

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 27/06/11

AUDIT COMMISSION REPORT – AUDIT OF FINANCIAL CONTROLS

Report of the Strategic Director (Shirlene Adam).

This matter is the responsibility of the Leader of the Council, Cllr John Williams

Executive Summary

This report introduces the report by the Audit Commission on the Financial Controls of the authority.

1. Background

- 1.1 The Audit Commission will shortly be starting their formal audit of the Financial Statements for 2010/11.
- 1.2 In preparation for this, they carry out some early work on the Councils financial systems. This helps identify any risks in our control regime, and this then is built into the auditors work plans.
- 1.3 The conclusion of this early review is set out in the attached report.

2. Key Messages

- 2.1 It is pleasing to see improvement in the financial control environment from last years review. There are a couple of areas where work is still underway (the introduction of the electronic payment request form and the cleansing of the master data on suppliers). This should be completed by the end of March 2012. Progress against these issues will be monitored by the Strategic Finance Officer.

3. Finance Comments

- 3.1 There are no financial implications from this report.

4. Legal Comments

- 4.1 There are no legal implications from this report.

5. Links to Corporate Aims

- 5.1 No direct implications.

6. Environmental Implications

- 6.1 No direct implications.

7.0 Community Safety Implications

7.1 No direct implications.

8. Equalities Impact

8.1 No direct implications.

9. Risk Management

9.1 Any risks identified will feed in to the corporate risk management process.

10. Partnership Implications

10.1 The cleansing work on the suppliers master data is being carried out by the Finance team in Southwest One.

9. Recommendation

9.1 Members of the Corporate Governance Committee are requested to note the Audit Commission’s report on the audit of financial controls.

Contact Officers:

Shirlene Adam Strategic Director 01823 356310 s.adam@tauntondeane.gov.uk	Maggie Hammond Strategic Finance Officer 01823 358698 m.hammond@tauntondeane.gov.uk
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Audit of financial controls

Taunton Deane Borough Council

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Summary report

Introduction

- 1** My audit plan for 2010/11, which I presented to the Corporate Governance Committee on 1 March 2011 explained the work I would be carrying out to meet my Code of Audit Practice (the Code) responsibilities.
- 2** My responsibility as auditor of Taunton Deane Borough Council under the Audit Commission Act 1998 and the Code is to give an independent assessment of whether the financial statements give a true and fair view of the financial position of Taunton Deane Borough Council (the Council) and the income and expenditure of the year then ended.
- 3** It is the Council's responsibility to put in place arrangements to ensure proper conduct of its financial affairs, and to monitor their adequacy and effectiveness.
- 4** Under the International Standards on Auditing (UK and Ireland) (ISAs) I am required to gain an understanding of the Council's arrangements to identify and assess risks of material misstatement to its financial statements. This will comprise an assessment of audit risks for the organisation and the systems it uses to produce the financial statements.
- 5** My assessment of these arrangements will determine the approach required for the audit of the Council's financial statements in later in the year.
- 6** In addition, ISA 265 specifically requires me to communicate deficiencies in internal control to those charged with governance; the Corporate Governance Committee.
- 7** I have also reviewed the Council's progress in implementing the recommendations that I made to the Corporate Governance Committee in September 2010. The findings are summarised in the following table.

Table 1: **Review of progress with the recommendations from the Annual Governance Report 2009/10**

2009/10 Recommendation	Follow up finding	Audit conclusion
<p>R1 As part of the year end process the Council should instigate a robust review of its accruals to ensure that expenditure is accounted for in the correct period.</p>	<p>The Council has reviewed payments greater than £10,000 that were made in April. This was to ensure that all necessary accruals are reflected in the financial statements.</p>	<p>I will review the results during my audit of the financial statements.</p>
<p>R2 The Council should review its debtor balances to ensure that the amounts included are receivable, and if the amounts should be considered for write off.</p>	<p>During the year the Council has reviewed the debtor balances. The amount of outstanding debt has reduced significantly.</p>	<p>I will review the results during my audit of the financial statements.</p>
<p>R3 Update the master data file for suppliers to remove duplicate entries for the same suppliers.</p>	<p>The Master Data Team is in the process of a data cleansing exercise to remove duplicate vendors.</p>	<p>I will review the results during my audit of the financial statements.</p>
<p>R4 A proper audit trail should be maintained to demonstrate that the council tax and business rates systems fully reconcile to the general ledger.</p>	<p>The Council has yet to complete full reconciliations between the council tax, and business rates systems to the general ledger.</p>	<p>The Council should ensure that the reconciliations are completed for the year end. I will review the reconciliations during my audit of the financial statements.</p>
<p>R5 Sufficient system access controls should be operated to identify and address any unauthorised access. Evidence of review of this control should be documented to provide assurance that it is working effectively.</p>	<p>The Council produces security exception reports to identify all forms of unauthorised access activity. It needs to strength evidence of how it has monitored and taken action with these reports.</p>	<p>I will review the action that the Council has taken when I next review the Council's IT environment.</p>
<p>R6 All transactions on the SAP financial systems should contain sufficient narrative to identify the purpose of the transaction, timing and source.</p>	<p>The source of a transaction can be identified through the transaction type. The Council issued a reminder about journal narratives.</p>	<p>I will review the results during my audit of the financial statements.</p>
<p>R7 The arrangements between the Council and the Valuer should be formalised. This is important given the move to IFRS, and the additional work</p>	<p>The Council is considering its arrangements with the Valuer for the preparation for the 2010/11 financial statements.</p>	<p>I will review the results during my audit of the financial statements.</p>

2009/10 Recommendation	Follow up finding	Audit conclusion
that the Valuer will be instructed to complete in order to assist the Council prepare its accounts under IFRS.		
R8 All loans and investments taken out on behalf of the Council should be supported by appropriate documentation.	Internal audit reviewed the Council's treasury management system and had not identified any weaknesses in documentation. This was confirmed by my walkthrough test of the system.	The Council has implemented the recommendation. I will contact counter parties to confirm the balances at 31 March 2011.
R9 All registers of interest should be kept up to date.	The Council is updating the register as part of the year end routine.	I will review the results during my audit of the financial statements.

Source: 2009/10 Taunton Deane Borough Council Annual Governance Report

8 My assessment of these arrangements will determine the approach and testing required for the audit of the Council's financial statements from July to September.

Audit approach

9 Information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements.

10 My audit of the financial statements is undertaken in two phases.

- During the period of account I review the systems that generate entries in the financial statements in excess of £1.2 million (the materiality threshold) and, in particular, test the controls in these systems that prevent material errors in the statements.
- I test entries in the completed financial statements. This takes place after the year end usually from July to September.

11 ISA 315 requires the auditor to show our understanding of the financial information systems that provide material balances in the accounts and to assess the risk of material misstatement arising from the activities and controls within these systems.

12 Under ISA330 'the auditor's procedures in response to assessed risk,' the auditor can rely on controls if they have not changed since they were last tested. The auditor should test the operating effectiveness of such controls at least every third year. Where there are a number of controls for which the auditor determines that it is appropriate to use audit evidence obtained in prior audits, the auditor should test the operating effectiveness of a sample of these controls each audit.

13 In this context, my 2010/11 work includes walk through testing on the material information systems to confirm my understanding of the key controls.

14 The Council has acknowledged that there had been weaknesses in controls following the implementation of SAP. For 2010/11 I have reviewed the key controls in SAP (to see if they are now working because I was not able to place reliance on many of them in 2009/10). This work is in addition to the review of key controls in the material information systems in my cyclical plan (such as revenues and housing benefits).

15 The material information systems for the Council are:

- General Ledger;
- Accounts Payable (creditors);
- Accounts Receivable (debtors);
- Payroll;
- Property Plant and Equipment (fixed assets);
- Council Tax;
- National non domestic rates (NNDR);
- Housing Rents;
- Housing Benefits;
- Car Park Income;
- Cash receipting;
- Treasury Management; and
- DLO (Cosy) System.

16 In 2010/11 I have undertaken a detailed review of Internal Audit's working papers and supplemented its work with my own procedures for key controls of all of the above material information systems.

Main conclusions

17 I assessed the controls operating for each information system that lead to material balances in the financial statements (above £1.2 million).

18 I have documented below the findings from the testing of controls and recommendations for improvement in the future. I have also set out the approach I propose to follow at the post statement audit, to gain the required assurances the 2010/11 financial statements are materially correct.

19 My conclusions are summarised in table 2.

Table 2: Summary of results of controls testing

This table summarises the conclusions of external audit on the reliance that can be placed on key financial controls

System	Findings	Conclusions
General Ledger	The Council needs to strengthen the controls over the authorisation of journals.	I will undertake further testing during the audit of the financial statements.
Accounts payable (creditors)	There has been a significant improvement in the controls over non pay expenditure since October 2010. However, the Council needs to strengthen controls around direct input payments (where no matching of invoices is required). I have undertaken additional audit procedures on payments made before October 2010.	Duplicate payments are not material to my opinion. Subject to my review of year end balances I have sufficient assurance for my opinion.
Accounts receivable (debtors)	There have been improvements since 2009/10 but the Council needs to strengthen evidence of authorisation of the debtors and credit notes.	I will undertake additional audit procedures on the balance of accounts receivable (debtors) at 31 March 2011.
Payroll	The Council has introduced a new control in 2010/11 whereby managers are requested to sign to confirm staff details during the year.	Subject to year end review I can place reliance on the key financial controls for my opinion.
Property Plant and Equipment	The Council's controls for this system operate after the end of the financial year.	I will undertake my review of controls from July to September.
Council Tax	The Council needs to ensure that there is sufficient evidence that staff have checked that all precepts have been correctly loaded into the system. Internal Audit reviewed a sample of 20 discounts and was unable to find sufficient assurance that all discounts are regularly monitored.	Additional testing of council tax accounts with discounts will be undertaken in order to provide assurances that discounts granted are valid.
Non domestic rates	The Council should maintain sufficient evidence of authorisation of refunds. The Council should periodically review the eligibility of mandatory reliefs.	I will review year end controls to gain assurance for my opinion.
Housing Rents	My review did not identify any failures in controls and there is one key control which is undertaken after the year end, the reconciliation of properties between finance and housing.	I will review year end controls to gain assurance for my opinion.

System	Findings	Conclusions
	I am awaiting further information to allow me to conclude my work.	
Housing Benefits	The Council needs to retain the evidence that its staff have checked the accuracy of parameters for 2010/11 (such as thresholds and allowances) input into the system. The Council undertakes full reconciliations between material financial systems at the end of the year.	I will review year end controls to gain assurance for my opinion.
Car Park Income	The Council no longer checks that the information recorded on the cash sheets (collected and banked from the car park machines), agrees to the amounts recorded on the car park receipt tickets produced by the machines when they are emptied.	I have undertaken additional audit procedures to cover this gap in assurance. Subject to the review of year end controls I have sufficient assurance for my opinion.
Cash receipting	My review of controls has not identified any weaknesses in key controls. I have requested that the Council reconciles amounts in the ledger with the feeder systems for cash receipting such as development control income, planning fees, and land charges.	Subject to year end controls testing, I plan to rely on the Council's controls for my opinion.
Treasury management	I have not identified any weaknesses in control.	I will seek direct confirmation from counter parties for entries in the balance sheet.
DLO (Cosy) system	The same person can order, receipt goods and authorise payment. There is insufficient segregation of duties.	I have undertaken additional audit procedures and I have sufficient assurance for my opinion, subject to year end review

Source: Internal Audit and External Audit

Independence and objectivity

20 One of my team has a relationship with an IT contractor who is working on a project refresh for South West One. The IT contractor is not involved in any finance activity. This member of my audit team will not be involved in any review of the contract with South West One or the IT replacement project.

21 I am satisfied that this provides an adequate safeguard for me to comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

Detailed report

General Ledger

22 The main controls within SAP are electronic controls based on specific roles and access rights.

23 System access management is a key control. It ensures that transactions are independently checked, to confirm they are accurate and relate to the Council's operations.

24 Staff e-mail a request for system access to the controls team on a standard form, which includes the name of the person sanctioning the request. I have reviewed these controls and I can place reliance on them for my opinion.

25 I also reviewed the process for approving journal adjustments and found that access controls restricted the input of journals. Any member of staff can complete a journal on a standard form and email to a central mailbox for input.

26 Staff who prepare journals check to confirm that journals balance and the account codes have been set up on the system. In 2009/10 the Council agreed the recommendation that there would be an independent check of journal adjustments. The Council has yet to fully implement this recommendation.

27 However, the Council has agreed to carry out a retrospective review of journals processed during the financial year to provide assurance that the journals were correctly authorised. I will use this review to inform my testing strategy on the financial statements in the summer.

Recommendation

R1 The Council should establish a control, which provides assurance that all journal adjustments accurately reflect Council transactions and are correctly classified in the ledger.

28 Bank reconciliations are a key control within the general ledger. They provide the Council with assurance that all income received into the bank accounts and all payments made have been correctly accounted for in the ledger.

29 In 2009/10 I recommended that bank accounts should be reconciled to the general ledger and other supporting statements monthly. At the time of the audit, this control was not in place, because the system could not produce the necessary reports.

30 The Council has since worked hard to identify all income received and payments made and to reconcile the movements in the bank account to the transactions in the ledger.

31 Bank reconciliations are now carried out on a monthly basis, and I can place reliance upon this control for my audit opinion for 2010/11.

32 Although the Council reconciles cash receipts and payments on a daily basis, many of the Council's feeder systems are not fully reconciled into the General ledger until the year end. These include the Housing Benefits, Council Tax, NNDR and Housing Rents systems.

33 As part of the year end processes the Council should ensure that these systems are fully reconciled and any differences investigated and rectified.

34 At the time of my review (March 2011), the opening balances for 2010/11 were being loaded into the general ledger. The Council experienced some problems which it was working to resolve for the accounts closedown.

35 These balances will be checked as part of the final accounts audit later in the year.

Accounts Payable (Purchase Ledger)

36 My review and testing of this system confirms that there has been a significant improvement in the controls over accounts payable since October 2010.

37 Since October 2010, the Council has fully implemented '3-way matching' which matches invoices with orders raised and goods receipted. This means that once goods and services have been noted as received within SAP, and the system is able to electronically match the item against a valid order, then it is automatically passed for payment by the system.

38 My testing has found that the controls over this process are operating effectively and I can place reliance upon these controls for my opinion for the period October 2010 to March 2011.

39 However as these controls did not fully operate for the first six months of the year, I could not rely on controls over the expenditure processed through the system for this six month period.

40 I have carried out additional audit procedures to obtain assurance that there are no material errors in the expenditure reported in the net cost of service in the income and expenditure account for the six month period, April to September 2010.

41 In addition, I identified that similar to last year there are still issues with direct input payments and duplicate payments.

- Direct input payments. While these payments are input by an approved processor, there is no check to confirm that the authorisation of these payments is correct. Direct payment forms require three signatures, but they are not checked against an authorised signatory list.

- Duplicate payments. Problems with processing invoices at the beginning of the year resulted in a significant number of emergency payments. Many of these payments were then subsequently processed, resulting in some duplicate payments to suppliers. The Council has identified these payments and is seeking recovery of the amounts involved.

Recommendation

R2 The Council should set up procedures, to confirm that all direct input payments are correctly authorised. The Council should reduce the number of direct payments, by providing clear guidance detailing when it is appropriate to use this type of payment.

42 I have carried out additional audit procedures in June 2011, in order to obtain assurance that there are no material errors in the non-pay expenditure reported in the net cost of service in the income and expenditure account.

43 In addition, I have tested a sample of direct payments to confirm that the authorisation is valid, the transaction accurately reflects payments due for goods and services bought by the Council, and are charged to the correct service.

44 I have reviewed the work completed by the Council to identify duplicate payments and I have determined that there are no material risks to my opinion.

Accounts receivable (debtors)

45 I have reviewed accounts receivable and concluded that there have been improvements within the system.

46 However, similar to 2009/10, I have identified the following weaknesses.

- Lack of evidence to provide assurance that debtor requests have been authorised. Staff email sales order requests forms to a central mailbox and an authorised sales order processor inputs them into the system. Requests are not checked to confirm that they have been correctly authorised
- The lack of evidence of authorisation in order to raise credit notes within the system.

Recommendation

R3 The Council should establish procedures to ensure there is evidence that all debtor requests have been correctly authorised.

47 I will carry out additional audit procedures at the post statement audit (July to September), to obtain assurance that there are no material errors in the income reported in the net cost of service in the income and expenditure account.

48 It was determined that at the time of my review in April the total value of credit notes raised in 2010/11 was over £3 million. There were insufficient controls to ensure that credit notes had been properly authorised. I tested a sample of transactions to ensure that credit notes are appropriately raised and processed through the system (SAP).

49 For the purposes of my opinion, the additional audit procedures have provided me with reasonable assurance that the credit notes are correctly raised and entered onto SAP.

Recommendation

R4 The Council should ensure that procedures are put in place to authorise credit notes within the system.

Payroll

50 I am able to place reliance on the key controls within the payroll system.

51 The Council has introduced a new control in 2010/11 whereby managers are requested to sign to confirm that the staff paid during the year are employed by the Council, correctly incurred and their costs have been charged to the correct services.

52 To support my testing I requested that the Council complete this review for March 2011 because this will provide assurance over the whole year.

Property, plant and equipment

53 Capital invoices are processed in the same way as revenue invoices, through the accounts payable system but flagged as capital when they are input. I will include a sample of capital invoices in my testing of transactions in the accounts payable system.

54 Many of expected fixed asset controls such as the depreciation calculation, updating the fixed asset register for additions, disposals and revaluations, will only be processed at the end of the financial year.

55 I will undertake audit procedures on a sample of transactions at the post statement audit, in order to confirm accuracy in the accounts.

Council Tax

56 As part of the walkthrough test for the Council Tax system it was found that there was a lack of evidence to support that the precept information for 2010/11 has not been checked on its input into SAP. Previously this was a key control for this system, and therefore reliance was placed upon it.

57 From review we were unable to gain evidence that a check of the parameters had been completed. Evidence of these checks is normally retained by the department but could not be located.

Recommendation

R5 The Revenues Section should ensure that they retain sufficient documentation and evidence to confirm that the precepts have been correctly loaded into the system and that these have been checked.

58 My testing for 2010/11 confirmed that the parameters for the year had been uploaded correctly by checking the agreed precepts approved by Members against reports from the Council Tax system.

59 Our review also included determining the Council's arrangements for reviewing discounts and exemptions. Some assurance can be taken from the National Fraud Initiative exercise on Single Person Discount. However, I found that there is no regular programme of review in place.

60 Without regular checking of discounts, the risk is that discounts are granted where the claimant/ household are no longer entitled resulting in lost income to the Council.

Recommendation

R6 The Council should put in place a timetable to ensure that all discounts and exemptions granted are subject to regular review.

61 I have agreed with the Council, that in order to provide the assurances for 2010/11 I will complete testing on a random sample of accounts who received a discount in 2010/11.

62 I have selected a sample of accounts and passed back to the Council to confirm that the discount is still valid.

National Non Domestic Rates (NNDR)

63 My review of the NNDR system involved testing a sample of refunds made in 2010/11 to ensure that all had been appropriately authorised before the payment was made to the account holder.

64 The Council requires that all refunds over £10,000 are authorised. From the sample of 20 refunds tested, Internal Audit found that for one account there was insufficient evidence to support that the refund had been appropriately authorised.

Recommendation

R7 The Council should ensure that all refunds over £10,000 are appropriately authorised.

65 My review also included testing the Council's processes for ensuring that sufficient information is retained on business rate accounts to support any discount or relief that is granted.

66 This review found that while discretionary reliefs, are reviewed regularly, there is no regular review process to ensure that all mandatory reliefs are still valid.

Recommendation

R8 The Council should put in place a timetable to ensure that all mandatory reliefs are subject to regular review.

67 To provide the assurances for 2010/11 I will complete the testing for the NNDR 3 claim, earlier within the audit year, and so provide assurances for both the accounts and certification of the claim.

68 My review of the key controls identified no further control failures. However some controls operate at the year end only, ie reconciliation of the business rates system to the general ledger.

Housing Rents

69 According to my cyclical plan, controls testing was undertaken on this system in order to provide assurances for the 2010/11 accounts.

70 My review did not identify any failures in the key controls and reliance can be placed upon these so long as follow up testing at the financial statements audit confirms that the controls have operated effectively for the whole year.

71 There is one key control that does not operate until the year end. The Council has agreed to ensure there is a reconciliation between the number of properties recorded within the rent system, the records held by Finance and the records maintained by the Housing Information Assistant is retained.

72 I hope to complete my work once I receive the information that I have requested. There are some items that are still outstanding, such as:

- rent control reports;
- reconciliation of the property list in the rents system agreed with the HRA system (finance); and
- clarification of write offs.

Housing Benefit

73 From my review I was unable to gain evidence that a check of the 2010/11 parameters had been completed when input into SAP. Evidence of these checks is normally retained by the department but could not be located.

74 I have reviewed the 2010/11 parameters and I am satisfied that I can place reliance on the parameters for my opinion.

75 My review of the key controls identified no further control failures. However some controls operate at the year end only, ie reconciliation of the Housing Benefit system to the subsidy claim.

Recommendation

R9 The Benefits Section should ensure that it retains sufficient documentation and evidence to confirm that the parameters have been correctly loaded into the system and that these have been checked.

Car Park Income

76 I have completed a walkthrough test of this system, and this identified that a key control is no longer operating.

77 Previously the Council checked that the information recorded on the cash sheets (collected and banked from the car park machines), agreed to that recorded on the car park vault tickets produced by the machines when they were emptied. The Council no longer performs this check.

Recommendation

R10 The Council should ensure that checks are carried out that show that the income collected from the car park vault machines and recorded on the cash sheets, agrees to the printed ticket from the machines. Any differences should be reconciled.

78 In order to provide the assurances for the accounts, I have undertaken substantive testing on a sample basis, between the cash sheets and the vault tickets.

79 I have not identified any further control failures, and where year end testing confirms that the controls have operated effectively for the whole year, reliance can be placed upon the remaining system controls.

Cash receipting

80 My review of this system has not identified any control weaknesses. I will place reliance upon these controls and seek confirmation that these controls have operated at the year end.

81 To gain assurance over the Council's income streams, I have requested that reconciliations are carried out between SAP General Ledger and the Council's sub-systems.

82 This will provide me with the assurance that all income charged by the Council for its services are received, correctly coded within SAP, and that the income is complete.

Treasury management

83 From October 2010 the Council has implemented a new control by reconciling all investment records with the general ledger throughout the year.

84 Investments and loans are material balances within the financial statements. I will obtain direct confirmation from counterparties to support the amounts disclosed in the financial statements.

DLO (COSY) System

85 The same person can order, receipt goods and authorise payment. There is insufficient segregation of duties, unlike the other goods that are ordered through SAP Accounts Payable.

86 The risk is that unauthorised goods are ordered and erroneous payments are made for items that the Council has not ordered.

Recommendation

R11 The Council should strengthen segregation of duties so that the same individual cannot all stages of a transaction (order, receipt goods, and authorise payment).

87 I selected a sample of purchase orders and confirmed that the goods were correctly ordered and could be linked back to specific jobs.

Way forward

88 The Council should consider the recommendations in the action plan in Appendix 1 so that controls can be further improved. I would like to thank the Strategic Director and her team for the assistance provided during the audit.

Brian Bethell

June 2011

Appendix 1 Action plan

Recommendations

Recommendation 1

The Council should establish a control, which provides assurance that all journal adjustments accurately reflect Council transactions and are correctly classified in the ledger.

Responsibility	Paul Fitzgerald, Financial Services Manager
Priority	High
Date	April 2011
Comments	Control procedures have been implemented, with all journals > £50,000 being approved by senior accountants and regular sample checking from all other transactions.

Recommendation 2

The Council should set up procedures, to confirm that all direct input payments are correctly authorised. The Council should reduce the number of direct payments, by providing clear guidance detailing when it is appropriate to use this type of payment.

Responsibility	Maggie Hammond, Strategic Finance Officer
Priority	High
Date	June 2011
Comments	During June 2011 the electronic payment request form is being launched. This allows the payment to be authorized through SAP using the delegation table. This will significantly reduce the number of direct input payments.

Recommendation 3

The Council should establish procedures to ensure there is evidence that all debtor requests have been correctly authorised.

Responsibility	Paul Harding
Priority	Medium
Date	July 2011
Comments	The Council will revisit the process for the paper requests. However there are only 5 to 6 paper requests each month.

Recommendation 4

The Council should ensure that procedures are put in place to authorise credit notes within the system.

Responsibility	Accounts receivable, South West One
Priority	High
Date	
Comments	An authorized signatory list has been provided to the AR team. There is a request for service (RFS) in to create a new role within SAP for Credit Notes/Refunds which when fully tested will be given to a limited number of positions.

Recommendation 5

The Revenues Section should ensure that they retain sufficient documentation and evidence to confirm that the precepts have been correctly loaded into the system and that these have been checked.

Responsibility	Performance Manager, SWOne Revs and Bens Service
Priority	Medium
Date	Already in place
Comments	We retain sufficient documentation and evidence to confirm the precepts have been correctly loaded into the system. The responsibility for checking the precepts have been correctly loaded, remains with the TDBC client or through Internal Audit.

Recommendation 6

The Council should put in place a timetable to ensure that all discounts and exemptions granted are subject to regular review.

Responsibility	Principal Revenues Officer, SWOne Revs & Bens Service
Priority	Medium
Date	Already in place
Comments	Our timetable ensures regular review of all discounts and exemptions.

Recommendation 7

The Council should ensure that all refunds over £10,000 are appropriately authorised.

Responsibility	Principal Revenues Officer, SWOne Revs & Bens Service
Priority	High
Date	Already in place
Comments	Already in place

Recommendation 8

The Council should put in place a timetable to ensure that all mandatory reliefs are subject to regular review.

Responsibility	Performance Manager, SWOne Revs & Bens Service
Priority	Medium
Date	Already in place
Comments	Our timetable ensures regular review of all mandatory reliefs.

Recommendation 9

The Benefits Section should ensure that it retains sufficient documentation and evidence to confirm that the parameters have been correctly loaded into the system and that these have been checked.

Responsibility	Performance Manager, SWOne Revs & Bens Service
Priority	Medium
Date	Already in place
Comments	We retain sufficient documentation and evidence to confirm the parameters have been correctly loaded into the system. Full reconciliations between material financial systems at the end of the year is outside of the control of the Revs & Bens Service.

Recommendation 10

The Council should ensure that checks are carried out that show that the income collected from the car park vault machines and recorded on the cash sheets, agrees to the printed ticket from the machines. Any differences should be reconciled.

Responsibility	John Lewis
Priority	Medium
Date	31 May 2011
Comments	Daily checks are carried out. These have been in place since mid May 2011.

Recommendation 11

The Council should strengthen segregation of duties so that the same individual cannot all stages of a transaction (order, receipt goods, and authorise payment).

Responsibility	Maggie Hammond, Strategic Finance Officer
Priority	High
Date	
Comments	A replacement to the COSY system is being looked at as part of the DLO internal transformation project. Any new system will address the issues raised. There is a segregation of duties within SAP.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Corporate Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946