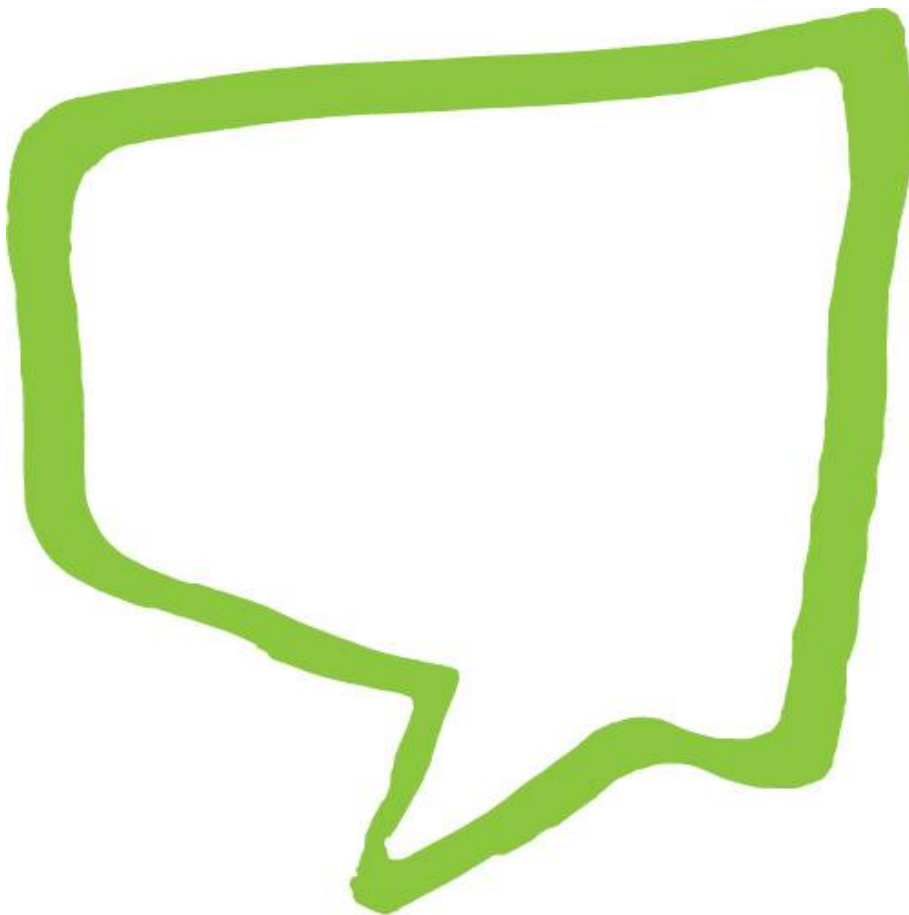


Interim memo

Oxford City Council

Audit 2009-2010

July 2010



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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 2009/10 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 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.
- 10 We have relied upon the work of your internal auditors where possible. We then re-performed walkthrough testing and testing of some key controls.

Main conclusions

Control environment

- 11 Our review of the control environment has not revealed any issues that may lead to a material misstatement of the financial statements.
- 12 Our review of the IT control environment has not revealed any issues that may lead to a material misstatement of the financial statements.
- 13 Reconciliations are being completed but a lack of evidence of the operation of the controls means that we cannot place reliance on them. If the controls were evidenced we would then be able to test them and if we found they were working place reliance on them. This would reduce our need for substantive testing at the year end.

Material information systems - key controls

- 14 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).
- 15 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
Capital	Interim work delayed due late completion of Internal Audit work. There were very few evidenced controls in place in the system that we could place any reliance on. Only evidenced controls were those over additions which are covered in accounts payable.	Substantive year end testing of fixed assets.
General ledger	Control weaknesses identified: 8/20 journals tested were not authorised. Monthly reconciliations of the council tax cash were not completed throughout the year. Bank reconciliation for March does not reconcile (£126 difference).	We will use the high risk testing factor, which means additional testing, for testing of year end journals and substantively test the year end bank reconciliation and feeder systems.

System	Findings	Impact on opinion work
Accounts payable	<p>Interim work delayed due late completion of Internal Audit work. No authorised signatory list at City Works. 2/20 invoices and 3/20 input control reports selected for testing could not be retrieved from the archiving system.</p> <p>Fleetplan order was made on the system after the goods had been received. Fleetplan list of invoices input was not checked back to supporting documentation.</p> <p>As a response to the problems with Fleetplan we undertook early substantive testing. 9/9 invoices tested were found to be correct. Review of the year end reconciliation found that there was no evidence of review, source documentation was not being provided as part of the review.</p>	<p>Substantive testing of accounts payable to ensure transaction actually occurred.</p> <p>The results of our early substantive testing has given us assurance over Fleetplan.</p>
Housing rents	<p>No evidence of the operation of controls is retained. No evidence of review of the housing rents reconciliation was available. October drawings bank reconciliation included a line that stated there was a variance of £350k between the cash book and the general ledger. Testing of tenants control account reconciliation outstanding to be completed during final accounts.</p>	<p>We will substantively test the year end housing rents reconciliation, drawings bank reconciliation and tenants control account reconciliation.</p>
Housing benefits	<p>No evidence of the operation of controls is retained. No evidence of review of the input of parameters onto the housing benefit system. There was no evidence of the review of new assessing officers' work. There was no evidence of review of the weekly reconciliation of Academy to the cheque run and general ledger.</p>	<p>Parameters and accuracy of housing benefit payments will be substantively tested as part of the grant claim audit. Year end reconciliation of Academy will be substantively tested.</p>

Review of key financial systems

System	Findings	Impact on opinion work
Payroll	The nominal roll check that we recommended last year was not implemented. Therefore we looked to rely on confirmation by Heads of Service of employees and their pay as part of the 10/11 budgeting process. We are still waiting to receive some of this evidence.	Substantive testing of the payroll figure at the year end if we cannot place reliance on the compensating control.
Car parking	No evidence of the operation of controls is retained. No evidence of review of the reconciliation of money received to bank/general ledger was available. Differences between cash collection and audit tickets considered small are not investigated. Review of year end cash reconciliation outstanding.	Substantive testing of year end cash reconciliation.
Accounts receivable	System and controls in system operating as designed.	Take a controls based approach.
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.
NNDR	System and controls in system operating as designed.	Take a controls based approach.

Source: Interim audit work

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

Appendix 1 – Action Plan

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Response / Responsible Officer	Date
Key issues: Core Financial Systems				
General				
Agreeing a timetable for our interim audit to take place was problematic on both sides.	R1 Ensure we find a mutually convenient time to undertake the walkthrough and controls testing of systems in 2010/11.	3	Agreed. Some Internal audit work was delayed due to implementation of new systems whilst officers were tied up with the substantial work in response to the Fixed Asset qualification of the Accounts. Internal audit plan for 2010-11 in hand and progressing well Sarah Fogden Head of Finance	In hand
Some internal audit work was not available until after the end of the financial year.	R2 Ensure internal audit work is completed before the end of the financial year to which it relates.	3	Agreed. As above	
Capital				
Evidence of the operation of controls is not retained. For example depreciation is calculated automatically by the system and sample checked no evidence of this check was available.	R3 Ensure controls are evidenced.	2	Agree, working papers will be retained Kelly Whitehead Financial Accountant	Sept 2010

Appendix 1 – Action Plan

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Response / Responsible Officer	Date
General Ledger				
8/20 journals tested were not authorised.	R4 Ensure all journals are reviewed and authorised by a different officer prior to input.	2	The journals that failed the test were actioned ahead of the implementation of a formal journal procedure in Feb 2010	Procedure in place
Monthly reconciliations of council tax cash were not taking place throughout the year.	R5 Ensure reconciliations are carried out in accordance with agreed timetables.	2	Council Tax is reconciled on a daily basis. Due to the implementation of a new Cash system on Jan 21 st , the monthly reconciliation was amalgamated for Jan to Mar 2010. We have returned to a monthly basis. Denise Sheppard Payments & Reconciliation Manager	In Hand
There is a £70 difference in the year end bank reconciliation.	R6 Ensure this difference is investigated and resolved by 23 rd September 2010.	2	Officers have spent considerable time on this and demonstrated that there is a small remaining difference that will not be resolved. Bank Recs for the new financial year are reconciled. Anna Winship Financial Accounting Manager	
Accounts payable				
2/20 invoices and 3/20 input	R7 When documentation is archived care	3	The council has written to the	

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Response / Responsible Officer	Date
control reports selected for testing could not be retrieved from the archiving system.	should be taken to ensure that it can subsequently be retrieved.		archiving company requesting a different method of cataloguing. Denise Sheppard Payments & Reconciliation Manager	
There was no evidence that the Fleetplan reconciliation had been reviewed.	R8 Ensure the Fleetplan reconciliation is reviewed and signed as evidence of that review. Provide source documentation to help the review.	2	Agreed. Officers are documenting their review. Paul Jemetta Finance Business Partner (City Works)	In Hand
Housing Rents				
There was no evidence of review of the housing rents reconciliation.	R9 Ensure that the housing rents reconciliation is reviewed and signed as evidence of that review	2	Agreed. Officers are documenting their review. Denise Sheppard Payments & Reconciliation Manager	In Hand
The October drawings bank reconciliation included a line that stated there was a variance of	R10 Ensure reconciliations are clear in layout.		Officers will ensure better clarity to explain the difference on the variance between Cash Book and	

Appendix 1 – Action Plan

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Response / Responsible Officer	Date
£350k between the cash book and the general ledger. However this was just a difference between the in year and cumulative position.			General Ledger Anna Winship Financial accounting Manager	Oct 2010
Housing benefit				
There is no evidence available of review of the input of parameters onto the housing benefit system.	R11 Ensure review of parameter input is evidenced.	2	Agreed Pauline Hull Housing Benefit Team Leader	
There was no evidence of review of new assessing officers' work.	R12 Ensure review of new assessors work is evidenced.	2	Agreed. Procedure in place for checking new assessors will be updated to include evidence of review. Pauline Hull Housing Benefit Team Leader	
There was no evidence of review of the reconciliation of Academy to the cheque run and general ledger.	R13 Ensure review of the reconciliation of Academy to agresso is evidenced.	2	Agreed. Officers are documenting their review. Denise Sheppard Payments & Reconciliation Manager	In Hand

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Response / Responsible Officer	Date
Payroll				
Complete evidence of a nominal role check has not been provided for audit.	R14 Ensure evidence of nominal role checks is kept and available for audit	2	Done	6/8/10
Car parking				
There is no evidence of review of the reconciliation of money received to the bank/general ledger.	R15 Ensure review of the reconciliation of money received to the bank/general ledger is evidenced.	2	A review of the reconciliations is now carried out. Denise Sheppard Payments & Reconciliation Manager	In Hand
Differences between cash collection and audit tickets considered small are not investigated.	R16 Agree an amount under which investigation is not required.	2	Procedure notes will be amended to formalise a de minimus amount Denise Sheppard Payments & Reconciliation Manager	Oct 2010

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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