

Interim Audit Report

Torbay Council

Audit 2009/10

August 2010



Contents

Summary report	3
Detailed report	7
Appendix 1 – Material Information Systems	13
Appendix 2 – Follow-up of 2008/09 recommendations on systems	14
Appendix 3 – Action Plan	16

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.

Summary report

Introduction

- 1 Our principal objective as the appointed auditor to Torbay Council is to carry out an audit that meets the Audit Commission's Code of Practice.
- 2 This report sets out findings from our review of material financial systems which provide the data used to prepare the accounts. It sets out control weaknesses identified, and the impact these have on our testing strategy for forming an opinion on the 2009/10 accounts.
- 3 It also follows-up on our recommendations made in our 2008/09 accounts and systems report, identifying progress made and any impact on our audit for 2009/10.
- 4 As part of this work we have undertaken a review of the partnership agreement between Torbay Care Trust and Torbay Council. This review has specifically focused on the financial monitoring and reporting arrangements of the partnership.
- 5 From 2010/11 local government will be required to prepare accounts in accordance with International Financial Reporting Standards (IFRS). In preparation for this we have reviewed the arrangements the Council has put in place to prepare for IFRS.

Audit approach

- 6 Our audit approach is designed to comply with the requirements of the International Standards on Auditing, as they apply to the United Kingdom and Ireland (ISA UK&I). The approach we take focuses on areas of greatest risk, and evaluates the adequacy of the Council's own arrangements to address risk.
- 7 There are several stages to our review of material financial systems to ensure compliance with ISA 315:
 - We identify those systems which generate material accounting entries and balances for the accounts;
 - We document, using flowcharts and notes, the key processes and controls which exist in these systems;
 - We walk-through these systems to confirm our documentation is correct, and evaluate whether key controls exist to reduce the risk of material misstatement;
 - Our risk assessment of the general IT control environment was completed initially by the Council's IT auditor. We reviewed the assessment and used it to inform our testing approach;
 - We determine if testing the operation of key controls is the most efficient way of obtaining audit assurance, or if substantive testing is more favourable;

- Where we decide on testing the operation of key controls, we identify those controls which will give us the greatest assurance and, where possible, rely on testing by Internal Audit to avoid duplication of effort;
 - We review the findings of key controls testing, and consider the impact of any control weaknesses on our opinion audit.
- 8 Appendix 1 sets out those systems which we have identified as providing material information in the financial statements.
- 9 We have completed our documentation, walkthroughs and identification of key controls for each of these systems and in compliance with ISA 330 we have undertaken controls testing on the material information systems identified in our cyclical testing programme. Where possible, we have placed reliance on and re-performed a sample of Internal Audit's work.
- 10 We have identified a number of issues arising and these are summarised in the main body of this report and in an action plan with recommendations at Appendix 3.

Follow-up of 2008/09 matters arising

- 11 We followed up the recommendations made in our 2008/09 accounts and systems report, to ensure that actions have been implemented. This work is detailed in Appendix 2.

ISA 315 - Understanding the audited body (monitoring the partnership agreement between TCT and Torbay Council)

- 12 ISA 315 also requires us to understand the operational structure of the audited body, as this is a key part of understanding their financial statements. As part of our work to address this we have undertaken a review of the financial aspects of the partnership agreement between Torbay Care Trust and Torbay Council.
- 13 We have obtained and reviewed key partnership documents, financial reports, minutes of meetings and have spoken to relevant officers at both the Council and Care Trust. We have identified a number of issues from this review, summarised these in the main body of this report and added an action plan with recommendations at Appendix 3.

International Financial Reporting Standards (IFRS)

- 14 The other significant work we have completed is to review the arrangements put in place to prepare financial statements under IFRS from 2010/11 onwards.
- 15 We have liaised with key officers in Finance Team, and reviewed their arrangements to capture the data required to restate the opening balance sheet and address the changes needed for 2010/11. In particular:
- We completed an Audit Commission survey with officers assessing progress as at the end of 2009 (the CIPFA target date for producing the restated opening balance sheet); and

Summary report

- We reviewed and commented on procedure notes produced by officers to support the work they were doing on those items and balances most affected by IFRS.
 - We brought to the attention of officers and the Audit Committee the series of briefing papers produced by the Audit Commission on IFRS.
- 16 Much of our input has been in the form of comment directly to officers as the work has progressed but some overarching recommendations are made in the action plan at Appendix 3.

Main conclusions

Review of material information systems

- 17 We have completed our walkthroughs and the testing of the material information systems identified in our cyclical testing programme. We have identified control weaknesses in a number of these systems and have reported these in the main body of this report and made recommendations in Appendix 3.
- 18 In particular we identified issues relating to the following:
- Control weaknesses remain in the re-implemented payroll system and consequently it was agreed with management that Internal Audit would carry out some year-end substantive testing (similar to last year but on a smaller scale).
 - Control weaknesses identified in the creditors system by Internal Audit require us to carry out substantive testing at the year end.
 - Control weaknesses identified in the debtors system by Internal Audit require us to carry out substantive testing of income and aged debt.
 - Gaps in controls assurance for the Supporting People system required substantive testing of this expenditure, which we completed successfully.
 - The IT risk assessment was completed by the Council's IT Auditor. This identified that there were inconsistent practices with regard to change control. A new change control system is being implemented as a result.

Follow-up of 2008/09 matters arising

- 19 The agreed recommendations from our accounts and systems report for 2008/09 have been largely actioned in 2009/10, where these relate to system weaknesses, except where highlighted elsewhere in this report.
- 20 We will review the year end local payment school reconciliations between the general ledger and SIMs as part of our post statements testing.

Understanding the audited body (review of monitoring of the partnership agreement between TCT and Torbay Council)

- 21 Our review identified that the Council did not request or receive adequate information to allow them to have full assurance over the expenditure incurred within the partnership. In particular, the Council needs to ensure that it receives

- adequate assurance over the effectiveness of the material information systems operating with the Care Trust and
- adequate assurance that expenditure had been correctly classified and disclosed within the pooled budget arrangement.

22 The Council says it is addressing these issues.

International Financial Reporting Standards (IFRS)

- 23 Our review of arrangements put in place has concluded that the Council has been proactive in its response and is making good progress in its preparation for the transition to IFRS.
- 24 Officers are currently preparing a restated set of 2009/10 financial statements. We will review comment on these in due course.

Recommendations

- 25 Our recommendations are summarised in the action plan at Appendix 3. Officers have completed the timetable and responsibility segments of this.

Acknowledgement

- 26 Our thanks are due to all the officers who have helped us with the interim audit

Detailed report

Review of material information systems

Follow-up of our 2008/09 recommendations

27 Appendix 2 shows the recommendations which we made in our 2008/09 accounts and systems report, specifically relating to controls within systems. This has been updated to show the actions implemented in 2009/10. Agreed recommendations have since largely been implemented, except where indicated elsewhere in this report.

Payroll

28 In 2008/09 we identified a number of weaknesses within the payroll system and concluded that we could not place reliance upon the systems controls. To address these weaknesses Internal Audit undertook a substantive payroll testing programme which provided adequate assurance for our opinion and added to the assurance for the S151 officer's declaration within the SIC.

29 In order to address these issues the payroll system software has been upgraded and reimplemented in 2009/10. We have placed reliance on the work of the Internal Audit's IT auditor. The auditor undertook a review of the reimplementation and has concluded that all data has been fully and correctly transferred.

30 As part of our 2009/10 audit we have walked through the revised payroll system and discussed the controls environment with officers and have again concluded that the system contains a number of control weaknesses which we have summarised below:

- Payroll have begun to distribute monthly reports detailing staff paid. These were originally only sent to commissioners but subsequently have been sent to executive heads. Beyond this, responses and confirmations are not requested and none have been received.
- Requests for changes to payroll data and authorisation of timesheets are sent to payroll after being authorised by delegated officers in departments. The forms should be checked within payroll to ensure that they have been correctly authorised. Our testing identified that the payroll department did not hold an authorised signatory listing and therefore we concluded that this control did not operate effectively.
- During the processing of the payrun a number of input and output checks are performed by the payroll processors, however, these are not subject to review by an independent officer.

31 To address this risk we have agreed with management that Internal Audit will undertake substantive year end testing. This testing will provide assurance over accuracy, occurrence and classification of payroll expenditure.

Recommendation

- R1** Regular payroll reports should be distributed to budget holders. Budget holders should be asked to review and confirm the accuracy and completeness of the report.
- R2** An authorised signatory list should be established for all main systems and used to by Payroll to check to ensure that requests made have been appropriately authorised.
- R3** The input and output checks performed by staff during the processing of the pay run should be subject to independent review.

Creditors

- 32** Internal Audit have tested a sample of 20 manual invoices to ensure that the manual certification form has been filled out accurately and authorised. They have concluded that
- Seventeen invoices had been filled out correctly and appropriately authorised
 - two invoices had been signed but officers not appearing on the creditors authorised signatory list and
 - one invoice had been processed and paid despite no confirmation of the goods being received.

To address this risk we are substantively testing the accuracy of manual payments as part of our post statements audit.

Recommendation

- R4** 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.
- R5** Controls covering manual invoice payments should be reviewed to ensure that payments are not made until the Council have confirmation that the goods or services have been received.

Debtors

- 33** Internal Audit have identified and reported that invoices raised by departmental users are not subject to review and authorisation, the omission of this control could result in inappropriate or incorrect invoices being raised.
- 34** To address this risk we are substantively testing income to source documents as part of post statements audit. This will provide assurance that income has been appropriately and accurately raised

Recommendation

- R6** Invoices raised by departmental users should be reviewed and authorised.

Detailed report

- 35 We reported that there were some weaknesses in the departmental approach to chasing debt in our 2008/09 audit report. Internal Audit have confirmed that these weaknesses still exist in 2009/10. Weaknesses include:
- Failure of departments to take responsibility for recovery of debts as the relevant service department is credited with the income as soon as the debt is raised.
 - Failure to retain adequate supporting documentation to support adequate recovery action
- 36 To address this risk we plan to substantively review aged debt to ensure it remains collectable and to review the adequacy of the year end aged debtor provision.

Recommendation

R7 The Authority should review the current arrangements for debt monitoring and chasing.

Schools Finance

- 37 In our 2008/09 post statements audit we identified that Children's Finance Team's reconciliations of general ledger to SIMs for each of the local payment schools contained unreconciled amounts, totalling a net difference for £52,828. We recommended that these reconciliations were prepared on a regular basis throughout the year, to allow imbalances to be recognised and addressed promptly. During our walkthrough of schools finance we identified that schools had not completed these in year reconciliations.
- 38 We are reviewing the year end local payment school reconciliations between the general ledger and SIMs as part of our post statements testing.

Supporting people

- 39 Our documentation and walkthrough of the supporting people system identified that we did not have full assurance over the occurrence and existence of service users and subsequently the accuracy of payments made to them. We concluded that in the cases of:
- New Users - The Council receives a client record form in respect of each new service user entering a service. We identified that this is not consistently agreed to HUB referral forms to ensure the client is receiving the right package of support. However the Council does check all new clients to the HB system to ensure the provider is eligible for payment for the client.
 - Continuing clients - The Council largely rely on the provider (third party) to confirm the clients currently in receipt of support. Providers receive funding from the Council based on the number of people receiving provider support. We identified that there were no checks in place to ensure that provider confirmations were correct. However, we noted that if the provider was found to have given false information to the Council their contract could be ended.

- 40 To address the gap in controls assurance we have undertaken early substantive testing of supporting people expenditure. This testing has provided us with adequate assurance for our opinion audit.

Recommendation

- R8** The Council should implement stronger controls to ensure that new clients are appropriately set up and that provider confirmations for existing clients are checked for accuracy.

IT Risk Assessment (ITRA)

- 41 We have reviewed and placed reliance on the ITRA completed initially by the Council's IT auditor. Her work identified inconsistent practices with regard to change control. Some analyst programmers recorded changes on email, some on spreadsheets etc, but the process is neither consistent nor formalised. This risk is heightened as support analyst programmers have access to live systems.
- 42 The Council are currently implementing a new change control procedure and an electronic formal request and approval for the change document.

Recommendation

- R9** The Council should ensure that change control procedures are implemented and that these include formal documented requests and approvals for proposed changes.

Understanding the audited body (review of monitoring of the partnership agreement between TCT and Torbay Council)

- 43 As part of our interim audit we have undertaken a high level review of the financial aspects of the partnership agreement between Torbay Care Trust and Torbay Council. This review has specifically focused on the financial monitoring and reporting arrangements of the partnership.
- 44 Our review identified that under the partnership agreement the Care Trust provide adult social care services under delegated authority from the Council. The Council remains ultimately accountable for this expenditure. Furthermore, from 2009/10 the risk sharing arrangement has changed with the council fully responsible for all overspends on social care commissioned expenditure and jointly responsible for overspends on operational expenditure. The risk sharing arrangement is as follows:
- Health Commissioned Budgets – 100% Care Trust responsibility
 - Pooled Provider Budgets – 50:50 Care Trust and Council
 - Social Care Commissioned Budgets – 100% Council responsibility

Detailed report

- 45 To meet this responsibility and to monitor the risk sharing arrangement the Council need to have a robust and effective assurance and financial monitoring system in place. This would provide assurance that Torbay Care Trust is delivering its commitments.
- 46 Our review identified that while the Council did have some assurance over partnership spending (eg VFM data on spend and the external auditor's unqualified opinion on the accounts as a whole) this should be strengthened to allow them to have fuller assurance over the expenditure incurred within the partnership. We noted that the Council did not receive:
- assurances over the effectiveness of the financial systems operating within the Care Trust. This systems such as the Trust's general ledger, creditors, PARIS/TFM are used to process the expenditure
 - adequate assurance that expenditure had been correctly classified and disclosed within the arrangement to ensure that the Council only funded their own overspends and
 - information regarding proven and ongoing fraud and corruption investigations undertaken by the Trust's Local Counter Fraud Officer.

Recommendation

R10 The Council should ensure it has adequate assurances over the financial systems that Torbay Care Trust use to process social care expenditure.

R11 The Council should ensure it has adequate assurance that expenditure disclosed within the pooled budget is correctly classified.

R12 The Council should ensure that it liaises effectively with the Care Trust to share knowledge on proven and potential cases of fraud and corruption.

- 47 We have discussed these issues with management and have received assurances that these risks are being addressed. We will review the progress made as part of our post statement review of the Council's annual governance statement.

Review of arrangements put in place to prepare for the implementation of IFRS

- 48 We have liaised closely with officers as they make preparations to produce fully IFRS compliant accounts from 2010/11.
- 49 The Audit Commission nationally is undertaking a survey of IFRS in local government. This is being carried-out in two phases. Phase one assessed the progress made by authorities at the end of 2009. The national report - Countdown to International Financial Reporting - was published in February 2010.
- 50 At that stage we assessed the Council as an amber risk. The Finance Team had been proactive in their response to IFRS but had not fully met requirements as they were awaiting detailed guidance from CIPFA. However we were satisfied that the Council had:

- developed and maintained a detailed project plan, including a budget and resource plan
- conducted a detailed impact assessment
- engaged the wider organisation including providing training
- briefed the audit committee on the implications of IFRS
- begun a dialogue with us on the authority's plans and progress, and the issues arising

51 Since completing this survey we have continued to review arrangements for the implementation of IFRS and have worked with the Finance Team to address the issues arising. We are satisfied that they have continued to make strong progress which includes progressing the preparation of a restated set of 2009/10 financial statements in the coming months. We will comment on these upon their completion.

Recommendation

R13 Officers should continue to progress the implementation of IFRS in accordance with the agreed project plan and guidance from CIPFA. Progress should be regularly reported to and reviewed by the Audit Committee.

Appendix 1 – Material Information Systems

We identify those systems which produce the figures in the financial statements and determine whether any suitable controls are in place which can provide us with assurance over the financial statements when they are produced. A list of the systems which we review is shown below:

- General ledger
- Creditors
- Debtors
- Benefits
- Council Tax
- NDR
- Fixed Assets
- Cash and Bank
- Treasury Management Loans and Investments
- Payroll
- Supporting People
- Childrens Social Services
- Education (SIMs)

We have documented and walked through each of the above systems and in compliance with ISA 330 we have undertaken controls testing on the following material information systems identified in our cyclical testing programme:

- General ledger
- Creditors
- Debtors
- Council Tax
- NDR
- Supporting People

Appendix 2 – Follow-up of 2008/09 recommendations on systems

We raised a number of recommendations to improve controls within systems in our 2008/09. These were all agreed or noted by officers. The table below shows the recommendations made, our 2009/10 comments and our conclusion as to whether these risks have been cleared.

Rec no.	Recommendation	Agreed	Comments 2009/10	Cleared
R1	The Authority should review its process for making benefit payments to ensure it minimises the levels of LA error overpayments and the subsequent subsidy losses.	Yes	The Council has changed its procedures and now suspends claim payments where a reported change is likely to create an overpayment until it has all the information to process the case. This has reduced the levels of overpayments and has resulted in the Council obtaining an extra £297,000 in administrative subsidy in 2009/10.	Yes
R2	Validation checks and controls testing should be rigorously applied to the restored payroll system.	Noted	We have agreed through reliance on the work of the Council's IT auditor that rigorous data checks have been performed on the restored payroll system.	Yes
R3	Ensure that there are regular reconciliations of the property terrier to the fixed asset register. This will provide assurance over the completeness and accuracy of the Authority's asset records.	Yes	The estates team completed a reconciliation at the 2008/09 year end and fully demonstrated that the property terrier is reconcilable to the fixed asset register. We will review this reconciliation again as part of our 2009/10 post statements audit.	Yes
R4	The Authority should review its asset register to general ledger reconciliation process to ensure that year end reconciliations are produced on a timely basis.	Noted	The finance team completed a reconciliation at the 2008/09 year end and fully demonstrated that the ledger is reconcilable to the fixed asset register	Yes
R5	S117s forms used to record changes in looked after children's' placements should be promptly	Yes	We have reviewed this as part of our 2009/10 walkthrough and	Yes

Rec no.	Recommendation	Agreed	Comments 2009/10	Cleared
	passed to finance officers to avoid unnecessary overpayments.		identified no further issues.	
R6	A full reconciliation of HB to general ledger should be produced on a regular basis throughout the year	Yes	A full reconciliation has not been performed on a regular basis as hoped. However, the HB system was fully reconciled to the GL in October and again at the 2009/10 year end.	Yes
R7	The Authority should review the current arrangements for debt monitoring and chasing.	Yes	Internal Audit have reported that there are still improvements required in both debt monitoring and chasing – See debtors report 09/10 (Section 4 and 5) Re-raised as recommendation see R.7 in Appendix 3.	No
R8	Commercial rent contracts should be regularly reviewed and renewed.	Noted	Agreed - Subject to available resources	Ongoing

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Payroll						
8	R1 Regular payroll reports should be distributed to budget holders. Budget holders should be asked to review and confirm the accuracy and completeness of the report.	3	EH Human Resources	Agreed	A regular report has been distributed to commissioners and executive heads	Ongoing
8	R2 An authorised signatory list should be established for all main systems and used to by Payroll to check to ensure that requests made have been appropriately authorised.	3	EH Human Resources	Agreed	A signatory list has been developed for schools and 100% of input is being checked. A signatory list for core council (applicable to all main Council systems) is being developed in conjunction with Finance.	Ongoing
8	R3 The input and output checks performed by staff during the processing of the pay run should be subject to independent review.	3	EH Human Resources	Agreed	The pay run form has been amended to include an overall review and sign off by a senior payroll officer. This ensures all the relevant stages have been completed by the payroll team.	Ongoing
Creditors						
8	R4 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.	3	Payments Manager	Agreed	Payments of 10K or more are now always checked for authorised signatories – Management have accepted the risks currently for transactions under this amount but are working on the introduction of an automated process to replace all manual certifications and will include system authorisation.	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R5 Controls covering manual invoice payments should be reviewed to ensure that payments are not made until the Council have confirmation that the goods or services have been received.	3	Payments Manager	Agreed	The controls covering manual invoice payments include do checks on the authorisation and the goods received/work done box. The example found was Human Error by a temporary member of staff who had been trained to check for this – it has been noted to stress this point when training staff in future.	Ongoing
Debtors						
8	R6 Invoices raised by departmental users should be reviewed and authorised.	3	Sundry Debtor Administrator	noted	Accepted risk due to availability of debtor information already available and a budget, report is sent to budget holders of all debts raised over £5k.	Ongoing
9	R7 The Authority should review the current arrangements for debt monitoring and chasing.	2	Sundry Debtor Administrator	Agreed	Now issue best practice emails quarterly and ask departments to contact debtor's directly depending on level & type of debt.	Ongoing
Supporting people						
10	R8 The Council should implement stronger controls to ensure that new clients are appropriately set up and that provider confirmations for existing clients are checked for accuracy.	2	EH Communities	Agreed	Numbers of Hub referrals by service to be reconciled with numbers entering service reported by provider on client record forms. Housing benefit to check those entering subsidy services are in receipt of housing benefit, & continue to be, on a monthly basis. A sample of service users will be interviewed at annual review	October 2010
IT - Change control						
10	R9 The Council should ensure that change control procedures are implemented and that these are supported by a formal request and approval for the change document.	3	EH IT	Agreed by internal IT auditor	The new processes are being developed for the IT01 change form. The system should be completed 4th Qtr 2010	By 4th qtr 2011

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Monitoring of TCT spending					
11	R10 The Council should ensure it has adequate assurances over the financial systems that Torbay Care Trust use to process social care expenditure.	3	EH Governance	Agreed	TCT Internal Audit reports on systems are now received and reviewed by EH Finance.	Ongoing
11	R11 The Council should ensure it has adequate assurance that expenditure disclosed within the pooled budget is correctly classified.	3	EH Governance	Agreed	In addition to the TCT Internal Audit reports on systems. This issue will continue to be discussed with TCT to ensure suitable assurance.	By end Q3 2010
11	R12 The Council should ensure that it liaises effectively with the Care Trust to share knowledge on proven and potential cases of fraud and corruption.	3	EH Governance	Agreed	This issue will continue be discussed with TCT to ensure suitable assurance.	By end Q3 2010
	IFRS					
12	R13 Officers should continue to progress the implementation of IFRS in accordance with the agreed project plan and guidance from CIPFA. Progress should be regularly reported to and reviewed by the Audit Committee..	2	Chief Accountant	Agreed	As IFRS implementation timetable	Ongoing