

Interim memo

Oxford City Council

Audit 2010/11

June 2011

DRAFT

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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 2010/2011 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 This year also sees the introduction of IFRS accounting into Local Government with the Council being required to prepare IFRS compliant accounts for 2010/11 and restated accounts for 2009/10.

9 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.

10 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.

11 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

Review of IFRS restated Financial Statements for 2009/10

12 There have been significant delays with our review of the restated accounts. The Council have had difficulties in producing restated IFRS accounts and supporting working papers, and have missed several agreed deadlines. CIPFA guidance (LAAP Bulletin 80) provided an outline timetable recommending that 2009/10 restated IFRS by December 2010.

13 We began our work in January 2011 and found that only part of the restatement work had been completed, the closing balance sheet for 2008/09. It was agreed that we receive the full set of restated accounts for 2009/10 by 21 February 2011. This deadline was missed. However we started our review in late February. During our work the Council identified some key areas of fixed assets had not been included within the restated balance sheets. We also found some errors which needed correcting.

14 The work to include the missing items took longer than anticipated and it was agreed that we would stop our work and return when the work had been completed. We received the revised statements on 9 May 2011. We have resumed our work on 8 June 2011 following completion of other programmed work.

15 Due to revisions, missing statements and issues with working papers we have needed to spend more time than expected on this work. We have limited assurance at the present time. Our work is currently underway and we hope this will change once we have completed our current review. We will provide a further verbal update at the Audit committee on 30 June 2011.

Control environment

16 Our review of the control environment has not revealed any issues that may lead to a material misstatement of the financial statements.

17 We have identified some control weaknesses around the monthly reconciliations. This means we cannot place reliance on them and we will have to complete additional substantive testing at the year end.

Material information systems - key controls

18 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).

19 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	There were very few evidenced controls in place in the system that we could place any reliance on. Only evidenced controls were those over the authorisation of invoices for additions	Substantive year end testing of fixed assets.
General ledger	Control weaknesses identified: 4 out of 45 journals tested by Internal Audit were not authorised prior to input; not all of the monthly reconciliations have been produced promptly or reviewed or had reconciling differences investigated; the bank reconciliation had uncleared reconciling items from up to 1 year ago; the suspense account had not been reviewed or cleared.	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.
Accounts payable (AP)	There was a difference of £2,635 on the December 2010 reconciliation between Accounts Payable system and the GL. This has now been cleared. The control should work as intended throughout the year. As this was not the case we will not be able to rely on this as a control for our work on the AP system.	We will substantively test the year end AP reconciliation.
Housing rents	Monthly reconciliations of the Tenant's control account are produced but no evidence of review was recorded.	We will substantively test at year end.

System	Findings	Impact on opinion work
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. This has been kept for 2011/12 parameters.</p> <p>No evidence of review on the Housing Benefits payments to the GL. There was also an unreconciled difference.</p> <p>We found some improvement from our review last year: there are now regular quality reviews of assessor's work and we can rely on these for assurance over some parts of the system.</p>	<p>Parameters and accuracy of housing benefit payments will be substantively tested as part of the grant claim audit.</p> <p>Year end reconciliation of Academy will be substantively tested.</p>
Payroll	<p>We found no weaknesses in the controls operating over the system:</p> <p>Control checks had been carried out to ensure that information from the outgoing payroll system was transferred over to the new system. Whilst the 2 systems were being run in parallel, a full reconciliation was performed.</p> <p>We also found that the monthly reconciliation between payroll and General Ledger is being reviewed and signed off each month, and monthly exception reports are being reviewed and authorised each month.</p>	Rely on controls.
Car parking	<p>There was a back log of the reconciliation between cash taken and car park machine print outs. Reconciliations from November 2010 were not performed until Feb 2011.</p> <p>The back log has now been cleared.</p> <p>We also reviewed the Council's review of the impact of the uncovered fraud. An estimate of income lost is £7,000. This is not material.</p>	Rely on controls.
Accounts receivable	<p>There are controls in place around the raising of sales orders and invoices.</p> <p>We found that monthly reconciliations of AR to GL have not been fully reconciled or reviewed for all months.</p>	Substantively test year end reconciliations.

System	Findings	Impact on opinion work
Treasury management	Weakness in controls identified: lack of checking of authorised investments back to the 3rd party documentation for part of the year.	Substantively test investments.
Council tax	There are weaknesses in controls: monthly reconciliations have not been performed effectively. There are unreconciled differences.	Substantively test year end reconciliation.
NNDR	Weaknesses have been identified with the monthly reconciliations. There was no evidence that the system parameters had been checked once input. Controls were found to be in place around the checking of Valuation Officer reports to the system and implementing the required changes.	Substantively test year end reconciliation. Substantively check parameters.

Source: *Interim audit work*

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

Appendix 1 Action Plan

Recommendations

EX 1 - IFRS work - issues around working papers, supervision and review prior to audit

Matters arising:

Finding

The audit of the IFRS restated accounts has been a lengthy and time consuming process. Several agreed deadlines for the production of statements and papers have not been met. There have been several different versions of the statements and supporting working papers. We have spent a significant amount of time requesting further information to support the figures in the statements and also the rationale and thinking behind the approaches adopted. There were also minor wording errors on the comprehensive I and E, the cash flow statement and the movement in reserves statement. This could have been minimised if there had been better project management of the production of the statements and papers and sufficient management review prior to passing them to us to audit.

Recommendation

1. Undertake management supervision and review as the work progresses, rather than just at the end of the process.
2. A uniform approach to working papers would allow the process to be easier to review and audit. Working papers should say who has prepared them and when.
3. Working papers should explain where the information has come from and include a key to explain any colour coding used.
4. Supporting working papers should be given a reference number which could then be cross referenced to the main statements.
5. To ensure we are using the latest version of each working paper, version control should be introduced and maintained.
6. Carry out a review of the whole of the accounts and supporting papers before they are passed to us to audit, including a "sense" check. This would help ensure that working papers are consistent with each other.
7. Ensure that the review includes proof reading to identify and address wording errors.

This should help to reduce the potential for error and omission.

Priority

3

Responsibility

Response

Awaiting response

Recommendations

EX 2 - IFRS work: review of Leases - reconciliation of total valuations to carrying value per accounts

Good Practice:

Finding

When testing the lease sample, the valuations for Investment properties in excess of £500k was obtained. One property on the list (E110) was carried at a value of £1.45m instead of its most recent valuation of £1.07m.

Recommendation	Properties should be checked once revaluation update exercise is carried out and the correct values should then be used in the accounts
Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 3 - IFRS work: Leases – Cinema

Matter Arising:

Finding

George St Cinema is carried in the accounts at £2.3m. It was leased, but the lease has ended and not yet been re-negotiated. Under IFRS restatement, correct classification cannot be definitively set unless important relevant detail is known - e.g rent, term, etc.

Recommendation	The lease should be renegotiated to ensure the correct accounting treatment is applied
Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 4 - IFRS work: Comprehensive I&E narrative, cash flow and movement in reserves statements - changes needed

Matter Arising:

Finding

We found a number of minor wording errors in these statements which need to be amended

Recommendation	Correct the wording errors in the statements so they are inline with the template / code
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Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 5 - Controls testing: Car parking missing records

Matter Arising:

Finding
 At the time of our first audit visit, car parking audit tickets and income sheets missing for the period 31/3/10 to 9/10/10 and could not be audited.
 These have since been located.

Recommendation	Ensure all records are kept in a safe place and are available for audit.
Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 6 - Controls testing: Car parking income reconciliations

Matter Arising:

Finding
 Due to staffing issues during the year, from mid-November 2010 to mid-February 2011 daily cash reconciliations to audit tickets were not performed on a timely basis. Procedures to clear the accumulated backlog commenced on 15 February. As a consequence, it was not possible to resolve all variances between amounts collected and the audit tickets for days in this period.

Recommendation	Reconciliations are carried out and cleared on a timely basis.
Priority	3
Responsibility	
Response	Awaiting response

Recommendations

EX 7 - Controls testing: CCTV camera for car parking

Matter Arising:

Finding
 There is a camera and microphone in the car park office at Westgate that captures both actions and

sound since the new procedures have been introduced.

However, none of the footage has been reviewed at the time of our audit.

Recommendation	Time must be made in the car park manager's diary to review random footage from the camera
Priority	3
Responsibility	
Response	Awaiting response

Recommendations

EX 8 - Controls testing: Monthly reconciliations

Matter Arising:

Finding

We found several monthly reconciliations were either not being prepared on a timely basis; not being reviewed or reconciling items were not investigated or cleared promptly.

For instance:

- from work looking at bank reconciliation in year the General Fund bank reconciliation is reviewed but outstanding items of up to 1 year ago have not been cleared.
- the Interface I-Trent and Agresso - reconciliation is not reviewed.
- payroll control accounts - no evidence of who prepares the reconciliation or who reviewed it and when.
- cash and refunds reconciliation - there is no evidence of who has prepared these reconciliations.
- refund reconciliation has not been fully reconciled to Agresso; there has been a £172.50 difference from 14/9/10 until 23/2/11.
- there is a difference of £2,635 on the December AP to Agresso reconciliation. This has subsequently been cleared (25 Feb 2011)
- there is a difference of £11,087.23 on the December NNDR reconciliation.
- the Council tax refunds reconciliation for February has a difference on it of £909.39
- the HB payments Academy to Agresso reconciliation was not reviewed and had a difference of £0.46 on it.
- there is no evidence on the housing rents cash received to agresso reconciliation of who prepared it and this reconciliation is not normally reviewed.
- there is no evidence on the Tenants Control Account reconciliation of who prepared it and this reconciliation is not normally reviewed
- at the time of our review on 24th February 2011, the last review of the suspense account had taken place at the end of November. It was not clear there was a balance of £913.07. It had been reviewed but not dated.

Recommendation	Ensure that all reconciliations are performed on a timely basis. Consider not signing reconciliations off as reviewed until they fully
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reconcile.

Consider having a standard format for reconciliations

Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 9 - Controls testing: Fleet Plan authorised signatory list

Matters arising:

Finding

The authorised signatory list was not available on site at the time of our audit

Recommendation	Ensure an up to date authorised signatory list is available on site
Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 10 - Controls testing: Weak control over authorisation of purchase invoices

Matter Arising:

Finding

During testing of purchase invoice authorisation control, it was observed that one form (Housing Benefit Overpayment Refund) required only initials for authorisation rather than a signature.

Recommendation	All purchase invoice authorisation forms should require a signature, and this should be matched to the signatures on the Authorised Signatory List.
Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 11 - Controls testing: No formal review of Housing Benefit parameters

Matter Arising:

Finding

Parameters on Academy System are input by Pauline Hull and reviewed by three members of the

benefits team.

However there is no formal evidence of this review.

This was also raised from last years audit and a recommendation was given that evidence of review was required but it was too late to be implemented in 2010/11.

If this evidence is maintained we can then test the operation of the control instead of substantive testing of the changes to parameters.

Recommendation	The benefits team should keep some evidence of the review of the housing benefits parameters.
Priority	2
Responsibility	
Response	From our discussions with the Housing Benefits manager, evidence of the review of the change in parameters will be taking place for 2011/12.

Recommendations

EX 12 - Controls testing: No formal review of Business Rates parameters

Matter Arising:

Finding

There is no evidence of review of the update of parameters onto Academy regarding NNDR rates. 2 people update the parameters and check each others input at the end but there is no evidence of this.

If this evidence is maintained we can then test the operation of the control instead of substantive testing of the changes to parameters.

Recommendation	The team should keep evidence of the review of the business rates parameters.
Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 13 - Controls testing: Lack of confirmation checks of Investments in the year

Matter Arising:

Finding

There is no evidence that authorised investments are checked to third party documentation (broker's note and/or investee document) during the year.

Recommendation	The loan ticket (where the authorisation to invest is made) should be reconciled to the 3rd party documentation for all transactions (including money market transactions) and signed as checked by an officer independent of placing or inputting the order or of the authorisation to invest.
Priority	2
Responsibility	
Response	Awaiting response

Recommendations

EX 14 - Audit Commission recommendations: Missing from Audit Progress report Matter Arising:

Finding

A report was presented to the Audit Committee on internal & external auditors' recommendations. We reviewed the report and found a number of our recommendations were missing.

Recommendation	Progress against the tracker should be monitored and the tracker should be kept up to date. Additional recommendations should be added when they arise.
Priority	2
Responsibility	
Response	Now done and complete

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