Period: September – November   Date: December 2011

Type: System and Probity

Reporting Criteria: Material Systems and audits with high category risks

Recommendation category: High

Introduction

Internal Audit undertakes a programme 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 is apprised of the outcome of such work in reports, memoranda, e-mails and personal contact. Recommendations are made and agreement is sought on the implementation of these, in the form of management responses and/or action plan.

Recommendations are categorised high, medium or low. The categorisation criteria are determined from a combination of the identified control weakness and the effect of not implementing the recommendation. The reporting criteria details audits with high category recommendations. South Derbyshire also includes details of those audits that are part of the joint working arrangements with the External Auditor, known as material systems.

Format

There are three types of report namely:

A.   Specific Audit Report Summary

Each audit, which meets the reporting criteria, is summarised on a standard form. 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.   Governance Statement Assessment – this part informs the Annual Audit Assurance Statement (part of the Governance Statement evidence) on the level of control and risk within the area being audited.

<u>AUDIT REPORT</u>

B. Follow-up summary

This report monitors the progress in implementing high category recommendations previously found on an initial summary report. It is essentially an update that allows the Sub-Committee to see the progress being made on the implementation of each recommendation. It follows the same general layout as the previous report but includes a brief progress statement until such time as the recommendations are fully implemented.

C. Detailed Reports Requested by Members.

This Requested Report goes into greater detail than the previous two types of summaries and applies to any audit summary report containing high-risk weaknesses where Members request more information.

<u>Summary Reports appended</u>

<u>Part A.</u> Specific Audit Report Summaries

A.1 Main Accounting

A.2 Budgetary Control

The above are material systems but do not contain any high category recommendations.

Category Definitions

Category – High

Necessary due to statutory obligation, legal requirement, Council policy or involves major risk of loss/damage to Council assets, information or reputation.

Immediate management action required – should be reported to the Audit Committee.

Category – Medium

This could cause limited loss of assets, information or adverse publicity. It is necessary for sound internal control and confidence in the system to exist.

Significant points are followed-up within the procedure (at the next audit for an annual audit and 6 months for all others).

Category – Low

Current procedure is not best practice and could lead to minor inefficiencies.

This is followed-up as for medium within the procedure

Type: System   Date: December 2011

SUBJECT: Main Accounting System

Introduction

Agresso's Business World Financial Management System version 5.4 has been the accounting system in place since 2004. This system has been replaced from April 2011 by version 5.53, which includes a new chart of accounts, an integrated cash book and an automated matching system for monthly bank reconciliations.

The audit's primary objective is to assess the internal control and processes used within the main accounting system from which the Authority's annual accounts are produced. In this case the accounts in question are those for 2010/11 and therefore this is the last audit undertaken on version 5.4.

The annual accounts for 2011/12 will be produced from the accounting records maintained on the new system version 5.53. It is important that this new system is fully audited and sufficient time is allocated in both the 2011/12, and early in 2012/13 audit plans to document and test the 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 will be 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 reconciliations (as a control), suspense accounts, journals, access controls and the continued development of the Agresso system.

Recommendations

High/Significant risk recommendations – None

Issues raised will be addressed as part of the version 5.53 upgrade.

Governance Statement Assessment

Whilst the 5.4 version of the Agresso product has limitations in both its processing and reporting capabilities it has, over recent years, maintained the books of account in a stable manner. No major control weaknesses have been found during the course of this audit.

Type: System   Date: December 2011

SUBJECT: Budgetary Control System

Introduction

The budget setting and control system is a material system of the Authority and is subject to an annual audit. This system is used to prepare and monitor the budgets for both the General Fund and the Housing Revenue Account.

The main part of the General Account 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 Housing Revenue Account is responsible for the majority of the Authority's procurement in the form of improvement contracts and responsive maintenance to the housing stock.

The Constitution contains the Budgetary Framework, Policy, Regulations, Procedures and Virement process. A budget control document is produced for Members and Staff and the information is available on the Main Accounting 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 will be 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 2011/12 and the control function for 2010/11 have been examined.

Recommendations

High/Significant risk recommendations – None

There is only one recommendation, see below. (Medium)

Governance Statement Assessment

No major weaknesses have been identified. The implementation of version 5.5 of the Agresso system will see a new budget compilation function introduced. It is recommended that this should be reviewed in detail as part of the new Ledger System evaluation at the next audit.