Interim audit report

Torbay Council

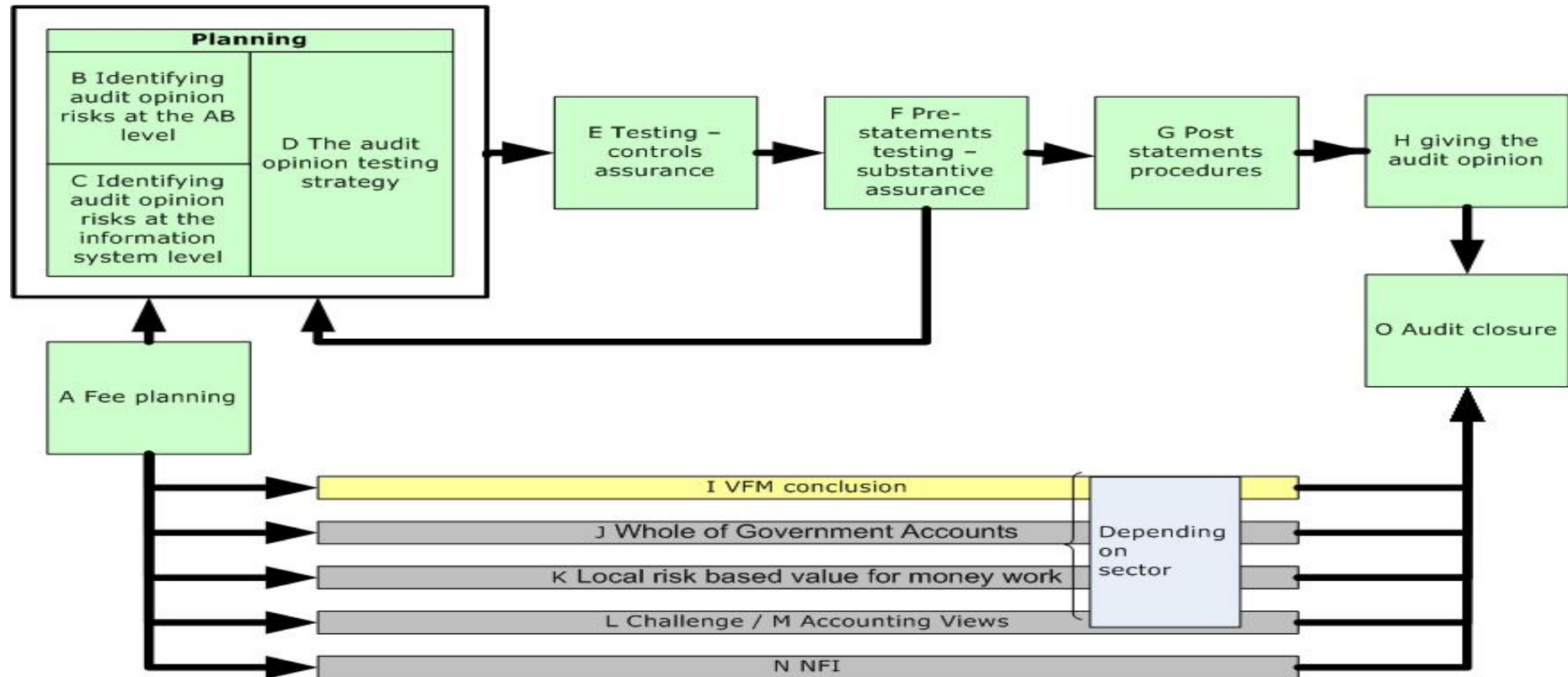**Audit 2011/12**

audit
commission

Contents

Introduction

1   This report sets out the findings from our interim audit in preparation for our work on the Council's 2011/12 financial statements. The report covers the following areas:

■   the audit approach to ensure compliance with the International Standards on Auditing;

■   identification of any issues found during our review of the control environment and IT risk assessment; and

■   an assessment of the key controls in the material information systems that we use to inform our financial statements planning.

2   We have a statutory duty to comply with the Commission's Code of Audit Practice when planning and performing our work. We must also meet the requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I).

3   The Code of Audit Practice requires review and reporting on the Council's financial statements and annual governance statement. We will meet this requirement by undertaking the opinion audit later this year.

4   The work we carry out at the interim stage of the audit informs the opinion audit. We gain an understanding of the Council and its systems. This enables us to identify risks of material misstatement in the financial statements.

Audit approach

5   Our overall audit approach is summarised by the process map in table 1 (page 5). The interim audit covers stages A to F of the process map. The remaining stages of the audit (where applicable) will be completed later in the year.

6   The 'identifying audit opinion risks at the information system level' (C in the table) stage requires us to document the systems through which material transactions flow and identify controls that would prevent or detect material misstatement in the financial statements. The purpose of the documentation is to identify the controls that we may seek to place reliance on.

7   As part of this review we carry out and record walkthrough tests to confirm our understanding of the systems and to confirm that the system controls are operating as designed.

8   After identifying controls within the material systems we evaluate the design of those controls to assess whether they are capable of effectively preventing, or detecting and correcting, material misstatements. The design and implementation of these controls also provides us with information to decide on the most appropriate testing strategy ('D' in the table).

Table 1: **Overall audit process map**

Overall process map

Planning		
B Identifying audit opinion risks at the AB level	D The audit opinion testing strategy	
C Identifying audit opinion risks at the information system level		

E Testing – controls assurance

F Pre-statements testing – substantive assurance

G Post statements procedures

H giving the audit opinion

A Fee planning

O Audit closure

I VFM conclusion

J Whole of Government Accounts

K Local risk based value for money work

L Challenge / M Accounting Views

N NFI

Depending on sector

Main conclusions

Control environment

9 We have completed our review of the Council's control environment. We have not identified any issues with the control environment that could lead to a material misstatement of the financial statements. However, we would like to bring the following issues to your attention.

■ The Council has identified that from 2011/12 their interests in subsidiaries, associates and joint ventures have reached a material value and as such will prepare Group Accounts in addition to their single entity financial statements. The introduction of group accounts creates an additional complexity to both the account preparation and audit process. We have reviewed and agreed that the Finance team have put in place adequate arrangements to collect and prepare the information required for this year's statements. We will substantively review the disclosure as part of our post statements audit.

■ We reported in 2010/11 that the Council provided £43 million of funding to the adult social care pooled budget operated in partnership with Torbay Care Trust. We noted that the Council did not obtain adequate assurance that the expenditure had been correctly classified within the pooled budget. This assurance would allow the Council to conclude that it is not funding non-council expenditure, and that the host partner is neither manipulating expenditure to achieve financial targets, nor misstating expenditure, through error. The Council is currently in the process of addressing this issue and will obtain adequate assurances from the Care Trust; we will review these as part of our post statement audit.

■ We reported in 2010/11 that the information supporting the related parties note was incomplete, as some member interests had not been declared, and subsequently not disclosed within the note. In 2011/12 there has been an update to IAS24: Related Party Disclosures and to the 2011/12 Code amending the related party disclosures required and providing more guidance on the definition of a related party. As part of our post statements audit we will be reviewing the 2011/12 disclosure to ensure it is complaint with the revised guidance and complete. As part of the completeness test we will review the members and officers registers to ensure that they have been updated and that users are aware of items they should be disclosing.

10 We have updated our IT risk assessment to assess whether we could rely upon the IT control environment and to consider any issues arising and the impact they have on our 'opinion' testing plan. We concluded that the Council has an effective IT control environment, which we plan to rely upon for our 'opinion' audit.

Material information systems - Key controls

11 The Council has appropriate systems and controls in place to ensure that materially correct financial statements are produced. However, we have identified some control issues which should be addressed and further testing will be required on some controls during our post statement audit.

12 We have summarised our findings for each material system in table 2, have made eight recommendations below the table and agreed these in the action plan at appendix 1.

13 We note that four of these issues were also reported to you in our 2010/11 audit report. Management accepted two of these four issues at that time. An updated copy of the 2010/11 agreed action plan has been included at appendix 2.

Table 2: **Review of material information systems**

Information system	Conclusion
General ledger	The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements. However, as per 2010/11 we have identified that journals can be input by anyone in the finance teams without a limit on their value. We have assurance that this weakness has not led to material misstatement as Internal Audit have tested 20 journals in the year and agreed that all had been appropriately raised and authorised. We will gain further assurance by reviewing all material year end journals as part of our post statements audit. As in previous years we will carry out further substantive testing during our post statement audit on the following: ■ Year- end bank reconciliation; and ■ Year- end trial balance.
Cash receipting	The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements.
Council tax	The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements. To further strengthen the controls: ■ suppressed Council tax accounts should be subject to a systematic review; and ■ single occupier discounts should be subject to annual review to ensure that discounts have been appropriately given.
Creditors	The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements.

Information system	Conclusion
Debtors	In 2010/11 and in previous years we reported to you that numerous officers can raise debtor invoices within the Council, and these are not subject to review or authorisation. The lack of adequate review could result in inaccurate or inappropriate invoices being raised. The Council accepted this risk and cited a mitigating control, being a report sent to budget holders for all debts raised over £5k. We reviewed this control but, could not rely upon it as there was no evidence that budget holders actually review and acknowledge these reports. Therefore, we have not been able to fully rely in the controls in place within this system. To address this risk Internal Audit has substantively tested a sample of income recorded through the sundry debtors system. We have reviewed and re-performed a sample of this work and will undertake further testing to supplement this as part of our post statements audit.
Fixed asset register	As the processes take place at the year end we will undertake substantive testing of property, plant and equipment and the related transactions during our audit of the financial statements.
National non-domestic rates	The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements. To further strengthen the controls, suppressed NNDR accounts should be subject to a systematic review.
Payroll	At this stage we would expect to be able to conclude that the system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements. However, we have identified the following issues. ■ In 2010/11 we recommended that payroll reports, detailing employees and salaries paid be sent to department heads for review and agreement on a regular basis. Although the Council agreed to complete this exercise quarterly it has not been fully completed in 2011/12. This exercise will provide the Council and us with a significant level of assurance over the accuracy and completeness of their payroll; this is particularly relevant as the Council continues to undergo a period of rapid transformation, with many staff leaving the Council or being transferred to newly formed companies. It is also worth noting that the 2010/11 exercise identified a couple of cases where staff had the left the Council but still continued to receive payments. The Council's S151 officer has agreed that this will be completed fully at the year end. We will review this exercise as part of our post statements audit.

Information system	Conclusion
	■ In 2010/11 we recommended that the Council develop an authorised payroll signatory list. We are satisfied that the Council have now established this with a listing being introduced for both schools and core council staff. However, the core council staff listing was not introduced until March 2012. We have discussed this control with Internal Audit. They have revisited the 30 changes to core council payroll tested earlier in the year to ensure that all had been authorised by an officer appearing on this updated list. They concluded that 29 of the 30 changes had been appropriately approved. However, one sickness form should not have been processed on payroll as it had not been authorised. Internal Audit have undertaken a further review of this form and confirmed that although it had not been authorised, it was appropriately raised and had adequate supporting documentation.
Supporting People	We have walked through this system and confirmed that the key controls are operating as designed. We have undertaken early substantive testing of Supporting People expenditure and have identified no issues and will undertake further testing to supplement this as part of our post statements audit.
Treasury management	We have confirmed our understanding of the system. No new loan agreements have been entered into in the financial year. However, the Council have made investments in line with its Treasury Management Strategy. We will undertake substantive testing of year end balances as part of our audit of the financial statements.
Schools Finance	We reported in 2010/11 and in previous year's audits that the schools finance team did not perform regular reconciliations between local payment schools bank balances and the general ledger. However, they had managed to fully reconcile the local payment schools bank balances and the general ledger at the 2010/11 year end.
	We recommended that the schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.
	We have identified that this reconciliation has not been performed in 2011/12. We continue to recommend that this be completed regularly as this will enable the schools finance team to identify and address imbalances promptly.
	As per previous years we will review the year end reconciliation as part of our post statements audit.
Children Services	We have walked through this system and confirmed that the key controls are operating as designed. We have undertaken early substantive testing of Children Services expenditure and have identified no issues and will undertake further testing to supplement this as part of our post statements audit.
Housing Benefits	The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements.

Recommendations

R1 General Ledger –The Council should review their journal controls to ensure that hierarchical limits are set on the values users can raise.

R2 Council Tax and NNDR - suppressed NNDR and Council tax accounts should be subject to a regular review to ensure that suppression remains appropriate.

R3 Council Tax - Single Occupier Discounts should be subject to annual review to ensure that discounts have been appropriately given.

R4 Debtors - Invoices raised by departmental users should be reviewed and authorised.

R5 Debtors - The report sent to budget holders covering all debts raised over £5k should be reviewed and this review should be evidenced.

R6 Payroll - Payroll reports, detailing employees and salaries paid, should be sent and agreed with department heads on a regular basis.

R7 Payroll – Stronger procedures are required to ensure that inputs to payroll are not processed unless signed as authorised.

R8 Schools Finance - The schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.

Appendix 1 – Action plan

Recommendations	
Recommendation 1	
General Ledger –The Council should review their journal controls to ensure that hierarchical limits are set on the values users can raise.	
Responsibility	Paul Looby
Priority	Medium
Date	Ongoing
Comments	Journal input and authorisation is currently limited to Financial Services staff only. Management are currently happy to accept this risk but will keep the issue under review. (Testing of journals is part of Internal Audit annual audit review of 'key systems').
Recommendation 2	
Council Tax and NNDR - suppressed NNDR and Council tax accounts should be subject to a regular review to ensure that suppression remains appropriate.	
Responsibility	Paul Looby
Priority	High
Date	June 12
Comments	A monthly report will be 'run' across Council Tax and NDR to review these and reviewed by an appropriate officer.

Recommendation 3

Council Tax - Single Occupier Discounts should be subject to annual review to ensure that discounts have been appropriately given.

Responsibility	Paul Looby
Priority	High
Date	Ongoing
Comments	This will be carried out through the NFI report and then a subsequent follow up of all discount and exemption reviews during 2012. Resources within the department will dictate the feasibility of being able to undertake an annual review.

Recommendation 4

Debtors - Invoices raised by departmental users should be reviewed and authorised.

Responsibility	Paul Looby
Priority	Medium
Date	Ongoing
Comments	As reported previously, while credit notes and write offs have additional authorisation, management are happy to accept this risk but will keep the issue under review. (Testing of the debtors system is part of Internal Audit annual audit review of 'key systems').

Recommendation 5

Debtors - The report sent to budget holders covering all debts raised over £5k should be reviewed and this review should be evidenced.

Responsibility	Paul Looby
Priority	Medium
Date	Ongoing
Comments	Automated reports are sent on monthly basis covering all debts above £5,000. Managers are asked to review and this requirement is included in 'best practice e-mail' which is circulated to officers.
	To insist that all reports are evidenced by each manager each month is time intensive, therefore management are happy to accept this risk but will keep the issue under review.

Recommendation 6	
Payroll - Payroll reports, detailing employees and salaries paid, should be sent and agreed with department heads on a regular basis.	
Responsibility	Mark Bennett
Priority	High
Date	July 12
Comments	Reports have been sent to Executive Heads throughout the year and the final quarter's reports were authorised by Executive Heads. Due to the significant structural changes that have taken place within the Council, the current process is under review to identify where improvements can be made.

Recommendation 7	
Payroll – Stronger procedures are required to ensure that inputs to payroll are not processed unless signed as authorised.	
Responsibility	Mark Bennett
Priority	High
Date	Completed
Comments	The signatory list has been developed and is being used on a daily basis to check paperwork before payment. All Executive Heads have been advised that pay related employee changes will not be processed without the correct authorisation.

Recommendation 8

Schools Finance - The schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.

Responsibility	Paul Looby
Priority	Medium
Date	Ongoing
Comments	The bank reconciliations for Local Payment Schools are undertaken by the schools themselves on a monthly basis reconciling their bank accounts with the schools finance system (SIMS).
	Schools that use the Council's bank account are part of the Council's bank reconciliation process that is completed on a monthly basis.
	The 'control' account in the Council's finance system that mirrors the cash balances in the Local Payment Schools is balanced to the school's bank reconciliation at each financial year end.

Appendix 2 – 2010/11 Interim action plan progress

Recommendations
Recommendation 1 - Payroll

Payroll reports, detailing employees and salaries paid, should be sent to department heads for review and agreement on a regular basis.

Responsibility	Mark Bennett
Priority	H
Date	September 2011
Comments	Accepted: Exercise planned to be done on a quarterly basis.
2011/12 Update	Although the Council agreed to complete this exercise quarterly, it has not been fully completed in 2011/12. However, the Council's S151 officer has agreed that this will be completed fully at the year end. We will review this exercise as part of our post statements audit. Recommendation made again in 2011/12 - See recommendation 6 of this report.

Recommendation 2 - Payroll

The Council should ensure that an authorised signatory list is established and used in the payroll department when inputting changes to payroll

Responsibility	Mark Bennett
Priority	H
Date	October 2011
Comments	Accepted: Review being undertaken.
2011/12 Update	An authorised signatory listing has now been established for both schools and core council staff.

Recommendation 3 - Schools' finances

The schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.

Responsibility	Lisa Finn
Priority	M
Date	Ongoing
Comments	Accepted. Frequency of reconciliation depends on resources available.
2011/12 Update	This has not been performed in 11/12. We have been informed that this will be completed at the year end. We will review this as part of our post statements audit and report if unreconciled amounts exist. Recommendation made again in 2011/12 - See recommendation 8 of this report.

Recommendation 4 - Debtors

Invoices raised by departmental users should be reviewed and authorised.

Responsibility	Lorraine Woolcock
Priority	M
Date	March 2012
Comments	Management accept the low risk for not having a separate authoriser when raising debtor accounts. Credit notes do have a separate authoriser.

2011/12	The lack of specific controls over the review and authorisation of invoices raised by departmental users continues to be an issue. To address this risk Internal Audit has substantively tested a sample of income recorded through the sundry debtors system. We reviewed and reperformed a sample of this work and will undertake further testing to top this up as part of our post statements audit.
	Recommendation made again in 2011/12 - See recommendation 4 of this report.

Recommendation 5 - Debtors

The report sent to budget holders covering all debts raised over £5k should be reviewed and this review should be evidenced.

Responsibility	Lorraine Woolcock
Priority	H
Date	Ongoing
Comments	Noted: Report sent to budget holders on a weekly basis.
2011/12 Update	Although the report continues to be sent, there is no evidence to suggest that budget holders use this and follow up on anomalies.
	Recommendation made again in 2011/12 - See recommendation 5 of this report.

Recommendation 6 - Creditors

The BACS and cheque proposed payment listing should be independently reviewed by a second person prior to payment.

Responsibility	Lorraine Woolcock
Priority	H
Date	Ongoing
Comments	Council will review this audit point with external auditor to discuss appropriate controls.
2011/12 Update	Although this proposed payment listing continues to not to be subject to review prior to payment the Council have demonstrated that a series of acceptable mitigating controls exist. These mitigating controls provide enough assurance to reduce the risk of material error to an acceptable level.

Recommendation 7 - Creditors

The authorised signatory list held within the Creditors section should be updated and all manual payments should be checked against this to ensure that they have been appropriately authorised.

Responsibility	Lorraine Woolcock
Priority	H
Date	Sept 2010
Comments	Accepted: The manual authorised signatory list has been replaced by an automated POP authorisation list which is 'live' on the system.
2011/12 Update	An authorised signatory listing has now been established for both schools and core council staff.

Recommendation 8 - Main accounting

The Council should review their journal controls to ensure that all journals are correctly and appropriately raised.

Responsibility	Martin Phillips
Priority	M
Date	May 2011
Comments	Journals are now authorised by the relevant finance team, instead of the Systems team.
2011/12 Update	We have agreed that journals are now authorised by the relevant finance team, instead of the Systems team. However, we have further recommended that the Council ensure that hierarchical limits are set on the values users can raise. See Recommendation 1 of this report.

Recommendation 9 - Adult social care

The Council should ensure it has adequate assurance that expenditure disclosed within the pooled budget is correctly classified.

Responsibility	Martin Phillips
Priority	H
Date	December 2012
Comments	Accepted: Agreement on Council access to Care Trust Records to be agreed with Care Trust.

2011/12 Update	See paragraph 9 of this report - The Council is currently in the process of obtaining adequate assurances from the Care Trust, we will review these as part of our post statement audit.

Recommendation 10 - NNDR

NNDR properties granted charitable relief should be subject to cyclical review.

Responsibility	Ian Westwood
Priority	M
Date	September 2011
Comments	Accepted: Review carried out September 2011 will be reviewed on a bi-annual basis.
2011/12 Update	The Council have undertaken a review of discretionary charitable reliefs in 2011/12. This has led to a several properties losing their relief as other income streams were identified. In 2008 a total of 169 properties were in receipt of discretionary relief, after completion of the review the number in receipt of discretionary relief fell to 110.

Recommendation 11 – NNDR

There should be a formalised review of the continuing eligibility of NNDR ratepayers granted empty properties relief.

Responsibility	Ian Westwood
Priority	M
Date	December 2011
Comments	Accepted. There is joint working with Torbay Town Centre Co which reviews 1/3 of the total relief given. A review of the remainder will be actioned when resources are available.
2011/12 Update	The joint working with Torbay Town Centre Co is ongoing. However, this is focused only on the town centre and not other properties in the Bay.
	To address this, an IT solution is currently developed with an estimated release date of July 2012. This will identify the empty commercial premises and notify the Revenue Section visiting officers.
	We will review this as part of our review of the Council's NDR grant allocation and if required report our findings to both the grant paying body (DCLG) and the Council.

Recommendation 13 – IT

The Council should develop an end user computing policy.

Responsibility	Paul Looby
Priority	M
Date	Ongoing
Comments	Process for identifying and reviewing key spreadsheets/databases etc to be established.
2011/12 Update	The Council are currently in the process of developing this policy and plan to roll it out in 2011/12.