

Audit Summary Report

January 2007



Regularity Audit Memorandum

Hart District Council

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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Contents

| | |
|---------------------------------|----------|
| Introduction | 4 |
| Objective | 4 |
| Audit approach | 4 |
| Main conclusions | 6 |
| Appendix 1 – Action plan | 8 |

Introduction

- 1 The Code of Audit Practice (the Code) requires auditors to review and report on the audited body's financial statements. In doing that, we are required to comply with the auditing standards currently in force.
- 2 This year has seen a significant change in our approach to this work as we are required to comply with the requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I) for the first time. The result is a substantial increase in the interim work needed in this first year to understand and test the financial and information systems supporting the financial statements. There is also a requirement for us to report our findings to 'those charged with governance' before issuing our opinion.
- 3 We have reviewed Internal Audit's compliance with the CIPFA code and CIPFA internal audit standards. Compliance is required before we can consider relying on Internal Audit in support of our opinion work.
- 4 We have also undertaken a review of data quality as part of the audit of the Best Value Performance Plan for 2006/07. The findings from this work are also included in this report.

Objective

- 5 The purpose of this work is to:
 - understand and document how the financial and information systems, from which material figures in the accounts are derived, are designed and operating;
 - test the key controls within those systems that minimise the risk of material misstatements in the accounts to ensure they are operating as designed;
 - assess whether Internal Audit complies with the requirements of the CIPFA code and CIPFA internal audit standards; and
 - assess whether the data used to report on performance is fit for purpose.

Audit approach

Interim audit

- 6 The audit has been carried out to be ISA (UK&I) compliant in accordance with the Code. The most significant change comes from ISA 315, entitled 'understanding the entity and its environment and assessing the risks of material misstatement.' It places a greater focus on identifying, evaluating and testing internal controls that are relevant to the financial statements.

- 7 We have identified the material financial and information systems as being:
- General Ledger;
 - Accounts payable/Creditors;
 - Accounts receivable/Debtors;
 - Cash;
 - Capital;
 - Payroll;
 - Treasury Management;
 - Council Tax;
 - NNDR; and
 - Housing and Council Tax Benefit.
- 8 The work we have completed to satisfy this requirement included:
- Stage 1: carry out a risk assessment of the general IT environment within which your financial systems operate;
 - Stage 2: map the financial and information systems that provide material figures in the financial statements;
 - Stage 3: document the processes and controls in place within each system and undertake a walkthrough to ensure the system is operating as stated; and
 - Stage 4: assess which are the key controls to ensure the integrity of the accounting entries and obtain evidence that they are operating as intended.

Review of Internal Audit

- 9 With regard to Internal Audit, our work involved reviewing audit files, the audit plan, audit reports and discussions with the Audit and Performance Manager and audit staff.

Review of financial statements

- 10 We were able to concentrate our final accounts audit on:
- agreement of the accounts to the Statement of Recommended Practice (SORP);
 - analytical review;
 - agreement to the ledger;
 - testing of material items; and
 - testing specific risk areas identified through the planning process, for example the full implementation of FRS 17, the Item 'A' adjustment and your response to FRS 9 group accounts.

Data Quality

- 11 Our review of data quality involved a three stage approach:
- a review of management arrangements;
 - arithmetic completeness checks on both BVPIs and non-BVPIs; and
 - data quality spot checks on a sample of performance indicators.

Main conclusions

Interim audit

- 12 We have been able to:
- assess how the financial and information systems, from which material figures in the accounts are derived, are designed and operating; and
 - conclude that the key controls tested are generally operating as designed although a number of control weaknesses have been identified in revenues systems by Internal Audit and from our work which should be addressed.

Review of Internal Audit

- 13 Internal Audit complies with the requirements of the CIPFA code and CIPFA internal audit standards, including producing a risk based audit programme, and reports which have clear and realistic recommendations which are set out in an action plan. We have, therefore, been able to rely on their work to support our opinion.

Review of financial statements

- 14 The audit of the financial statements has not been aided by some notable gaps, such as robust analytical review to support movements in year and an analysis of the 2005/06 budget. An adequate set of working papers was not prepared on a timely basis at the beginning of the audit and there were weaknesses within the audit trail. These difficulties have resulted in the need for additional audit work and extra audit fees. We will work with officers to help identify improvements that could be made in order to ensure that similar problems do not arise next year.
- 15 The key findings from our review of the Council's 2005/06 financial statements were that:
- we were able to issue an unqualified opinion on the financial statements on 29 September 2006. This represents a substantial improvement on 2004/05; and
 - there were two material adjustments required to the financial statements that were presented for audit and a significant number of other adjustments which have been agreed with officers.

- 16 We reported the key issues arising from our audit of the financial statements to the Staff and General Purposes Committee on 26 September 2006 in the Annual Governance Report.

Data Quality - Review of Performance Indicators

- 17 Our assessment of the adequacy of data quality management arrangements formed part of the VFM conclusion and the BVPP audit for 2006/07.
- 18 Our detailed testing of three indicators found that amendments were required in all three cases.

Recycling BV82a

- 19 Minor amendments were required to BV82a due primarily to formulae errors in the spreadsheet used to capture data.

Planning Speed BV109a-c

- 20 Minor amendments were required to BVPI 109a-c.

Homelessness - B&B accommodation BV183a

- 21 BVPI 183a required recalculation and amendment as an incorrect definition had been applied and the system filter parameters used had not correctly selected cases where the s.193 duty was discharged for the period covered.
- 22 Following recalculation, all 13 cases were selected for testing, but there was a poor audit trail held in case files with insufficient evidence in support of time spent in B&B accommodation. Three case files could not be located.
- 23 Our review of non BVPIs identified that the Council has no system in place for collecting data on private sector homes vacant > six months.
- 24 Our recommendations for improvement arising from our interim work, our review of the financial statements and our review of performance indicators are set out in the action plan at Appendix 1.

Appendix 1 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|---------------------------------------|---|--|----------------|--------|---|---------------|
| <i>INTERIM AUDIT</i> | | | | | | |
| <i>IT environment controls</i> | | | | | | |
| | R1 The testing process should be formalised for the implementation of new systems and major upgrades. It should include the following: <ul style="list-style-type: none"> the standard of testing required; documentation of testing; and the procedure for signing off completed testing. | 2 | Head of IT | Yes | For new systems installation, there is a User Acceptance Test completed and signed off prior to going live and these are documented within the project plans. We also plan to have a minimal test environment. | March 2007 |
| | R2 Supplier access to the network and applications should be restricted to need, and access should be terminated once the supplier has completed their work. | 2 | Head of IT | Yes | All suppliers' access is restricted to need and remote access requests are logged and terminated once the supplier has completed their work. | Immediate. |
| | R3 A formal change control process should be developed and implemented. | 2 | Head of IT | Yes | We have a manual Change Control process in place which will be replaced by a formal Change Management process based on the IT Infrastructure Library (ITIL). | February 2007 |
| | R4 The controls over database editor tools should be formalised. | 2 | Head of IT | Yes | Procedures for database editor will be reviewed. | May 2007 |
| | R5 The back up process should be formally documented. | 2 | Head of IT | Yes | We are in the process of creating our Backup Procedure Document. | December 2006 |

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|------------------------------|--|--|-----------------|--------|---|---------------|
| | R6 Daily back up tapes should be stored securely in a location other than the computer room and weekly back up tapes should be stored at a site more remote than the leisure centre. | 2 | Head of IT | No | Our back up tapes are still stored at Hart Leisure Centre as this is the only place that the Council has appropriate facilities to safely store them in a fire safe. | N/A |
| | R7 ICT staff should document the results of restore testing on key systems and the results of testing should be reported to Members. | 2 | Head of IT | Yes | We plan to implement a restore program by March 2007 that will encompass restoring and testing our Business Critical Systems. They will be systematically tested at a rate of one per quarter. | March 2007 |
| <i>Payroll system</i> | | | | | | |
| | R8 The payroll interface costing report which is used to update the ledger should be reconciled to the cumulative analysis weekly and monthly payroll reports to ensure that postings to the ledger agree to payroll output. | 3 | Head of Finance | Yes | This is already done, but the check will be evidenced in future. | December 2006 |
| | R9 All requests for contracts made by Heads of Service following new appointments should be signed. Where electronic documents are used, they should either contain an electronic signature as authorisation or be supported by an email from the appropriate Head of Service. | 3 | Head of HR | Yes | Agreed with the following modification. All manually provided contract request forms are checked for signature before contracts are issued. Electronic documents are received from the remote sites. Public spaces are always confirmed by manually signed request forms. Leisure requests are received by email and these emails are now being retained as an audit trail. The contract requests (either electronic or manual) are received from recruiting managers who are not necessarily the Heads of Service. | January 2007 |

10 Regularity Audit Memorandum | Appendix 1 – Action plan

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|--|---|--|-----------------|--------|---|-------------------------------|
| | | | | | In the case of Leisure, in particular, the quantities of staff, high turnover and multiple locations make this impracticable, and the recruiting manager's authorisation, in either manual form or by accompanying email, may be from the level of Duty Manager upwards. | |
| | R10 HR should periodically issue an establishment list to each Head of Service and request confirmation of staff in post. Variances should be reviewed and payroll staff notified if amendments are required to the payroll system. | 3 | Head of HR | Yes | HR to issue establishment list and structure chart to each Head of Service every two months and request confirmation back within one week of issue. Following variance checking, any changes to be notified to payroll. | January 2007 |
| | R11 Where continuing employment is conditional upon the achievement of a qualification after employment has commenced, progress should be monitored to ensure that employment should continue, and a record of achievements should be held by HR on the employee files. | 3 | Head of HR | Yes | Forthcoming development to our pay scheme, to be implemented by 31 March 2007, requires written audit trail to pay and grading progression. This includes career grades. Where progression is dependent on qualification attainment/responsibility changes, this fact will be included in contracts and the details will be set out within the job description. Each progression change will then be authorised to payroll in writing, having been validated by HR. Records will be kept on personal files. | January 2007 |
| <i>Council tax and NNDR systems</i> | | | | | | |
| | R12 Arrangements should be made to clear the processing backlog of changes of circumstances, which consisted of more than 3000 items as at May 2006. | 3 | Head of Finance | Yes | On going. As at 13 November 2006, the backlog has been reduced to 1,263 items. The availability of resource will determine the estimated completion date. Review to be undertaken by end of November 2006. | Subject to outcome of review. |

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| | R13 Council tax accounts 50001188 and 40006712 which were not adjusted for 2005/06 changes in circumstances should be reviewed and the council tax system updated accordingly. | 3 | Head of Finance | Yes | These references do not relate to IBS and will need to be identified. | December 2006 |
| | R14 Revenues should agree on a protocol for benefits staff to notify council tax staff of changes in benefit claimants' circumstances which affect council tax entitlement. | 3 | Head of Finance | Yes | Use of Anite to be reviewed to ensure that proper processes are in place. If not, procedures will be put in place. | December 2006 |
| | R15 Procedures should be put in place to identify and monitor the completion of newly built properties for council tax and NNDR recording and billing purposes. | 3 | Head of Finance | Yes | The appointment of a Property Inspector has been delayed until the Service review has been concluded and is dependent on the result. I will consider the available options within the resource available. | January 2007 |
| | R16 The 36 new properties at Bramshott Place should be referred to the Valuation Office to obtain property bandings for council tax. | 3 | Head of Finance | Yes | The Valuation Officer is being notified as soon as the properties are occupied. The Valuation Officer has already been notified where this has occurred. | Ongoing. |
| | R17 Recovery procedures for council tax and NNDR should be prepared and implemented. | 3 | Head of Finance | Yes | A timetable for the service, incorporating recovery, will be prepared for the remainder of the year and annually thereafter. | December 2006 |
| <i>Capital system</i> | | | | | | |
| | R18 Consideration should be given to undertaking building condition surveys so that the capital programme can be updated to reflect current building conditions rather than information based on surveys undertaken in 1999. | 3 | Head of Engineering and Transport | Yes | Quotations have been sought for this work. | In progress. |

12 Regularity Audit Memorandum | Appendix 1 – Action plan

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|---------------------------------------|--|--|-----------------------------------|--------|---|----------------|
| REVIEW OF FINANCIAL STATEMENTS | | | | | | |
| Financial statements | | | | | | |
| | R19 Year end and qualitative processes for producing the 2006/07 financial statements should be improved to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers. | 3 | Head of Finance | Yes | Will be in place for 2006/07 accounts. | March 2007 |
| Consolidated Revenue Account | | | | | | |
| | R20 In order to improve the audit process, Finance staff should produce a budget to actual variance report for entries in the Consolidated Revenue Account from the 2006/07 financial year end. | 3 | Head of Finance | Yes | Will be in place for 2006/07 accounts. | March 2007 |
| Related party disclosures | | | | | | |
| | R21 Completed related party disclosure forms should be obtained from all members and chief officers as required by the CIPFA Code of Practice. | 3 | Head of Finance | Yes | Agreed. | June 2007 |
| Fixed Assets | | | | | | |
| | R22 The asset register should be updated to correctly show the split between land and buildings on assets re-valued in the year. | 3 | Head of Engineering and Transport | Yes | Agreed. | September 2007 |
| | R23 Depreciation should be charged on assets re-valued in the year. | 3 | Head of Finance | No | The valuations given are at 31 March, not 1 April. Therefore, to deduct depreciation would have the effect of changing the net book value as at 31 March. | N/A |

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| | R24 The expenditure in vehicles, plant and machinery should be reviewed and any amounts which relate to intangibles should be reclassified as such. | 2 | Head of Finance | Yes | Will be reviewed as part of the 2006/07 accounts. A transfer from plant and machinery to intangibles will be made in the 2006/07 accounts. | March 2007 |
| | R25 Asset lives for software licences should be reviewed to ensure that they are in line with the Council's accounting policy which is to amortise software over five years following the date of acquisition. Particular reference is made to the Revenue and Benefits System which is being written off over three years. | 2 | Head of Finance | Yes | Future licences will be written off over five years. | Ongoing. |
| <i>Debtors and creditors</i> | | | | | | |
| | R26 Departments should be reminded of the Council's debt write off policy and Finance staff should periodically review debts over six years old to ensure that they are written off if they are not expected to be recovered. | 2 | Head of Finance | Yes | Training will be provided as part of the FMS roll out. The Write Off Policy will be added to the intranet. | February 2007 |
| | R27 Council tax debtor understatement of £30,000 and council tax receipts in advance understatement of £32k should be corrected by journal. The difference of £2k should be resolved. | 1 | Head of Finance | Yes | Agreed. | Done. |

14 Regularity Audit Memorandum | Appendix 1 – Action plan

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|---|---|--|-----------------|--------|---|---------------|
| <i>Funds and reserves</i> | | | | | | |
| | R28 The Council should determine if it can release the £1.2m surplus PCL (Provision for Credit Liabilities) which equates to the difference between the capital financing requirement (£3.5m) and the surplus on the PCL at 1 April 2004 (£4.7m). | 3 | Head of Finance | Yes | A report on Prudential Borrowing to Cabinet will seek member approval to undertake prudential borrowing and release this sum. | February 2007 |
| <i>REVIEW OF PERFORMANCE INDICATORS</i> | | | | | | |
| <i>BVPI 183a - Homelessness</i> | | | | | | |
| | R29 The contents of case files should be filed in date order and contain a full audit trail in support of each case. | 3 | Head of Housing | Yes | This has been implemented. | Done. |
| | R30 Officers should seek to locate the three missing homelessness case files for 2005/06 cases. | 1 | Head of Housing | Yes | These files probably pre-date the move from Sentinel. The Head of Housing accepts that these are missing files. | N/A |
| <i>Non-BVPI: Private sector homes vacant > six months</i> | | | | | | |
| | R31 The Council should develop a policy and procedures for collecting data on empty dwellings. | 3 | Head of Housing | Yes | Agreed. | August 2007 |