

Pre statement memorandum

Central Bedfordshire Council

Audit 2010/11

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Summary report

Introduction

- 1 Our audit is carried out in accordance with the Code of Practice for Local Authorities and the National Health Service in England and Wales. Our work is designed to give an opinion on your financial statements as to whether they present fairly the position of the Council as at 31 March 2011 and its income and expenditure for the year.
- 2 This report details our findings of our pre-statements work which covers our work on:
 - the documentation, walk through and controls testing of key financial systems;
 - IFRS (International Financial Reporting Standards) re statement; and
 - the VFM conclusion.
- 3 Appendix 1 is an Action Plan of recommendations to further improve the processes.

Main conclusions

Financial systems

- 4 We have documented the Council's material financial systems and identified the controls you have in place to detect material errors or misstatements. We have carried out walk-through tests to confirm the operation of the controls that have been identified.
- 5 In doing this work we have placed reliance on the work of Internal Audit (IA) in particular their work on the managed audits. IA plan their work on the Council's material systems to assist us. IA have issued limited assurance opinions on the Main Accounting, Payroll and Housing Benefit systems. Having completed our work we are in agreement with these findings.
- 6 Having evaluated the controls in place in the Payroll system and the findings from IA work a substantive approach to testing payroll expenditure will be adopted again this year.

International Financial Reporting Standards (IFRS) restatement

- 7 This is new requirement for 2010/11. The Council has to produce IFRS compliant accounts by 30 June 2011 and restate and disclose its opening balances as at 1 April 2009 and the closing balances at 31 March 2010.

8 The Audit Committee has received regular updates on the Council's progress in implementing IFRS. After falling behind in its preparations for IFRS during 2010 the Council has made good progress during 2011. We have reviewed and agreed the restated balance sheets for 1 April 2009 and 31 March 2010, together with the Comprehensive Income and Expenditure Statement for 2009/10. The restated accounts were reported to the Audit Committee in April 2011 as part of the Assistant Director of Finance's 2010/11 Annual Accounts Progress Report.

9 A number of new disclosure notes are required for 2010/11. These were being prepared at the time of our interim visit. We will review these notes as part of the audit of the statement of accounts.

Value for money (VFM) conclusion

10 We are required to give a Value for money (VFM) conclusion on the Council's arrangements to secure economy, efficiency and effectiveness. Our provisional conclusion, based on work completed to April 2011, is that the Council has proper arrangements to secure value for money. We will revisit this conclusion once the final outturn position for 2010/11 is known.

Detailed report

Documentation, walk through and controls testing of key financial systems

Audit Approach

11 In order to comply with the International Standard on Auditing (UK and Ireland) 315 we are required to document all systems which could result in a material figure in the accounts. We have identified and documented these systems and identified the controls you have in place to detect material errors or misstatements. We have carried out walk-through tests to confirm the operation of the controls that have been identified.

12 We placed reliance on any previous work we had carried out and the work of IA. IA plan their work on the Council's material systems to assist us in this and we are able to place reliance on their work.

13 We try and place reliance on controls testing as far as possible. We can only place reliance on controls if our documentation and walk through of the system confirms that the key controls are in place and operating satisfactorily.

14 This year we plan to place reliance on controls testing on the following systems.

- Main accounting system.
- Accounts Payable.
- Accounts Receivable.
- Fully Funded schools.

15 We had planned to carry out controls testing on the SWIFT system but our walkthrough identified that controls were not in place. SWIFT is the system in place for processing payments to the independent sector and foster carers.

16 We carry out an IT risk assessment each year to assess the IT control environment. The IT control environment underpins the control environment for the Council's financial and information systems and any weaknesses identified in the IT control environment may undermine the effectiveness of controls within the information systems that operate in that environment.

17 Our IT risk assessment concluded that the overall the IT environment at the Council is low risk. We did identify weaknesses in the Council's IT controls but concluded that there were sufficient compensating controls in place to reduce the risk of a material error in the accounts to low. The main weaknesses identified were as follows.

- There is no audit trail for direct amendments to the main financial system Oracle database; however access is restricted to the SAP admin team who do not process transactions. It would be hard to perpetrate a fraud without knowledge of the database table structure.
- There are a lot of network user IDs (some 500) belonging to people who have never logged on or not logged on for six months or more, however these people's password are locked.
- There is no monitoring of network to detect unauthorised access attempts, however the usual controls apply here eg lockout after three login attempts.

Main accounting system

18 IA issued a limited assurance opinion on the main accounting system, based on their phase 1 work, which was carried out in October 2010.

19 IA identified a number of weaknesses around the clearance of control and suspense accounts and the timeliness and review of some bank account reconciliations. The clearance of control and suspense accounts and the reconciliation of bank accounts has been prioritised by Finance officers. Good progress has been made since January 2011, in particular as part of the closedown programme for the preparation of the 2010/11 accounts.

20 We will be reviewing year end cash and bank reconciliations and the clearance of suspense and control accounts as part of our audit work on the statements of account.

21 We have completed controls testing on journals. We were able to rely on IA testing of 12 journals for the period April 2010 to September 2010. We tested a further eight to cover the whole of the financial year. All journals were appropriately authorised, agreed to backing documentation and confirmed correct.

Recommendation

R1 Ensure that controls in the main accounting system are operating throughout 2011/12, in particular the controls to provide assurance that:

- suspense and control accounts are reviewed and cleared regularly; and
- that bank reconciliations are reconciled on a timely basis and appropriately reviewed.

Payroll

22 IA issued a limited opinion on the Payroll system based on their Phase 1 work. IA found that some key controls had not been operating effectively in the payroll system for the whole of the financial year.

23 Having evaluated the controls in place and the findings from IA work we have concluded that there is a high risk of failures in controls testing. Therefore in order to gain sufficient assurance over the payroll expenditure in the accounts we will adopt a substantive testing approach again this year.

24 We are in the process of completing our substantive testing. We selected a sample of 46 employees from payroll records. We have completed the testing for 44 of the cases, one file had been archived and for one case we are waiting for a confirmation from the school where the employee is based. We will complete the testing of these two cases at our next audit visit. For the 44 files reviewed we are able to agree the gross pay, National Insurance (NI) and pension payments were correct in each case.

Recommendation

R2 Ensure that the weaknesses in payroll controls identified by IA are addressed to ensure that adequate controls are in place for 2011/12.

Accounts payable (AP)

25 Controls assurance for the main AP system was gained in 2009/10. We are able to carry forward this assurance to 2010/11 as our walk through this year has confirmed that the controls tested last year were found to be operating effectively in 2010/11. IA issued an adequate opinion on the AP system based on their Phase 1 work. We were able to place reliance on the work carried out by IA on the main AP system.

26 Within the AP system there are separate processes and controls in place for the following areas, all of which lead to material expenditure in the accounts.

- Carlisle - payments to contractors/temporary staff.
- Schools (centrally funded) - payments authorised by schools.
- Amey - payments to the Council's highways maintenance contractors.
- Waste disposal.
- Mouchel - payments to property management contractor.
- BUPA - payments in respect of care homes.

27 We have carried out the walk throughs for Carlisle, schools, and waste disposal. We have also completed controls testing and gained adequate assurance on payments made in respect of these areas.

28 We were unable to complete the walk through and controls testing for Amey, Mouchel and BUPA as the relevant officers were not available at the time of our pre statements work. We will complete this work at our next audit visit.

Accounts receivable (AR)

29 IA work on the AR system, confirmed through our re performance of the walk through, identified weaknesses in the operation of some key controls. These have been reported to management as part of IA's Phase 1 work.

30 Having evaluated the controls in place and the findings from IA work we have concluded that there were sufficient mitigating controls in place during 2010/11. Our testing has confirmed that the controls we are seeking to place reliance on are operating satisfactorily. We were able to place reliance on IA testing of these controls for the period April 2010 to September 2010. We tested the period October 2010 through to February 2011. Our work confirmed that the controls were operating satisfactorily.

31 We will need to test one more item and review year end reconciliations as part of our audit of the financial statements.

SWIFT

32 We completed the system documentation and walkthrough for the SWIFT system. The controls identified during the walkthrough were evaluated for each of the relevant assertions.

33 One of the key controls (Payment schedule generated and sent to provider, returned agreeing the client and amount paid, checked by Business Support Unit staff within Social Care, Health and Housing) was not operating on the walkthrough. The Business Support Unit (BSU) sends a four weekly payment schedule to the provider (ie care home) to agree the client details and to confirm the correct payment. This schedule had not been returned by the care home in the walk through. This control confirms whether the provider has provided care services to an approved client of the Council and the value paid is correct and is the only control which provides assurance covering the accuracy assertion. Therefore a substantive approach to the testing of SWIFT expenditure included in the Comprehensive Income and Expenditure Statement will be adopted for 2010/11.

Recommendation

R3 Ensure that payment schedules sent to providers are returned to BSU and any amendments made to SWIFT as appropriate.

Housing Benefit

34 IA issued a limited opinion on the Housing Benefit (HB) system based on their Phase 1 work. IA found that a number of controls had not been operating effectively. Our re performance of the walk through confirmed IA's findings.

35 We have not carried out controls testing. We will carry out a substantive analytical review and test year end reconciliations to gain adequate assurance over the figures included in the statements of account.

Recommendation

R4 Ensure that the weaknesses in the housing benefits controls identified by IA are addressed to ensure that adequate controls are in place for 2011/12.

Housing Rents

36 We have walked through the Housing rents system, placing reliance on the work carried out by IA. IA issued an adequate opinion on the Housing Rents system based on their Phase 1 work. Having evaluated the controls in place and the findings from IA work we have concluded that any weaknesses identified by IA are not likely to lead to a material misstatement.

37 We have not carried out controls testing and will be carrying out a substantive analytical review at year end to gain adequate assurance over the figures included in the statements of account.

Council Tax

38 We have walked through the Housing rents system, placing reliance on the work carried out by IA. IA issued an adequate opinion on the Council Tax system based on their Phase 1 work. Having evaluated the controls in place and the findings from IA work we have concluded that any weaknesses identified by IA are not likely to lead to a material misstatement.

39 We have not carried out controls testing as it is more efficient to carry out a substantive analytical review at year end to gain adequate assurance over the figures included in the statements of account.

NNDR

40 We have walked through the Housing rents system, placing reliance on the work carried out by IA. IA issued an adequate opinion on the NNDR system based on their Phase 1 work. Having evaluated the controls in place and the findings from IA work we have concluded that any weaknesses identified by IA are not likely to lead to a material misstatement.

41 We have not carried out controls testing as it is more efficient to carry out a substantive analytical review at year end to gain adequate assurance over the figures included in the statements of account.

Asset management

42 We have documented and walked through the Asset Management system. Having evaluated the controls in place we have not identified any risks that are likely to lead to a material misstatement

43 We have not carried out controls testing as it is more efficient to carry out a substantive testing at the year end.

Treasury management

44 We have walked through the Treasury Management system, placing reliance on the work carried out by IA. IA issued an adequate opinion on the Treasury Management system based on their Phase 1 work. Having evaluated the controls in place and the findings from IA work we have concluded that any weaknesses identified by IA are not likely to lead to a material misstatement

45 We have not carried out controls testing as it is more efficient to carry out a substantive testing at the year end.

Fully funded Schools

46 Fully funded schools are allocated budgets by the Council and submit monthly/ quarterly returns to the schools team, so they can journal these amounts into SAP. We have documented and walked through the system. The controls identified during the walkthrough were evaluated for each of the relevant assertions.

47 We have completed controls testing and gained adequate assurance on the payments made through this system.

IFRS

48 This is new requirement for 2010/11. The Council has to produce IFRS (International Financial Reporting Standards) compliant accounts by 30 June 2011 and restate its balances as at 1 April 2009 and 31 March 2010.

49 The requirements of International Financial Reporting Standard 12 (IFRIC 12) were included in the 2009/10 Statement of Recommended Practice (SORP). This required the Council to review and amend the accounting for its PFI scheme in the 2009/10 accounts. This was reviewed and reported on as part of the 2009/10 audit.

50 The most significant changes for the 2010/11 accounts arising from the move to IFRS are in respect of:

- Property, Plant and Equipment (formerly Fixed Assets);
- Leases;
- Employee benefits; and
- a number of additional disclosure requirements.

51 We were provided with IFRS restated accounts by the end of January 2011 together with reconciliations to support the changes from the accounts previously prepared under UK GAAP. The format of the revised statements was reviewed and agreed. In addition we have reviewed:

- the reconciliations between the balance sheets as at 1 April 2009 and 31 March 2010 prepared under UK GAAP and the restated balance sheets prepared under the IFRS Code. All material movements have been tested and agreed; and

- the reconciliation between the 2009/10 Income and Expenditure account prepared using UK GAAP and the adjusted Comprehensive Income and Expenditure statement for 2009/10 (prepared using IFRS). All material balances have been reviewed and agreed.

52 IFRS requires councils to recognise in their accounts the expected costs of compensated absences, such as annual leave, time off in lieu and flexi-leave. During our audit we noted that the Council had, initially, not taken account of the additional complications involved in calculating teachers' holiday pay accruals (teachers should receive one third of their salary each term, but the terms vary in length and have different numbers of working days). We have reviewed and agreed the revised accrual.

53 At the time of our pre statements visit the disclosure notes, including the notes to support the Cash Flow statement and the Movements on Reserves Statement were not complete. We expect to complete this work in June and will report on our findings in the Annual Governance Report.

Value for money conclusion

54 I am required to give a Value for money (VFM) conclusion on the Council's arrangements to secure economy, efficiency and effectiveness. This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

55 Our provisional conclusion based on work completed to April 2011 is that the Council has proper arrangements in place to meet the two specified criteria. We will revisit this conclusion once the final outturn position for 2010/11 is known and report our conclusion in the Annual Governance Report.

Appendix 1 Action plan

Recommendations

Recommendation 1

Ensure that controls in the main accounting system are operating throughout 2011/12, in particular the controls to provide assurance that:

- suspense and control accounts are reviewed and cleared regularly; and
- that bank reconciliations are reconciled on a timely basis and appropriately reviewed.

Responsibility

Priority

Date

Comments

Recommendation 2

Ensure that the weaknesses in payroll controls identified by IA are addressed to ensure that adequate controls are in place for 2011/12.

Responsibility

Priority

Date

Comments

Recommendation 3

Ensure that payment schedules sent to providers are returned to BSU and any amendments made to SWIFT as appropriate.

Responsibility

Priority

Date

Comments

Recommendation 4

Ensure that the weaknesses in the housing benefits controls identified by IA are addressed to ensure that adequate controls are in place for 2011/12.

Responsibility

Priority

Date

Comments

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