

EXTERNAL AUDIT REVIEW OF MATERIAL INFORMATION SYSTEMS

1 Purpose

- 1.1 To present the results of External Audit's review of material information systems at AVDC.

2 Recommendations/for decision

- | |
|---|
| 2.1 The Committee is asked to note the External Auditor's report. |
|---|

3 Supporting information

- 3.1 The External Auditor's report sets out the findings from their interim audit, conducted in preparation for their work on the 2008/09 financial statements for AVDC.
- 3.2 The report explains the approach adopted to ensure compliance with international standards, the results of any issues identified during the review of the control environment and an assessment of the key controls in the material information systems.
- 3.3 The report was used by the External Auditors in planning their work on the financial statements.
- 3.4 The report includes a number of recommendations, summarised in the Action Plan at Appendix 1. The majority of these have already been addressed. Those for future action will be added to the Audit management system, Galileo, to ensure that their implementation is monitored.

4 Options considered

- 4.1 None.

5 Reasons for Recommendation

- 5.1 This report supports the work that External Audit has done for their opinion audit. The results from it contribute to an overall understanding of the control environment at AVDC.

6 Resource implications

- 6.1 None

7 Response to Key Aims and Objectives

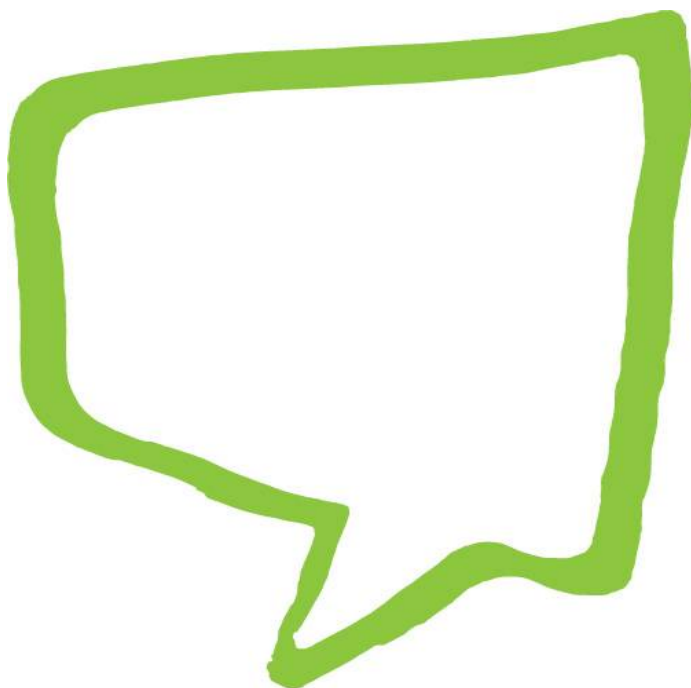
- 7.1 The External Audit review process underpins the Council's own performance management framework which is designed to ensure optimum delivery of the key aims and outcomes in the Corporate Plan.

Review of Material Information Systems

Aylesbury Vale District Council

Audit 2008/09

June 2009 (updated October 2009)



Contents

Summary report	3
Detailed report	7
Appendix 1 – Action Plan	10

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.
-

Summary report

Introduction

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

Background

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

Audit approach

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

- 8** ISA (UK&I) 315 sets out the need to gain an understanding of the entity; a stage which is necessary to be able to assess risks of material misstatement of the assertions within the financial statements and to design further audit procedures. Understanding the entity has a number of elements to it including an understanding of the Council's control environment, information systems and their control activities. The information system includes the general ledger and all the sub-systems (both financial and non-financial) that produce material entries in the financial statements.
- 9** We have used a four stage approach to do this:
- map the interfaces of all information systems to the general ledger to establish which systems provide the data for the material balances within the financial statements (ie the material systems);
 - document the processes by which the Council initiates the transactions, records them in the information system, processes them through the system into the general ledger and then reports them in the financial statements;
 - check that the controls are operating as documented by conducting implementation testing; and
 - evaluate the risks of material misstatement from the results in the steps above.
- 10** Once the 'design and implementation review' had been undertaken, and in conjunction with assessing other risks of material misstatements, we assess whether to rely on the operation of key controls (from those documented) or undertake substantive testing to reduce the risk of material misstatement to an acceptably low level.
- 11** ISA (UK&I) 330 requires the testing of operational effectiveness of those controls chosen to rely on for the accuracy of the balances and disclosures within the financial statements. For each information system we made the decision whether to rely on an internal control or on substantive testing, whichever is both the most effective and resource efficient.
- 12** We highlighted a number of key controls in each system. These depended on the particular risks at the Council and the characteristics of the internal controls within that system. These controls were then tested to assess their operating effectiveness applying Audit Commission sample sizes.
- 13** From 2010/11, local authorities' Statements of Accounts will be prepared under an IFRS-based Code of Practice on Local Authority Accounting. This will require the Council to prepare more detailed accounts across a range of areas and to have more detailed accounting systems. We therefore considered it is appropriate to also include in this audit a review of Council's arrangements in this area.

Main conclusions

Control environment

- 14** Our review of the control environment has not revealed any issues that may lead to a material misstatement of the financial statements.
- 15** We have updated our IT risk assessment and concluded that the overall IT control environment is effective.

Material information systems - key controls

- 16** Our review of the material information systems is complete. Our review involved 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).
- 17** For the fixed assets system, most of the processes and controls occur at year end. Therefore during our interim audit we were only able to document the systems but were unable to assess the effectiveness of the controls. For general ledger, car parking income, treasury management systems, due to the nature of the transactions and/or the total amount involved, we have concluded that substantive year end testing (sometimes with smaller sample sizes) is the most effective and resource-efficient approach to gaining our assurances. For monthly control account reconciliations on council tax, National Non-Domestic Rates (NNDR), car parking income, payroll and bank account, although we covered these reconciliations as part of our walk-through test, we will also test them at the year end.
- 18** The table below summarises our findings in relation to all material information systems and whether we are able to place reliance on the key controls within the systems or will need to undertake additional substantive testing during the opinion audit:

Table 1 Summary of findings from review of material information system key controls

We will need to carry out additional testing on most of the material systems

Information system	Key control assessment	Additional testing requirement
Benefits	Effective	None
Car parking income	Not assessed	Substantive testing required
Cash receipting	Effective	None
Commercial rents	Not assessed	Substantive testing required
Council tax	Partially effective	Substantive testing required
Creditors	Partially effective	Substantive testing required
Debtors	Partially effective	Substantive testing required
Fixed assets	Not assessed	Substantive testing required

Information system	Key control assessment	Additional testing requirement
General ledger	Partially effective	Substantive testing required
National Non-Domestic Rates (NNDR)	Partially effective	Substantive testing required
Payroll	Partially effective	Substantive testing required
Treasury Management - investments	Partially effective	Substantive testing required

19 The detailed report which follows contains our recommendations to the Council where controls were found not to be operating effectively.

IFRS compliance

20 We reviewed work undertaken by Internal Audit which raised concerns over the resource and financial budget available to meet the costs of implementation of this new requirement.

Detailed report

IFRS Compliance

- 21** An Internal Audit review of the Council's arrangements as at April 2009 identified a significant number of risk areas which may impact on the Council's ability to deliver the Statement of Accounts in the required format and to the required timescales. These include the following:
- implementation is not being managed as a full project with a defined project sponsor and project team;
 - over-reliance on specific Finance staff to manage and deliver implementation on top of existing commitments; and
 - no budget to meet the additional one-off and ongoing costs arising from implementation.
- 22** We understand that the Corporate Director, Resources has held a meeting with the team running the project, but we do not yet know the impact of this on the project.

Recommendations	
R1	Take immediate action to address the issues in the Internal Audit report on IFRS implementation.
R2	Produce a Project Plan for IFRS Implementation consistent with that outlined in CIPFA LAAP Bulletin 80.

Control environment

- 23** Our review concluded that the overall control environment of the Council is low risk.
- 24** We also carried out an IT risk assessment and concluded that overall the Council has an effective IT control environment, which we can place reliance on for our opinion audit.
- 25** The Council has met the requirements for Government Connect code of Connections.

Material information systems - key controls

- 26** Our review of the material information systems identified a number of weaknesses.

Fixed Assets system and reserves

27 Our review of the fixed assets identified the following:

- although the Fixed Asset Register is reconciled to APTOS at year-end this is not currently documented. As a result, it cannot be demonstrated that this takes place;
- our review of the Council's arrangements for Assets under Construction (AuC) identified that procedures are not in place to:
 - determine at what stage AuCs become completed assets. Therefore there is a risk that AuCs is overstated due to completed assets not being identified/reclassified;
 - ensure that Finance staff are aware when projects are completed;
 - revalue completed AuCs on transfer to the appropriate asset type. Therefore there is a risk that the value of completed assets is not correctly recognised in the Fixed Asset Register;
- in 2007/08 we reported there were previously undisclosed intangible assets for software licences. We were unable to confirm that action had been taken to ensure that all such assets were identified and disclosed, with an apparent reliance on departments to notify such assets. We understand that whilst IT were requested to supply a list of assets, no specific request was made in respect of intangible assets;

28 The Council does not have in place a policy/procedure covering earmarked reserves. The lack of such a policy may have contributed to a number of reserves (in particular Benefit Subsidy, Property Sinking and Interest Equalisation) whose declared purposes do not meet normal criteria and so the level of these balances cannot be demonstrated as being appropriate.

29 In addition to looking at material reserves, our review of three smaller reserves, looking at the stated purpose of of each one and evidence that the existence and level was reviewed, identified:

- reserves without a purpose consistent with a reserve (eg 'to fund a range of one-off and on-going activities including staffing costs');
- a lack of robust justification for the balances maintained in individual reserves (eg detailing the cost of typical schemes, the number occurring each year); and
- although the Controlling Officer of each reserve is required to complete a justification for the existence and level on an annual basis, there is no evidence that these submissions are reviewed. While a review process has taken place in previous years, we understand this has not taken place in 2008/09.

30 The issues raised above bring into question whether previous reviews have been sufficiently robust.

Detailed report

Recommendations	
R3	Document the reconciliation of Fixed Asset Register to APTOS.
R4	Establish procedures to ensure that, for assets under construction, completed schemes are identified and notified to Finance and assets revalued on completion.
R5	Ensure future asset revaluations include an impairment review.
R6	Obtain confirmation of intangible assets from relevant departments.
R7	Ensure the treatment in the accounts of £3.25m re Waterside Development meets the definition for deferred charges, and review other assets under construction to identify any that fall into the same category.
R8	Implement a policy setting out the purposes for which reserves can be established/held and the basis on which the level of individual reserves held should be determined.
R9	Carry out a review of the existence/level of all earmarked reserves, ensuring that each one has a clear purpose consistent with a reserve and that the maintained balance of each is supported by clear justification. All balances not required should be released to Revenue.

Creditors system

- 31** Our review identified there was no control to ensure that all invoices received are recorded and subsequently paid.

Recommendation
R10 Introduce controls to ensure completeness over invoice processing.

Debtors system

- 32** Our review found no evidence on the Debtors Request Form that information entered on the Debtors Ledger is being checked (corroborated by Internal Audit from their testing). As there is no standardised form for all departments some forms do not contain a field that requires the signature of the checker.

Recommendation
R11 Standardise the Debtors Request Form to include a field for input check.

The way forward

- 33** Appendix 1 contains the agreed action plan for our recommendations.
- 34** We would like to take this opportunity to thank the Council's staff for their help and co-operation during the audit.

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Review of material information systems						
7	R1 Take immediate action to address the issues in the Internal Audit report on IFRS implementation.	3	Corporate Director, Resources (JM) Head of Finance (AS) Risk Manager (EK)	Yes	The Internal Audit report was a response to wider accounting issues. The Council has adopted a project based approach to IFRS implementation and the Chair of the Audit Committee and the Cabinet member for Resources are both represented on the project board. Project lead is the Risk Manager.	In place
7	R2 Produce a Project Plan for IFRS Implementation consistent with that outlined in CIPFA LAAP Bulletin 80	3	Corporate Director, Resources	Yes	The Council has adopted the CIPFA project plan approach as suggested in LAAP 80. Initially slightly delayed due to the transition between Cabinet members for Resources.	In place
9	R3 Document the reconciliation of Fixed Asset Register to APTOS.	3	Head of Finance	Yes	Need to document that this has been completed.	By 2009/10 closedown
9	R4 Establish procedures to ensure that, for assets under construction, completed schemes are identified and notified to Finance and assets revalued on completion.	3	Head of Finance	Yes	Covered at opinion audit - these arrangements are now being put in place.	By 2009/10 closedown

Detailed report

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R5 Ensure future asset revaluations include an impairment review.	3	Head of Finance	Yes	Subsequently covered as part of the opinion audit. The reasons for not including specific assets in the impairment review - both for the commercial properties and other assets- were accepted.	N/A
9	R6 Obtain confirmation of intangible assets from relevant departments.	3	Head of Finance	Yes	Covered at the opinion audit; Council only consider intangibles likely to come from IT so no specific additional work was carried out to seek to identify these. Intangible assets note indicates that whilst there are software licences these are either held on an annual basis or, where covering several years, paid annually and written off in year. Approach accepted as reasonable; as no knowledge of any other potential Intangible assets then accept that this is reviewed annually as part of the accounts closedown.	N/A
9	R7 Ensure the treatment in the accounts of £3.25m re Waterside Development meets the definition for deferred charges, and review other assets under construction to identify any that fall into the same category.	3	Head of Finance	Yes	Key decision point on the Waterside project falls in 2009/10 and expenditure will be assessed then. Correct terminology will be used in determining if there is any capital spend not leading to an asset and thus charged to revenue.	N/A
9	R8 Implement a policy setting out the purposes for which reserves can be established / held and the basis on which the level of individual reserves held should be determined.	3	Head of Finance	Yes	Robust review of reserves was undertaken by the Cabinet member for Resources with each of their Cabinet colleagues, together with evidence of the officer data gathering and review exercise which supported the member review. Subsequent Portfolio Holder review.	In place

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R9 Carry out a review of the existence/level of all earmarked reserves, ensuring that each one has a clear purpose consistent with a reserve and that the maintained balance of each is supported by clear justification. All balances not required should be released to Revenue.	3	Head of Finance	Yes	Robust review of reserves was undertaken by the Cabinet member for Resources with each of their Cabinet colleagues, together with evidence of the officer data gathering and review exercise which supported the member review. Subsequent Portfolio Holder review.	In place
9	R10 Introduce controls to ensure completeness over invoice processing.	2	Head of Finance	Yes	Noted; external audit will review in 2009/10.	By 2009/10 closedown
9	R11 Standardise the Debtors Request Form to include a field for input check.	2	Head of Finance	Yes (but see comment)	The point was raised at the time with Internal Audit that only a few forms omitted this check box. These were mainly invoice requests relating to Community Centre usage. Despite not having a check box debtors staff still wrote on the invoice number to indicate that they had been checked. Finance staff agreed to amend those forms which were missing a check box, but feel that the potential risk associated with this area is very low.	In place (see comment)

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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

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

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

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

www.audit-commission.gov.uk