Interim Audit Report 2011/12

Cheltenham Borough Council

June 2012

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Contents

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This document summarises the key findings arising from our work to date in relation to both the audit of the Council's 2011/12 financial statements and the 2011/12 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Cheltenham Borough Council (the Council) in relation to the 2011/12 financial statements; and

- our work to support our 2011/12 value for money (VFM) conclusion up to March 2012.

Financial statements

Our External Audit Plan 2011/12, presented to you in January 2012, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

During March 2012 we completed our planning and control evaluation work. This covered our:

- review of the Council's general control environment, including the Council's IT systems;

- testing of certain controls over the Council's key financial systems with the help of internal audit;

- assessment of the internal audit function; and

- review of the Council's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our External Audit Plan 2011/12 explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed some early work to support our 2011/12 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

- considering the results of any relevant work by the Council, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and

- identifying what additional risk-based work we will need to complete.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.

- Section 3 sets out our key findings from our interim audit work in relation to the 2011/12 financial statements and VFM

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Organisational and IT control environment	Your organisational control environment and IT control environment is effective overall. There is one area has been identified for improvement within the IT control environment.
Controls over key financial systems	The controls over the key financial system are generally sound. However, further work is required to assess the controls at the start of the final audit visit in July, before we finally conclude. The additional control areas will be reported in the ISA 260 report to be issued in September 2012
Review of internal audit	Internal audit fully complies with the Code of Practice for Internal Audit in Local Government.
Accounts production and specific risk areas	The Council's overall process for the preparation of the financial statements is strong, however there will be additional resource and time constraints on the finance team as they close down the annual accounts, prepare for the audit and also manage the transition and data migration to GO and Agresso. We will follow up the recommendations in both our Interim audit report 2010/11 and ISA 260 Report 2010/11 in our ISA 260 report in September 2012 as several of recommendations were dependent on the transition to GO.
Financial resilience	Our VFM audit risk assessment and work to date has provided good assurance on the Council's arrangements to secure value for money on its use of resources. We have completed this initial risk assessment and consider that the 'Bridging the Gap'/Savings plan and the successful transition to GO are the key risks for the Council at present.
Other VFM risks	We still have to complete our programme of audit work to inform our value for money conclusion, to be issued in September alongside our opinion on the Council's accounts.

Organisational control environment

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall.

All aspects are positive with the exception of risk assessment processes. We have graded this at level two, due to the number of recommendations raised by Internal Audit in their review of the area.

Aspect	Assessment
Organisational structure	❸
Integrity and ethical values	❸
Philosophy and operating style	❸
Participation of those charged with governance	❸
Human resource policies and practices	❸
Risk assessment process	❷
Information systems relevant to financial reporting	❸
Communication	❸
Monitoring	❸

Key:　❶　Significant gaps in the control environment.

　　　❷　Deficiencies in respect of individual controls.

　　　❸　Generally sound control environment.

IT control environment

Your IT control environment is effective overall.

⊘

⊘

⊘

Work completed

The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

This work has been complemented by our own testing of relevant controls in Aptos, Civica Open Revenues and Civica ICON carried out by our IT specialists.

We have not completed detailed system testing on Agresso at this stage as Cheltenham Borough Council had not yet migrated until after the year end. We will complete detailed testing on the data migration to Agresso and assess the strength of the control environment of Agresso during the 2012/13 audit.

Key findings

Your IT control environment remains effective overall.

This year has seen significant level of change in IT at the Council, as it is now the IT host for the GO project. This has meant that the IT team has been focussed on the this project and managing the transitions of the four Councils to Agresso.

We noted one main area for further improvement which is formalising the review of access rights to Aptos, Civica Open Revenues and Civica Icon systems. The reviews are necessary to make sure that only valid individuals have access to specific systems. The reviews are currently completed but not in a formalised manner and the results of the reviews are not recorded.

The full recommendation is included in Appendix 1.

Aspect	Assessment
Access to systems and data	❷
System changes and maintenance	❸
Development of new systems and applications	❸
Computer operations, incl. processing and backup	❸
End-user computing	❸

Key: ❶ Significant gaps in the control environment.

❷ Deficiencies in respect of individual controls.

❸ Generally sound control environment.

Controls over key financial systems

The controls over the key financial system that were selected for testing were found to be generally sound.

However, there are some known weaknesses in payroll controls that should be rectified with the transition to GO.

We will need to complete a further review of internal audit working papers and control testing at the start of the final audit visit before assessing the level of substantive work required at year-end.

Work completed

We work with your internal auditors to update our understanding of the Council's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthrough tests for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework helps us to plan the amount and depth of the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over the key financial systems are generally sound but we have agreed with the weaknesses identified by Internal Audit and will do more substantive testing at our year end audit visit.

The main weakness identified was in respect of payroll, where internal audit has issued a 'Limited assurance' audit opinion.

We have not yet assessed the controls over benefits expenditure and grant income where we are waiting for the internal audit reports. We have also not yet assessed the controls over capital expenditure, asset disposals, asset valuations and reserves as many of the key controls in these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

System	Assessment
Financial reporting	❸
Housing rents income	❷
Council tax income	❸
Business rates income	❸
Payroll expenditure	❶
Benefits expenditure	TBC
Cash	❷
Treasury management	❸
Capital expenditure	TBC
Asset disposals	TBC
Asset valuations	TBC
IAS 19 pension	❸
Reserves	TBC

Key:
❶ Significant gaps in the control environment.
❷ Deficiencies in respect of individual controls.
❸ Generally sound control environment.
TBC To be confirmed at final audit visit

Internal audit fully complies with the *Code of Practice for Internal Audit in Local Government.*

Work completed

We work with your internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Council's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Code of Practice for Internal Audit in Local Government (the Code) defines the way in which the internal audit service should undertake its functions. We assessed internal audit against the eleven standards set out in the Code.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

Internal Audit have been under resource pressures as a result of the GO transitions and increased work loads. Internal Audit have completed the work agreed through our External & Internal audit Joint Working Protocol, but we have delayed the completion of some audit tests to enable internal audit to finalise their reports.

Key findings

Internal Audit completed a self-assessment against the Code in June 2011. We reviewed their self-assessment and evidence to support it. We have updated our assessment based on that review and our knowledge through our work during 2011/12.

Based on our assessment, internal audit fully complies with the Code.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work on the key financial systems.

Aspect	Assessment
Scope of internal audit	➌
Independence	➌
Ethics for internal auditors	➌
Audit Committee	➌
Relationships with management, other auditors and other review bodies	➌
Staffing, training and development	➌
Audit strategy and planning	➌
Undertaking audit work	➌
Audit strategy and planning	➌
Due professional care	➌
Reporting	➌

Key: ❶ Non-compliance with the standard.

➋ Areas for improvement.

➌ Full compliance with the standard.

The Council's overall process for the preparation of the financial statements is adequate.

The Council will have the additional resource challenges of managing the GO transition whilst preparing for the audit.

Work completed

We managed our interim audit taking account of the demands of the GO project on both the finance team and the IT department. In some cases this involved delaying testing until the Final audit in July, to ensure that the audit did not interrupt the user acceptance testing.

We continued to meet with senior officers on a regular basis to support them during the financial year.

As part of our interim work we specifically reviewed the Council's progress in addressing the recommendations in our *ISA 260 Report 2010/11*.

The Council has a good history of managing the year end close down process and we do not anticipate any change to it this year. However, this year there will be an additional challenge for the finance team which will be to manage the transition to Agresso at the same time as closing down the annual accounts and preparing for the audit.

We issued only one recommendation in our *ISA 260 Report 2010/11* relating to the financial statements, which was in respect of lack of evidence of review of journals. It was agreed that as the current Council's finance team are strong and have a proven track record, then this recommendation would be implemented once GO had become fully operational.

There were no high level recommendations issued during the 2010/11 audit.

Key findings

Issue	Progress
Issue – Lack of evidence of review of journals	In 2011/12 it is agreed that all Journals exceeding £100,000 should be countersigned by the Head of Financial Services or the Director of Resources but this will be completed after 1 April 2012 following the transition to GO.

The Council has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our External *Audit Plan 2011/12*, presented to you in December 2011, we identified the key risks affecting the Council's 2011/12 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with the finance team as part of our meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The key risks identified in the plan included:

- the Council's Saving Plans
- Code change which includes the requirement to account for Heritage Assets,
- The GO project and potential risks to the control environment and pressures of the Finance and IT teams, together with the risks of asset valuation
- Property sales
- Icelandic Banks update
- Costs relating to the former managing director

These risks were considered during the interim audit visit and will be the focus of work during the year end audit visit in July to ensure that the risks are monitored and addressed throughout the audit process. Our findings will be reported to you in September.

VFM audit approach

Our External Audit Plan 2011/12 explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed some early work to support our 2011/12 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Council, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- identifying what additional risk-based work we will need to complete.

During the interim audit visit we completed the audit risk assessment for the VFM audit approach. The key risks for the Council is the achievement of the Savings Plan and going live on GO.

We have begun to collect audit evidence but will complete the VFM audit work during the final audit visit and will be reported to you in September.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ **Priority one**: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ **Priority two**: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ **Priority three**: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	❷	**No formal review of access has been performed on Aptos, Civica ICON and Civica Open Revenues systems** The control and review of access to computer systems is important to ensure that the access remains appropriate to job description of the member of staff and that segregation of duties is maintained. Although reviews are being completed, the reviews appear to be on an adhoc basis and the results of review are not formally documented. We acknowledge that since the recommendation was raised, the Council has transitioned to GO and the Agresso system, but we consider that it is important that this control should also be in place within this new environment.	User roles and access control are an instrumental element of the Agresso system. They are currently being maintained by the GO Programme Office although this will transfer to the ICT Support and Hosting Centre of Excellence once all partner sites are 'live' on the new system. Processes for new starters and leavers are in place. No formal review of access to Aptos is planned as the system will become a 'read-only' system from September 2012 with access limited to staff within GO Shared Services. **Responsible officer**: Paul Jones **Due date**: October 2012

Follow-up of prior year recommendations

As a result of change in the accounting system and transition to GO on 1 April 2012, all recommendations for 2010/11 will be followed up during our July audit visit and reported in September in the ISA 260 report. As several of the recommendations were waiting for the transition to Agresso and GO to be implemented

Number of recommendations that were:	
Included in original Interim report 2010/11	5
Included in ISA 260 report 2010/11	3
Total - to be followed up by audit in final audit visit in July 2012	8

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