

**Summary of Audit Reports**

Period: April - August

Date: September 2006

Type: System and Probity

Reporting Criteria: Material Systems and audits with high category risks

Recommendation category: High

**Introduction**

Internal audit undertake a program of work each year detailed in the annual audit plan. This work ranges from comprehensive system reviews, audits and investigations through to control advice and internal check responsibilities. Management are apprised of the outcome of such work in reports, memorandum, e-mails and personal contact. Recommendations are made and agreement is sought on the implementation of these, in the form of a response or action plan.

A system of categorising audit recommendations has recently been introduced on the advice of the external auditor. This aligns the recommendation with the category of weakness identified and the effect of not implementing it. Therefore recommendations are categorised high, medium or low. The recommended reporting criteria are details of audits with high category recommendations. South Derbyshire has also decided to include details of those audits that are part of the joint working arrangements with the external auditor, known as material systems.

In addition to the summaries Internal Audit has finalised work on Rosliston Forestry Centre business plans, stock takes and contract terms and cash payment issues. Security, computer and contract audit work has been undertaken and advice has been given on control and corporate governance issues.

**Format**

Each audit, which meets the reporting criteria, is summarised on a standard form (Specific Audit Report Summary). The auditor details the nature and type of audit and the following:

1. Introduction – this gives a background to the service, system or function that has been audited
2. Scope of Audit – this states how the audit is undertaken and what has been examined.
3. Recommendations – this section details the high category recommendations.

4. System Control Assessment – this part informs the annual assurance statement (part of the Statement of Internal Control [SIC] evidence) on the level of control and risk within the area being audited.

The following is a summary of reports issued which meet the reporting criteria for the Audit Sub-Committee.

Type: System

**SUBJECT: Cash**

Date: April 2006

**Introduction**

The Authority receives payments through a variety of methods and processes these, via the Revenue Support Office, using the Cash Receipting system known as CREST CR2000. The Collections & Deposits book along with individual accounts are updated as part of an overnight processing routine each evening. The total receipts for 2005/06 amounted to £129M with the majority of payments being processed through the CR2000 system.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

This year's testing encompassed the expected Key Controls, as agreed with the External Auditor, together with general observations and examination of the system. Functions examined included cashier and banking procedures, cash collection, receipting, security, posting, banking and reconciliation. For the purpose of clarity the cash audit includes all methods of payments, cash, cheques, credit/debit cards, national giro, post office, bank giro, pay-point, BACS, Chaps, internet payments and other electronic funds transfers.

**Recommendations**

High/Significant risk recommendations - none

There were five recommendations made all of which were either medium or low risk. All have been agreed and Management are implementing these.

As an example –

The Authority's cash collection arrangements are part of a joint working arrangement with a neighbouring Authority in which the latter contract with the security company. There is no formal agreement between the neighbouring Authority and ourselves, these arrangements should be formalised as a matter of urgency (medium).

**System Control assessment**

The cash collection and posting system operates with a high degree of internal control with no major weaknesses found within the testing.

Type: System

**SUBJECT: Debtors**

Date: April 2006

**Introduction**

The system is used to administer the Authority's billing and collection of income. The information available for 2005/06 shows that the Authority had processed 5072 invoices and Credit notes, valued at £3.1M and £245.5K respectively.

The audit involved an examination of the Agresso invoicing package (AR), implemented in 2004/05 as part of the new Main Accounting System, together with the Authority's previous in-house system. The in-house system is maintained to monitor and administer pre-April 2004 debts that remain outstanding. All debts from 2004/05 onwards were raised using the Agresso system.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

Testing encompassed the expected Key Controls, as agreed with the External Auditor, together with general observations and examination of the system. Functions included requisitioning, invoicing, payment, accounting, write-off and recovery.

**Recommendations**

High/Significant risk recommendations - none

There were four recommendations made all of which were low risk. All have been agreed and Management are implementing these. Management have been advised to increase the write-off value to reduce the level of small unrecoverable debts.

**System Control assessment**

The old and new Debtors systems are operating well with no major control weaknesses identified within the testing.

Type: System

**SUBJECT: Housing Benefits**

Date: April 2006

**Introduction**

The system is used to administer the Authority's Housing Benefits for the District of South Derbyshire. At the end of March 2006 some 2,030 Council tenants [March 2005 - 2,090] were in receipt of rent rebate; 5,348 [5,140] claimants (tenants and owner-occupiers) received assistance towards their council tax.

During the financial year ended 31<sup>st</sup> March 2006 rent rebates in the sum of £4.8 million [£4.7m] were credited to the Housing Revenue Account; the Council Tax fund was credited with a further £3.6 million [£3.4m] including £6k [£5.5k] in respect of second adult rebate.

Cheques in the sum of £4.7 million [£4.2m] were issued to private tenants / landlords in respect of rent allowance for 1,349 [1,280] private tenants; an overall outlay for the year in excess of £13.1 million [£12.3m].

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The following areas were examined, verification of claims, assessment authorisation of payment, cross-checks between financial systems, arrangements for re-assessment, recovery of over payments, and security of the computer system.

**Recommendations**

High/Significant risk recommendations - none

There were several items dealt with during the course of the audit and one low risk recommendation. This has been agreed and Management is implementing it.

**System Control assessment**

The benefits function continues to function with a high level of control with no operational back logs. No major control weaknesses were identified during the audit.

Type: System **SUBJECT: Treasury Management**

Date: May 2006

**Introduction**

The Authority uses its Treasury Management policy to help manage its cash flow throughout the financial year by borrowing or investing funds on a short-term basis. All PWLB loans i.e. the long-term borrowing was repaid in 2003/04 effectively making the Authority debt free. The only exception to this was a £1M LOBO that was taken on favourable terms and contains a break clause that allows the Authority to repay, with no penalty, if the lender increases the interest rate.

Since repaying the PWLB loans the Authority has been in a position to make substantial investments on a short-term basis by opening a higher interest account with the Bank of Scotland (BoS). The transfers from the Co-op account to the BoS are classed as 'specified investments' and have realised better returns than either leaving the funds in the Co-op account(s) or investing with external organisations.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

This year's testing encompassed the expected Key Controls, as agreed with the External Auditor, together an examination of the system. The work was undertaken in two stages either side of the year-end. Policy Statement, investments loans, authorities, cash flow, interest calculation, bank transfers, registers and control accounts were examined. In addition contingency planning, insurance, and investment/loan transactions within the cash system was also looked at.

**Recommendations**

High/Significant risk recommendations - one significant risk

The issue of continuity of the treasury management function arising in the event of a disaster was raised. There are some manual arrangements but no formal agreement exists with other authorities in respect of computer systems. The issue of business continuity in general is being considered but IT Strategy elements need to be included.

**Recommendation:** The Business Continuity Plan should be implemented as a matter of urgency and include reference to an IT strategy for disaster recovery.

There were three other recommendations made all of which were low risk. All recommendations have been agreed and Management are implementing these.

**System Control assessment**

The Treasury Management function operates with a good level of control apart from the Corporate Governance issue of continuity that needs addressing.

**Update – the Business Continuity plan has now been implemented.**

Type: System

**SUBJECT: Council Tax**

Date: May 2006

**Introduction**

The system is used to administer the Authority's billing and collection of Council Tax for the District of South Derbyshire. The Net annual charge for 2005/06 is 40.6M and the Authority has a target collection rate of 98%, after adjustments in the year.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The following areas were examined, Council Tax Base setting, opening Parish debits, collection rate monitoring, valuation, billing, amendments, reliefs, discounts, refunds, cash postings, ledger posting and reconciliations.

**Recommendations**

High/Significant risk recommendations – one significant risk

The issue of continuity of the Council Tax function arising in the event of a disaster was raised. There are some arrangements in place but no formal agreement exists with other authorities in respect of computer systems. The issue of business continuity in general is being considered but IT Strategy elements need to be included.

**Recommendation:** The Business Continuity Plan should be implemented as a matter of urgency and include reference to an IT strategy for disaster recovery.

There were four other recommendations made all of which were low risk. All have been agreed and Management are implementing these.

**System Control assessment**

The Council Tax function operates with a high level of control apart from the Corporate Governance issue of continuity that needs addressing.

**Update – the Business Continuity plan has now been implemented.**



**Audit Sub-Committee – Specific Audit Report Summary**

Type: System

**SUBJECT: Payroll**

Date: May 2006

**Introduction**

The Payroll system is used to calculate and pay approximately 400 staff and 36 Members. The Authority had a combined gross payroll bill, including on-costs, for the year ended 31 March 2006 of £9.6 million, salaries £8.2m and wages £1.4 m. A further £323k was generated via the Payroll system in respect of Elected Members. All payments are now made electronically.

Corresponding figures for the previous year ended 31 March 2005 were salaries £7.4m, wages £1.3m and £303k for Members.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The following areas were examined, starters / leavers, amendments, entitlement, calculation, accuracy, deductions, payment, costing and other records.

**Recommendations**

High/Significant risk recommendations - none

There were several items dealt with during the course of the audit and one low risk recommendation. All have been agreed and Management are implementing these.

**System Control assessment**

The payroll function pays remuneration and reimburses expenses in a highly controlled manner with no major control weaknesses identified within the audit.

Type: System

**SUBJECT: NNDR**

Date: June 2006

**Introduction**

The system is used to administer the Authority's billing and collection of National Non Domestic Rates for the District of South Derbyshire. The total annual charge for 2005/06 is 17.3M and the Authority has a target collection rate of 98%, after adjustments within the year.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The following areas were examined, valuation, calculation, billing, collection rate monitoring, amendments, reliefs, discounts, refunds, cash postings, ledger posting and reconciliations.

**Recommendations**

High/Significant risk recommendations – one high risk

The issue of continuity of the NNDR function arising in the event of a disaster was raised. There are some arrangements in place but no formal agreement exists with other authorities in respect of computer systems. The issue of business continuity in general is being considered but IT Strategy elements need to be included.

**Recommendation:** The Business Continuity Plan should be implemented as a matter of urgency and include reference to an IT strategy for disaster recovery.

There were three other recommendations all of which were low risk. All have been agreed and Management are implementing these.

**System Control assessment**

The NNDR function operates with a high level of control apart from the Corporate Governance issue of continuity that needs addressing.

**Update – the Business Continuity plan has now been implemented.**

Type: System

**SUBJECT: Budgetary Control**

Date: June 2006

**Introduction**

The budget setting and control systems are core process functions of the Authority and are subject to an annual audit as part of the joint working arrangements with the Audit Commission.

The main part of the Budget, some 70% +, is made up of employee costs. There is about 6% of the overall budget involving supplies and services directly controlled by managers. The Constitution contains the Budgetary Framework, Policy, Regulations, Procedures and Virement process. A budget control document is produced for Members and Staff.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The audit examines the main internal controls of the budget compilation process, verifies the loading of the Budget onto the Ledger and confirms the budgetary control function. The setting process for 2006/07 and the control function for 2005/06 have been examined.

**Recommendations**

High/Significant risk recommendations - none

There were no recommendations.

**System Control assessment**

The assurance level for this system is high the only issue is around making better use of the Agresso systems budgetary control capabilities.

Type: System

**SUBJECT: Rent**

Date: July 2006

**Introduction**

The rent accounting function is administered using the Orchard computer system, this is a relatively new system being introduced during 2004/05. In March 2006 the Authority had 3,164 properties for housing rental with a total annual debit of £8.3m.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The following areas were examined, stock control, rent debit, payments, write-offs, refunds, voids, arrears and recovery.

**Recommendations**

High/Significant risk recommendations - none

There were several items dealt with during the course of the audit and one low risk recommendation. All have been agreed and Management are implementing these.

**System Control assessment**

Problems existed in last years audit regarding reconciling the new system. It is pleasing to report that the year-end summaries from the new system have been independently reconciled to the summaries used as a basis for the final accounts. The level of internal control is improving with no major control weaknesses identified within this audit.

**Audit Sub-Committee – Specific Audit Report Summary**

Type: System    **SUBJECT: Main Accounting System**    Date: July 2006

**Introduction**

A new accounting system was introduced during 2004/05, this being Agresso's Business World Financial Management System. Problems, with the integration of this system into the overall financial suite of systems, were encountered during the previous audit.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The audit has examined opening balances, ledger balancing, feeder system control accounts, bank reconciliation (as a control), suspense accounts, journals, access controls and the continued customisation of the Agresso system. A follow-up process has been undertaken on the progress made on the implementation of recommendations in last year's audits.

**Recommendations**

High/Significant risk recommendations – There were five high-risk recommendations, three are detailed here and two are taken from the Bank Reconciliation audit, as they affect the Main Accounting system. These latter two are detailed under the Bank Reconciliation Audit.

**Controlling the ledger** – the ledger does not have a source reconciliation routine and so entirely relies on the bank reconciliation process. It was hoped, with the introduction of the Agresso FMS, this key control over the ledger could be established. At present the bank reconciliation is therefore the only method of confirming the integrity of the Authority's ledger.

The bank reconciliation is a complex process further complicated by the introduction of new systems and revised working practices. In the normal course of events it is unlikely that a monthly bank reconciliation would be completed much before the end of the month following the month of reconciliation. Delays have also been experienced since the introduction of the Agresso system.

Whilst the ledger, over the last two years, has been in the main complete, this has not been confirmed until late in the closedown process. In this respect there exists a significant risk if the bank reconciliation is not completed timely.

## **Audit Sub-Committee – Specific Audit Report Summary**

In addition problems with the ledger and cash book not agreeing have exacerbated the issue.

### **Recommendation:**

- a. **Ensure bank reconciliation is up to date. Category – high**
- b. **Implement a ledger source input reconciliation as a matter of urgency. Category – high**

**Ledger/Cash Book reconciliation** - The reconciliation between the ledger and the cash book identified a number of amounts entered into the ledger correcting over/under receipted/paid amounts. In bookkeeping terms these entries have placed the cashbook out of line with the ledger cash account.

### **Recommendation:**

**Appropriate amendments should be made. Category – high**

The remaining recommendations were either medium or low risk. All have been agreed and Management are implementing these.

### **System Control assessment**

There are a number of control risks associated with the main accounting system. These centre on confirming the completeness and accuracy of the ledger by the use of the bank reconciliation process. The weaknesses identified have only arisen since the introduction of the Agresso product. Recommendations have been made in recent audits that will address these weaknesses and management are implementing them.

**Audit Sub-Committee – Specific Audit Report Summary**

Type: System

**SUBJECT: Bank Reconciliation**

Date: August 2006

**Introduction**

The Agresso FMS main accounting system was implemented during 2004/05, which includes modules for creditors and debtors. This system also included a bank reconciliation module the Authority did not implement this favouring using the cash book and bank reconciliation processes that were utilised by the previous system. Last year's review was undertaken on the Bank Reconciliation process to verify how the process operates in the new environment; a number of problems were encountered.

**Scope and Coverage**

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The Bank reconciliation process performs its primary role in agreeing the cash book to the bank account(s) but additionally it is used for verifying the integrity of the ledger. The audit has examined the March 2006 main reconciliation in terms of completion and authorisation and a number of interim months within the 2005/06 year. Payments and returns bank account reconciliations have also been examined and re-performed in depth. The secondary role of balancing with the main accountancy system as the means of confirming the completeness and accuracy of the ledger has again required a detailed examination.

**Recommendations**

High/Significant risk recommendations – two high-risk recommendations

**Bank reconciliation procedure** - In previous times the main bank reconciliation, cheque reconciliation and cash book maintenance were undertaken separately, at present one person undertakes all three functions, this is a control weakness. Maintaining the cash book, completing the records, reconciling the bank accounts and undertaking banking processes does not demonstrate good control.

**Recommendations:**

- a. **Introduce more separation of duties into the bank reconciliation process. Category - high**

**b. The cash book should be independently maintained from the bank reconciliation process. Category - high**

The above recommendations also appear in the Main Accounting Audit, as the bank reconciliation process is the ultimate control over the ledger.

There were four other recommendations made all of which were either medium or low risk. All have been agreed and Management are implementing these using an agreed action plan.

**System Control assessment**

Three significant control issues exist in the Bank Reconciliation process. Separation of duties, agreeing the cash book to the ledger and regular completion of the process. In normal circumstances the agreement of the bank accounts is important but with the additional responsibility of being the only check on the ledger it is a business critical system. The bank reconciliations have been completed to the satisfaction of Internal Audit and obviated any need for an assurance qualification. Recommendations need to be implemented as soon as possible.

In their response management have recognised that issues relating to the introduction of Agresso have affected some of the processes and working practices, in particular bank reconciliation. Certain improvements were made following the 2004/05 audit but there still remained some control weaknesses. These are being addressed in the action plan.