

Audit of system controls and financial statements (including IFRS)

South Hams District Council

Audit 2010/11

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Contents

Summary report	2
Introduction	2
Audit approach.....	2
Main conclusions	4
Detailed findings	5
Pre-Statements Audit.....	5
International Financial Reporting Standards (IFRS)	6
Post Statements Audit	7
Appendix 1 Action Plan	10

Summary report

Introduction

1 Our principal objective as the appointed auditor of South Hams District Council is to carry out an audit that meets the Audit Commission's Code of Audit Practice.

2 This report sets out how we have achieved this objective and brings to your attention the findings from:

- our review of the Council's key financial system controls;
- our audit of the financial statements and the Whole of Government Accounts return, and;
- our work on the implementation and reporting of the Council's first time adoption of the International Financial Reporting Standards (IFRS).

Audit approach

3 Our audit approach is designed to comply with the requirements of the International Standards on Auditing, as they apply to the United Kingdom and Ireland (ISA UK&I). The approach we take focuses on areas of greatest risk, where errors would lead to material misstatements, and evaluates the adequacy of the Council's own arrangements to address the risk.

4 The audit is divided into two main stages: Pre-statements and post-statements as set out below in Table 1.

5 In 2010/11 local authorities were required to prepare financial statements under International Financial Reporting Standards (IFRS). In response to this we reviewed the Council's arrangements for the first time adoption of the new standards as part of the pre-statements audit and substantively tested the Council's reporting against IFRS as part of our post-statements audit.

Table 1: **Details of work covered at pre and post statements**

The table sets out the work undertaken at the two main stages of this audit

Audit area	Details of work covered
Pre-statements testing	We have undertaken audit procedures to ensure that the Council has adequately designed and operated information systems (including financial systems) to enable it to prepare financial statements free from material misstatement.

Audit area	Details of work covered
	<p>We have identified the following information systems as those giving rise to material entries in the Council's financial statements.</p> <ul style="list-style-type: none"> ■ General ledger (including cash & bank) ■ Payroll ■ Debtors ■ Creditors ■ Council Tax ■ NNDR ■ Housing Benefits ■ Treasury Management ■ Property, plant & equipment <p>At the pre-statements stage of the audit our objective was to ensure that we have assurance over the key controls within each of these systems.</p>
Pre Statements IFRS Arrangements	We undertook a review of the Council's arrangements for the implementation of IFRS and tested the restated 31/3/10 and 1/4/09 figures impacted by IFRS.
Post-statements testing	We undertook substantive testing on the material figures in the Financial Statements to ensure that they presented fairly the Council's position at the 31/03/11.

6 Our pre-statements testing is designed to comply with the requirements of ISA (UK&I) 315 (Understanding the Entity) and throughout all of the work we are mindful of the requirements of ISA (UK&I) 240 (The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements).

7 This report covers all elements identified in Table 1 above.

Main conclusions

Pre-statements audit

8 The Council has appropriate systems and controls in place to ensure that materially correct financial statements are produced. Accounting processes and governance arrangements are generally sufficiently robust to safeguard the assets of the Council and support effective production of the financial statements.

9 However, we have identified a small number of control weaknesses in the general ledger and debtors systems. These weaknesses should be addressed, as outlined in our action plan, as a matter of priority.

International Financial Reporting Standards

10 We reviewed and agreed the Council's arrangements for the implementation of and reporting of IFRS.

Post-statement audit

11 Our review of the financial statements was completed satisfactorily and we issued an unqualified audit opinion on 29 September 2011.

12 Significant audit findings were reported to the Council's Audit Committee on 28 September 2011 in our annual governance report. No material errors were identified.

13 Recommendations in the body of this report identify areas that should be strengthened for future years, including the need for improved Quality Assurance arrangements.

14 All our recommendations are brought together in the action plan at Appendix 1.

Acknowledgement

15 Our thanks are due to all the officers who assisted us in the course of the audit.

Detailed findings

Pre-Statements Audit

16 Our overall conclusion is that the Council has appropriate systems and controls in place to ensure that materially correct financial statements are produced. Accounting processes and governance arrangements are sufficiently robust to safeguard the assets of the Council and support effective production of the financial statements.

17 There are two areas where further improvements can be made to enhance and develop existing controls and systems. Our key findings are summarised below. We have previously shared these with management following completion of the work earlier in the audit

18 We note that one of these issues was also reported to you in our 2009/10 report 'Systems/accounts audit & preparations for IFRS'.

General Ledger

19 Internal Audit (IA) work identified areas where access to the general ledger system should be tightened. Testing identified an individual who had left the Council, who still had access to the general ledger (GL) and that two finance staff had access to the debt recovery system which they did not require.

Recommendation

R1 The Council should ensure that general ledger access for leavers is removed in a timely manner and access levels of existing staff are regularly reviewed to ensure access levels are appropriate.

Debtors

20 In 2009/10 we identified weaknesses in the sundry debtor system controls. Summary listings of raised invoices and aged debt reports were not being consistently reviewed by all Managers within the Council.

21 IA testing identified that the same weaknesses were evident in 2010/11.

22 Whilst the majority of Managers were reviewing summary listings of raised invoices, some did not, and not all were aware of the need to do so.

23 The level of analysis by Managers of aged debt reports varied from detailed review to no action at all.

Recommendation

R2 Controls over invoice raising should be strengthened. As in 2009/10, the Council should ensure that the Council's controls to review all issued invoices and aged debt on a regular basis are consistently applied by Managers.

IT Risk Assessment (ITRA)

24 We undertook an IT risk assessment in 2010/11 and, overall, we found that IT controls within the Council operated effectively.

25 We noted, however, that the IT Security Policy was last updated in 2009.

Recommendation

R3 The IT security policy should be reviewed and updated as necessary.

National fraud Initiative

26 We considered the Council's progress in considering NFI data matches.

27 We identified that the Council does not treat Council tax single person discount matches as potential fraud - this differs to other authorities. Incorrect claims for single person discount may be fraudulent and the cost of these will fall on the council tax payer. If the council does not consider this possibility then there is no deterrent to potential fraudsters.

28 'Protecting the Public Purse' (Audit Commission, October 2010) identifies some good practice in this area - paragraphs 33-42 refer.

29 We also noted that the Council has not recently worked with residential social landlords to minimise fraud.

Recommendation

R4 The Council should review its approach in relation to single person discount matches.

R5 The Council should consider working more closely with residential social landlords in order to identify current fraud and help minimise future fraud.

International Financial Reporting Standards (IFRS)

30 The Council were required to implement new International Financial Reporting Standards in 2010/11.

31 At the pre-statements stage of the audit we reviewed and agreed the Council's plans for implementing and accounting for the new Standards and liaised with the Council's finance team to review and agree the principles that had been applied in adopting IFRS for the 2010/11 accounts. We also considered the material changes as a result of IFRS and reviewed supporting working papers.

32 At the post statements stage of the audit we carried out audit procedures to agree that the Council had made appropriate and materially correct disclosures. We agreed that these disclosures were in accordance with adopted accounting policies and the requirements of the Code and IFRS.

Post Statements Audit

Financial Statements

33 The draft financial statements for 2010/11 were authorised for issue by the S151 Officer on 30 June 2011, and we completed our audit and issued an unqualified audit opinion on 29 September 2011.

34 We reported our most significant audit findings to the Audit Committee on 28 September 2011 in our Annual Governance Report (AGR). This report sets out the other issues identified or where actions are required in relation to issues reported in the AGR.

Quality of the draft accounts.

35 A number of amendments were agreed and made to the draft accounts as detailed in the AGR. We also identified a number of minor presentation errors - these were partially attributable to the change to IFRS.

Recommendation

R6 More rigorous Quality Assurance checks of the accounts should be implemented for future years.

Quality of working papers

36 The general quality of the working papers was very good. The majority of working papers were provided electronically and were clear. One exception was the working papers supporting property, plant and equipment figures, coming from the new RAM system, which should be improved for next year.

Recommendation

R7 The Council should ensure that the supporting working papers for property, plant and equipment are improved for next year.

Accounting policies

37 The Authority did not include a de minimis level for accounting for PPE in their accounting policy in line with the Code.

Recommendation

R8 The authority should specify and apply an appropriate de minimis level for PPE in 11/12.

Valuation information

38 As reported in the AGR, standard valuation information was sought from the valuer at the start of the audit but was only provided much later after reminders and with the assistance of service leads.

Recommendation

R9 Requested information should be provided early in the audit by the Council's valuer and follow-up valuation queries should be responded to promptly.

Estimates

39 Differences were identified between figures in the accounts and the Housing Benefit subsidy claim and National Non Domestic Rates return submitted for audit. While the differences were only £51k on a total of £20,286k for Benefits rent allowance subsidy, and £36k on a total of £23,353k for NNDR pool payments, they are still non-trivial. If estimated figures are used then this needs to be disclosed in the Council's accounting policies.

Recommendation

R10 Estimates should be based on the most relevant information available prior to the pre-audit accounts being approved. In the case of claims/returns, figures in the pre-audit claim/return should be applied. Alternatively, if estimated figures are used then this needs to be disclosed in the Council's accounting policies.

Leases

40 The lease disclosure note explained that 'The authority leases various parcels of land to external organisations' in Note 32. The Chief Accountant confirmed that all other leases are insignificant.

Recommendation

R11 The Council should review leases in 2011/12 and provide supporting evidence to demonstrate the accuracy of the lease disclosure note.

Uncorrected errors

41 One uncorrected error was reported in the AGR:

- Income received in advance was overstated by £15k (£20k extrapolated error) as rent was not split between 2010/11 and 2011/12.

Recommendation

R12 The Council should ensure that the uncorrected rent error is corrected before the preparation of the 2011/12 accounts and that appropriate accruals are made for rent in 2011/12.

Annual Governance Statement

42 We reviewed the Council's annual governance statement and confirmed it was consistent with our knowledge of the Council and compliant with the relevant guidance.

Appendix 1 Action Plan

Recommendations

Recommendation 1 - General ledger

The Council should ensure that general ledger access for leavers is removed in a timely manner and access levels of existing staff are regularly reviewed to ensure access levels are appropriate.

Responsibility	Chief Accountant
Priority	M
Date	2011/12
Comments	Officers who have left the Council have their access removed via the active directory password so would be unable to view the general ledger. Therefore, there is minimal risk to the Council. However, the access privilege would still show on Civica, so the identified officers' view only accesses were removed. A review of general access will be carried out at intervals through the year.

Recommendation 2 - Debtors

Controls over invoice raising should be strengthened. As in 2009/10, the Council should ensure that the Council's controls to review all issued invoices and aged debt on a regular basis are consistently applied by Managers.

Responsibility	Chief Internal Auditor
Priority	H
Date	31st December 2011
Comments	A reminder will be sent to the relevant officers pointing out the importance of reviewing the invoices received and signing the summary sheet, and managers responsible for reviewing the service level aged debt reports. As in previous years, the audit risk to the Council is questioned.

Recommendation 3 - IT

The IT security policy should be reviewed and updated as necessary.

Responsibility	ICT Infrastructure Manager
Priority	H
Date	30th June 2012
Comments	Infrastructure and Applications is a project under the 2015 Transformation Programme. A review of associated ICT policies including the ICT Security and Common Access Strategy will be included. The project will require an appreciation and the likely outcomes of the strategic asset review.

Recommendation 4 - NFI - Council tax single person discounts

The Council should review its approach in relation to single person discount matches.

Responsibility	Customer Services Manager
Priority	H
Date	31st March 2012
Comments	<p>The NFI website has been reviewed for SPD data matches and any required action taken. The Council also carries out a review of SPDs by parish using a rolling programme.</p> <p>We will contact other Councils to establish alternative practices. Any decision made thereafter will depend upon the results and available resources.</p>

Recommendation 5 - NFI - Working with RSLs

The Council should consider working more closely with residential social landlords in order to identify current fraud and help minimise future fraud.

Responsibility	Housing Services Manager
Priority	M
Date	31st March 2012
Comments	<p>The NFI website has been reviewed for data matches between Housing Benefit claims and Tenants and any required action taken.</p> <p>A meeting is planned with the Council's main Registered Provider (RSL), which will include the discussions about the perceived levels of housing fraud in the district and the need to develop a formal working protocol for housing fraud.</p>

Recommendation 6 - Quality assurance

More rigorous Quality Assurance checks of the accounts should be implemented for future years.

Responsibility	Chief Accountant
Priority	M
Date	30th May 2012
Comments	<p>The Council implemented IFRS within the very challenging deadlines required. Now that implementation has been achieved it is anticipated that more staff resources will be available for the checking of the 2011/12 accounts.</p>

Recommendation 7 - Working papers - PPE

The Council should ensure that the supporting working papers for property, plant and equipment are improved for next year.

Responsibility	Chief Accountant
Priority	M
Date	30 July 2012
Comments	This issue arose from the implementation of new software in 2010/11. A revised format for the working papers required for next year's audit has now been agreed between the Finance team and External Audit.

Recommendation 8 - Accounting policies

The authority should specify and apply an appropriate de minimis level for PPE in 11/12.

Responsibility	Chief Accountant
Priority	M
Date	31 March 2012
Comments	The Council's de-minimis policy which has been in operation for a number of years will be incorporated in the Council's accounting policies for 2011/12.

Recommendation 9 - Valuation information

Requested information should be provided early in the audit by the Council's valuer and follow-up valuation queries should be responded to promptly.

Responsibility	Head of Assets
Priority	H
Date	As required by External Audit
Comments	The valuation information for the 2011/12 audit will be provided in a timely manner.

Recommendation 10 - Estimates

Estimates should be based on the most relevant information available prior to the pre-audit accounts being approved. In the case of claims/returns, figures in the pre-audit claim/return should be applied. Alternatively, if estimated figures are used then this needs to be disclosed in the Council's accounting policies.

Responsibility	Chief Accountant
Priority	M
Date	30 May 2012
Comments	The Council endeavours to use the most up to date information available within the constraints of the timetable for the closure of accounts. The approach used will be disclosed in the Council's accounting policies.

Recommendation 11 - Leases

The Council should review leases in 2011/12 and provide supporting evidence to demonstrate the accuracy of the lease disclosure note.

Responsibility	Chief Accountant
Priority	H
Date	31 December 2011
Comments	A review will be undertaken as recommended.

Recommendation 12 - Uncorrected errors

The Council should ensure that the uncorrected rent error is corrected before the preparation of the 2011/12 accounts and that appropriate accruals are made for rent in 2011/12.

Responsibility	Chief Accountant
Priority	H
Date	N/a
Comments	Not agreed. The 2010/11 accounts were credited with income from 4 quarterly invoices. We did not adjust individual invoices between different financial years because only 10 days of rent due in 2010/11 was credited to the 2011/12 financial year. The Council's accounting policies will be adjusted to reflect this pragmatic approach.