Review of financial systems

Carlisle City Council

Audit 2010/11

DRAFT

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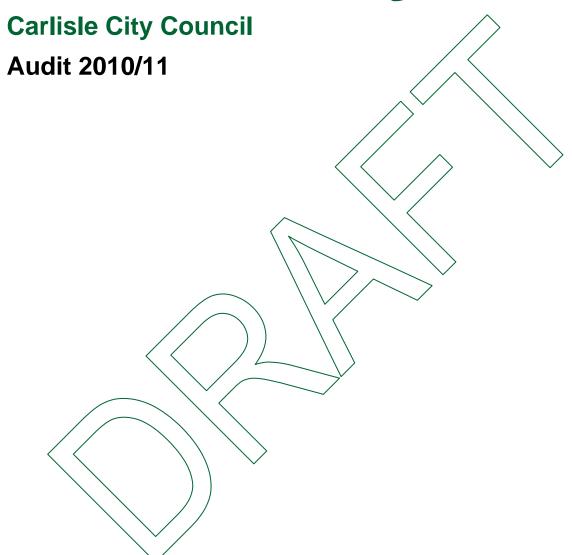
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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.

Contents

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.
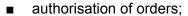
Table 1: **Material financial systems**

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.
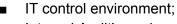
Main conclusions

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;
■   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
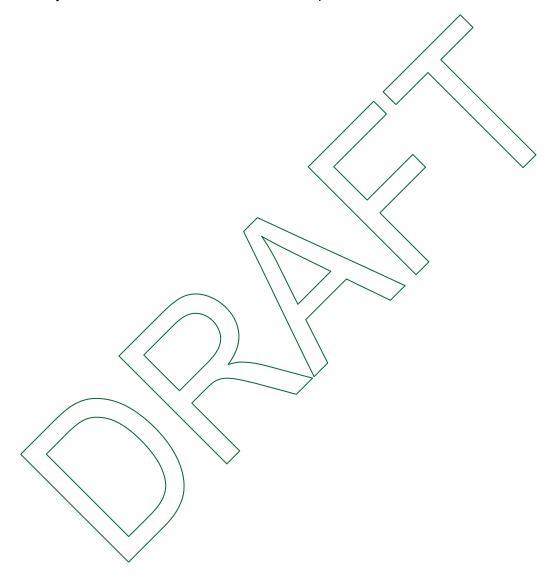
Audit approach

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		
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		
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	
Priority	High
Date	
Comments	

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	
Priority	High
Date	
Comments	

Recommendation 3
Evidence Team Leader checks of housing benefits payments over £1,000.

Responsibility	
Priority	Medium
Date	
Comments	

Recommendation 4

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

Responsibility	
Priority	Medium
Date	
Comment	

Recommendation 5

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

Responsibility	
Priority	Medium
Date	
Comments	

Recommendation 6

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

Responsibility	
Priority	High
Date	
Comments	

Recommendation 7

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

Responsibility	
Priority	Medium
Date	
Comments	

Recommendation 8

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

Responsibility	
Priority	Medium
Date	
Comments	

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	
Priority	High
Date	
Comments	