Governance Directorate

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TO: THE CHAIRMAN AND MEMBERS
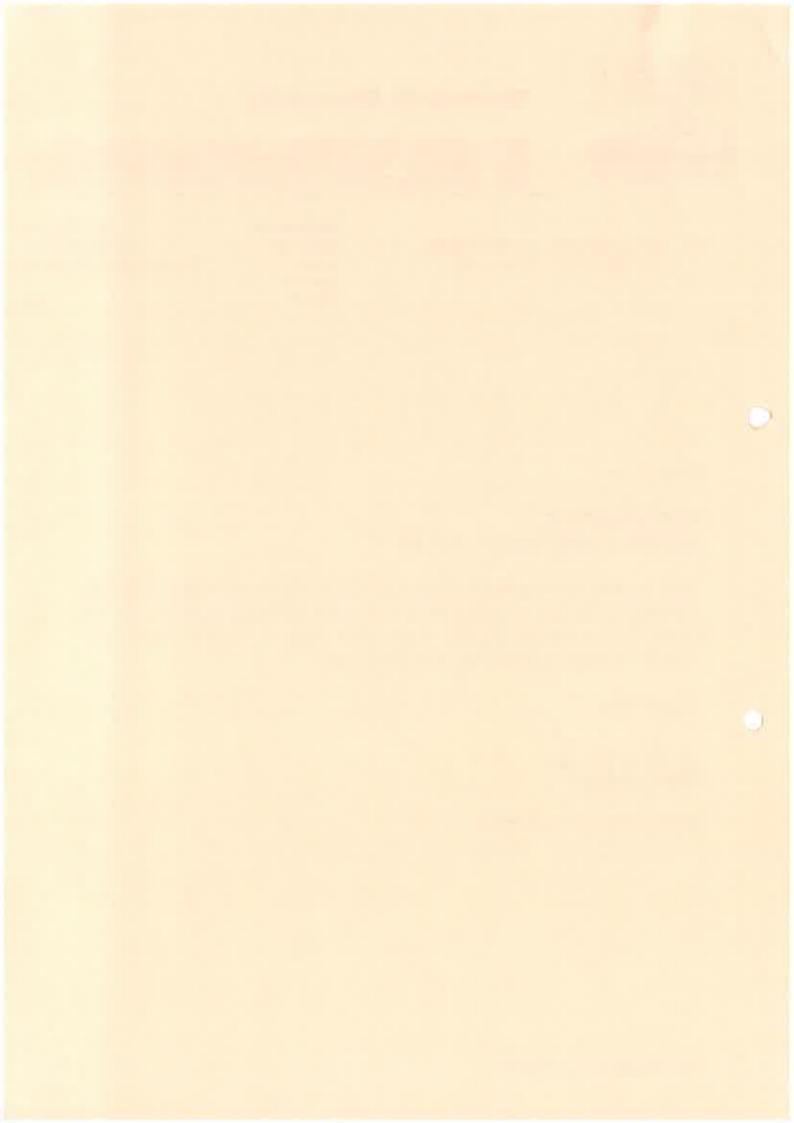OF THE AUDIT COMMITTEE

7 April 2011

Dear Member

AUDIT COMMITTEE
MONDAY 11 APRIL 2011 AT 10.00 AM

I refer further to the Agenda and papers recently circulated for the meeting of the Audit Committee on **Monday 11 April 2011 at 10.00 am in the Flensburg Room**, and now enclose for your attention the final version of the Audit Commission's report on the Review of Financial Systems (Agenda item A.5 refers).

Yours faithfully

Assistant Director (Governance)

Review of financial systems

Carlisle City Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

1   My Audit Plan for 2010/11 sets out the work I need to do to meet my responsibilities under the Code of Audit Practice (the Code). I am required by the Code to consider the annual accounts and whether they give a true and fair view of the Council's financial position. The background to this and my audit approach are shown in Appendix 1.

2   As part of my work each year I must understand the systems that record the transactions that lead to material figures in your annual accounts. I do this by documenting and 'walking through' the systems to ensure the controls within the Council's main financial systems work as intended. Controls are in place to safeguard the Council's assets and to ensure that transactions are accounted for correctly.

3   Table 1 shows a summary of the systems that lead to material figures in the Council's accounts.

Table 1:   **Material financial systems**

General ledger	Payroll	Accounts payable
Account receivable	Loans	Investments
Cash receipting	Asset register	Housing Benefit
NNDR	Council tax	Contractor Plus
Improvement grants	Car parking income	Concessionary fares

Source: Audit Commission

4   This report summarises the findings from my review of the Council's financial systems and IT control environment.

Main conclusions

5   The Council needs to improve the controls operating within some of its systems to safeguard its assets and ensure that transactions are correctly recorded within the statement of accounts.

6   I have identified some control weaknesses in the Council's systems and made recommendations to improve arrangements. Appendix 2 provides a full summary of the issues I identified and the Action Plan, agreed with officers, is at Appendix 3.

7   I have made recommendations to improve and formalise arrangements for:

- authorisation of orders;
- reconciliations for housing benefits and improvement grants;
- checking of housing benefit payments above £1,000;
- IT control environment; and
- Internal Audit's work on IT.

Appendix 1 Background and audit approach

Background

International Standards on Auditing (ISAs) set out the professional practice I must follow in auditing the Council's accounts. They allow me to test systems on a cyclical basis under my agreed testing strategy. I gain assurance over the assertions the Chief Finance Officer makes when he authorises the accounts for issue by testing controls within a system. These assertions are listed below:

Revenue Accounts
- Occurrence: the transaction has occurred and relates to the Council.
- Completeness: amounts relating to the transactions have been recorded in full.
- Accuracy: amounts relating to the transactions have been recorded accurately.
- Cut-off: transactions have been recorded in the correct accounting period.
- Classification: transactions have been recorded in the correct codes / headings.

Balance sheet
- Existence: transaction or event has occurred.
- Rights and obligations: the Council owns or is entitled to use it.
- Valuation and allocation: amounts relating to the transactions have been recorded accurately.
- Completeness: amounts relating to the transactions have been recorded in full.

Disclosure
- Classification: amounts are recorded under the correct description.

Audit approach

My audit approach is to annually refresh my audit documentation of each material system and identify the key controls within the system. I then walk a transaction through the system to confirm that controls exist and operate as expected.

Where controls are in place, and I can test them, and they work as intended, I can place reliance on them to support the entries in the statement of accounts. However, if I find controls are not working properly and cannot rely on their operation to provide audit assurance, I have to undertake additional audit work. The audit fee is based on an assumption that controls are operating effectively.

The ISAs also require me to understand the key elements of your Information Technology (IT) control environment and to consider any risks of material misstatement arising from identified weaknesses.

The Council's concessionary fares system is operated by Lancashire County Council. I am finalising the arrangements for how I will gain my assurance in this area for 2010/11. I will also update my documentation of the Council's fixed asset register prior to commencing my final accounts work.

I seek to rely on the work of Internal Audit wherever possible.

Appendix 2 Audit findings

Table 2: Audit findings

Finding	Risk	Recommendation
Accounts payable		
My testing identified an order with no authorising signature and no price / cost included.	Unauthorised orders placed with suppliers or amount charged is wrong.	R1 Ensure all orders are properly authorised and include details of the price / cost.
Housing Benefits		
The Authority has a control in place to reconcile benefits due (per hb6040 report) to benefits paid (per cr6010 report). In the week that we checked the figures did not match due a typographical error (£717.74 shown as £171.74). However, this difference had not been noted and cleared on the spreadsheet used.	The spreadsheet currently in use allows system imbalances / errors go undetected.	R2 Re-format the housing benefit reconciliation so it is clearer which figures are being agreed. Ensure any differences are clearly identified and followed up.

Finding	Risk	Recommendation
Housing benefit payments over £1k are required to be checked by team leaders before payment is made. Although a report is produced showing payments over £1k, there is no evidence or confirmation that the checks have been completed as intended.	Higher value payments made in error.	R3 Evidence Team Leader checks of housing benefits payments over £1,000.

Improvement grants

Finding	Risk	Recommendation
There is a monthly reconciliation of the improvement grants paid spreadsheet with the financial ledger. This is done in the Finance department. However, the reconciliation is not signed or dated by the preparer to confirm the timeliness of the reconciliation. There is no evidence that it has been reviewed.	Delays or discrepancies in the reconciliation go unnoticed.	R4 Formalise arrangements for the monthly improvement grant reconciliation. It should be signed and dated by preparer and by the reviewer.

IT issues

Finding	Risk	Recommendation
There is an ICT Connect shared service with Allerdale BC. However, there is still a lack of IT policies in place which have been standardised across the two sites.	ICT Connect fails to realise all potential efficiency savings that should be gained through a shared service.	R5 Review progress made by ICT Connect regarding the completeness and standardisation of policies and procedures across both authorities.
There is an IT security policy in place but new users don't need to formally acknowledge and accept the policy prior to using the Council's IT systems.	New users may fail to comply with the Council's IT security policy. . This could lead to data security breaches.	R6 Require all new users to read and formally acknowledge acceptance of the IT security policy before using the Council's IT systems.

Finding	Risk	Recommendation
No penetration testing of the Council's IT network has been carried out since August 2009.	Weaknesses may exist that allow unauthorised access to the IT network.	R7 Undertake annual penetration testing of the Council's IT network to identify any potential risks from unauthorised access.
There has been no full restore of operating system software of key application systems during 2010/11.	The Council is unable to restore all of its systems after a disaster.	R8 Undertake an annual exercise to restore all operating systems and applications from backups.
Internal Audit		
The IT work undertaken by Internal Audit in 2010/11 was limited to following up progress since its 2008/09 report on IT security policy and annexes.	The Council has no or limited assurance on the operation of its IT systems.	R9 Ensure that the 2011/12 Internal Audit plan includes sufficient work on IT. Also identify what assurances with be obtained from Allerdale BC's Internal Audit for the operation of the shared service ICT Connect.

Appendix 3 Action Plan

Recommendations	
Recommendation 1	
Ensure all orders are properly authorised and include details of the price / cost.	
Responsibility	Development & Support Manager - Resources
Priority	High
Date	September 2011
Comments	The Council is expanding the use of e-purchasing for all services that purchase via expenditure codes. This e-purchasing system does not allow any ordering of supplies, services or works without appropriate controls being completed. These controls include budget and code validation, authorisation, fund's availability and supplier verification. No manual ordering via order books is therefore necessary. However, some exceptions still remain for those former Bousteads Grassing services that utilise job numbers via the Contractor plus system. It is the intention to implement an alternative cost control system that will reduce the reliance on the Contractor plus job number costing system as part of the corporate transformation programme.
Recommendation 2	
Re-format the housing benefit reconciliation so it is clearer which figures are being agreed. Ensure any differences are clearly identified and followed up.	
Responsibility	Performance Manger – Elaine Turner
Priority	High
Date	April 2011
Comments	Additional column to be used in the reconciliation to validate entries input.
Recommendation 3	
Evidence Team Leader checks of housing benefits payments over £1,000.	
Responsibility	Benefits Manger – Mark Wilson
Priority	Medium
Date	April 2011
Comments	Report entries checked to be recorded in a control spreadsheet.

Formalise arrangements for the monthly improvement grant reconciliation. It should be signed and dated by preparer and by the reviewer.

Responsibility	Chief Accountant
Priority	Medium
Date	April 2011
Comment	Spreadsheets have been updated to show prepared by and verified by and officers involved have been informed of need to complete these sections. The reconciliation has also been added to the Control Account monitoring spreadsheet to check progress at monthly team meetings.

Review progress made by ICT Connect regarding the completeness and standardisation of policies and procedures across both authorities.

Responsibility	Shared ICT Manager
Priority	Medium
Date	April 2012
Comments	The standardisation of policies and procedures across both authorities was originally planned to form a major part of ictCONNECT workload for 2010/2011. Due to other priorities such as the implementation of the NWCRBSS (Revenues and Benefits Shared Service), we are having to re-prioritise the review of these policies.

Require all new users to read and then formally acknowledge acceptance of IT security policy before using the Council's IT systems.

Responsibility	Shared ICT Manager
Priority	High
Date	Phase 1 October 2011, phase 2 April 2012
Comments	A joint IT Security will need to be developed and agreed by both Councils. It is then the intention to put a temporary solution in place for new starters to sign an IT Security form (phase 1). Longer term the plan will be to introduce an automatic procedure to enable new starters to acknowledge the procedure on-line (phase 2).

Recommendation 7

Undertake annual penetration testing of the Council's IT network to identify any potential risks from unauthorised access.

Responsibility	ictCONNECT Infrastructure Manager
Priority	Medium
Date	April 2011
Comments	The last penetration test was completed in August 2009. The reason for the long delay since that test was that ictCONNECT needed to go through a procurement process to appoint a suitable company. The next test is due to be completed 11 April 2011.

Recommendation 8

Undertake an annual exercise to restore all operating systems and applications from backups.

Responsibility	Business Applications Manager/Infrastructure Manager
Priority	Medium
Date	April 2012
Comments	A new combined Business continuity plan is currently being devised for the Shared IT Service. Once complete it will be the intention to test each phase of the plan across the whole service.

Recommendation 9

Ensure that the 2011/12 Internal Audit plan includes sufficient work on IT. Also identify what assurances with be obtained from Allerdale BC's Internal Audit for the operation of the shared service ICT Connect.

Responsibility	Interim Audit Manager
Priority	High
Date	April 2011
Comments	The Strategic Audit Plan for 2011/12 is being considered by the Audit Committee at its meeting on 11 April 2011 and includes 30 audit days to cover ICT reviews. A joint approach will be facilitated with Allerdale Borough Council for ICT audits wherever possible.

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