

Financial Systems Interim Report

Copeland Borough Council

Audit 2006/07

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- auditors may report aspects of their work widely to the public and other key stakeholders.

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Summary report

Background

- 1 This report sets out the results from our interim work at Copeland Borough Council for 2006/07, which concluded in May 2007.
- 2 The Code of Audit Practice requires review and reporting on the Council's financial statements and the Statement of Internal Control. The work at the interim stage informs the opinion process.
- 3 The requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I) require auditors to gain an understanding and test the systems which inform the material entries in the financial statements.

Introduction

- 4 We are required to audit financial systems for two reasons:
 - to demonstrate our understanding of the systems; and
 - to inform our testing strategy in order to give our opinion on the year end financial statements.
- 5 International Standards on Auditing (315) sets out the requirement for auditors to document and understand the flow through of transactions from initiation, through subsidiary systems and into the financial statements for material entries.
- 6 The main purpose of our interim work is to inform our testing strategy in order to give an audit opinion on Copeland Borough Councils 2006/07 accounts. Where appropriate controls are found to be in place we are able to minimise the amount of final accounts substantive testing that takes place. Where appropriate controls are not found to be in place or are not operating effectively we must carry out further final accounts testing in order to be able to give an unqualified opinion.
- 7 This report details recommendations on improvements to the controls that arose during our interim visit for Copeland Borough Councils material systems. Implementation of these recommendations would improve the systems of internal control, would minimise our audit work and support an unqualified opinion.

Audit approach

- 8** Wherever possible we have relied on the work of Internal Audit. Our work involved:
- identifying the financial systems through which material items in the statements of accounts are processed;
 - identifying and documenting the key controls that had been included in the design of each of these systems; and
 - completing a walkthrough test of one transaction through each control in each of the material systems that had been identified; and
 - we also carried out a general risk assessment of the IT environment within which the Councils financial systems operate.

Main conclusions

- 9** The main conclusions from our interim work are outlined below. A more in depth report on our findings and recommendations is included in the detailed report section that follows.
- Our main concerns related to the lack of regular reconciliations in some areas of the Councils systems.
 - Risks in relation to the IT control environment due to a lack of a disaster recovery plan and a lack of segregation of duties within the IT department.

Detailed report

Financial systems

10 The detailed report below sets out the issues identified in each of the core financial systems that were examined as part of the interim audit visit. The material financial and information systems that were identified were as follows.

- Main accounting system.
- Sales ledger (debtors).
- Purchase ledger (creditors).
- Council tax.
- National non-domestic rates (NNDR).
- Cash receipting.
- Payroll.
- Housing and council tax benefits.
- Treasury management.
- Budget setting and control.
- Asset management.

11 Only those systems that have issues have been detailed below.

Internal Audit

12 Our work involved placing reliance on the work of Internal Audit where possible. At the time of our visit Internal Audit had carried out annual reviews of most of the major systems in 2006/07. Testing samples covered a range of periods through-out the year. We will continue to work with Internal Audit to ensure that duplication of work is avoided.

13 CIPFA launched a revised 'Code of Practice for Internal Audit in Local Government in the UK (2006)', Internal Audit have already completed a self assessment checklist which shows they comply with the majority of the new standards and this has already been reported to the Audit Committee.

IT risks

- 14 A risk assessment of the general IT environment highlighted a number of potential risks to the Council:
- due to the small number of IT staff in a relatively small Council there is an increased level of risk associated with the fact that knowledge is concentrated in two key individuals and there is therefore a lack of separation of duties; and
 - there is a no formal disaster recovery plan in place and IT staff have difficulties on obtaining access to the building out of normal office hours. There is therefore an increased risk to the Council if there was a major failure of IT systems.

Recommendations

R1 The Council should put arrangements to mitigate as far as possible any risk from the lack of adequate levels of separation of duties. This may involve Internal Audit staff carrying out random spot checks or other controls that need to be established by management.

R2 The Council needs to put a formal disaster recovery plan in place and to secure access to the main Council offices out of office hours if required.

Budgetary control

- 15 Our review of the budget setting and control process for 2006/07 involved a review of:
- budget assumptions used;
 - the loading of the budget onto the main accounting system;
 - control of budget virements; and
 - the timeliness and format of budget reports at officer and member level.
- 16 There were no major issues that came to our attention with relation to 2006/07 during the course of our work. We are aware of an error which led to a potential shortfall in the 2007/08 budget reporting of approximately £700,000. This was detected by staff at a relatively early stage therefore allowing corrective action to take place albeit after the budget had been approved. We understand that now additional controls have already been put in place, which will include a further review by senior staff of the annual budget before it is finalised each year.

Housing benefits

- 17 A walkthrough test of controls in the Housing benefits system found that the reconciliations between the benefits system and the main accounting system had not been operating on a monthly basis for the first half of 2006/07.
- 18 Reconciliations are an important part of a robust system of control as they insure that all transactions are correctly accounted for and should be carried out on a monthly basis to ensure that all differences are identified in a timely manner.

Recommendation

R3 The Council needs to ensure that reconciliations between the main accounting system and the housing benefit system are carried out on a regular basis.

Council tax

- 19 The Council operates a separate council tax system which is reconciled on a daily basis to the council tax benefit as per the Housing benefit system, However the basis for this reconciliation was provided by another local authority and Copeland Borough Council staff did not fully understand the process. The Council needs to ensure that all staff members involved fully understand the reconciliation process and that the two systems are being reconciled on a regular basis.

Recommendation

R4 The Council needs to ensure that Council Tax reconciliations with the Housing benefits system are carried out regularly and the process is fully understood by Council staff.

Asset management

- 20 The Fixed Asset Register (FAR) is only reconciled to the general ledger at year end, this should be carried out on a more regular basis eg quarterly to minimise the risks of errors occurring.

Recommendation

R5 The Council should reconcile the fixed asset register to the general ledger on a quarterly basis to minimise the risks of errors in the accounts.

Closedown arrangements

- 21** There was a closedown plan in place for the production of the 2006/07 financial statements and this ensured that the statutory deadline of 30 June 2007 for approval by Members was reached. We are required to give our audit opinion on the statements by 30 September 2007. The work in order for us to give this opinion is ongoing.

Acknowledgements

- 22** We would like to take this opportunity to express our appreciation to all Council staff for the assistance provided during the course of this interim audit.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 The Council should put arrangements to mitigate as far as possible any risk from the lack of adequate levels of separation of duties. This may involve Internal Audit staff carrying out random spot checks or other controls that need to be established by management.	3	Chris Lloyd - Business Development Manager	Yes	Internal Audit, as part of audit testing already carry out spot checks. ICT responsibilities and experience have been reviewed and training ahs been put in place to ensure task can be covered and segregated as necessary.	December 2007
7	R2 The Council needs to put a formal disaster recovery plan in place and to secure access to the main Council offices out of office hours if required.	3	Chris Lloyd - Business Development Manager	Yes	In respect of ICT this is in the formally approved ICT Strategy action plan for completion - a procedure exists agreed with the fm provider for ICT to access the main offices out of hours. Disaster recovery needs to be co-ordinated on a Corporate basis, ICT cannot provide in isolation.	October 2007
8	R3 The Council needs to ensure that reconciliations between the main accounting system and the housing benefit system are carried out on a regular basis.	2	Accountancy Services Manager	Yes	The procedures have been reviewed and monthly monitoring mechanisms put in place. Current job holder is leaving which may impact in the short term on maintaining this on a monthly basis. This is being reviewed. Procedures will be fully updated before the post holder leaves.	July 2007 ongoing
8	R4 The Council needs to ensure that Council Tax reconciliations with the Housing benefits system are carried out regularly and the process is fully understood by Council staff.	2	Accountancy Services Manager	Yes	The procedures have been reviewed and monthly monitoring mechanisms put in place. Further training to be given.	July 2007

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R5 The Council should reconcile the fixed asset register to the general ledger on a quarterly basis to minimise the risks of errors in the accounts.	1	Accountancy Services Manager	No	As a small authority our asset base is small and minimal changes occur during the year. A full reconciliation is carried out as part of final accounts	N/A