

Interim Opinion

Audit Report

Sunderland City Council

Audit 2009/10

September 2010



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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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Introduction

- 1 This report sets out the results of our interim opinion audit work for 2009/10, which we concluded in June 2010.
- 2 The Code of Audit Practice requires review and reporting on the Council's financial statements and the Annual Governance Statement. The work at the interim stage informs the opinion process.
- 3 The requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I) require auditors to gain an understanding and test the systems which inform the material entries in the financial statements.

Background

- 4 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.
- 5 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.
- 6 The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and 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.
- 7 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.

Audit approach

- 8 The work we have completed to satisfy the requirements set out in the Introduction consists of:
- mapping the financial and information systems that provide material figures in the financial statements. The material financial and information systems identified are as follows:
 - General ledger
 - Bank reconciliation
 - Loans
 - Investments
 - Accounts payable (Creditors)
 - Accounts receivable (Debtors)
 - Payroll
 - Social care payment system (SWIFT)
 - National Non-Domestic Rates (NNDR)
 - Council Tax
 - Housing and Council Tax Benefits
 - Cash receipting
 - Capital accounting
 - documenting the processes and controls in place within each system and undertaking walkthrough tests to ensure the system is operating as stated; and
 - testing key controls within the systems to ensure that they are operating effectively. We have a three year cyclical programme for testing system controls where we seek to place reliance on controls for our opinion audit. This year we carried out controls testing on the following systems:
 - General ledger
 - Accounts payable (Creditors)
 - Accounts receivable (Debtors)
 - Payroll
 - Housing and Council Tax Benefits.

Main conclusions

- 9 We have concluded that, in general, the key controls within the Council's main financial systems are operating as designed. There is some scope for improvement in the areas of journal entries, Council Tax, Benefits, and IT access controls. Details are given below. Our recommendations made to address the issues raised are summarised in the Action Plan in Appendix 1.

Journal entries

- 10 There are two types of journal entry: online; and mass generated. We found that online journals do not require authorisation for each new journal entry. In addition, there are no higher-level authorisation procedures required for high value journals for both types of journal entry. There is a risk that inappropriate or inaccurate journal entries could be processed without scrutiny, resulting in a potential for material misstatement in the financial statements. A control in place which mitigates this risk is the use of budgetary control.
- 11 To obtain the assurance we need to give our audit opinion on the financial statements, our response to this control weakness is that we will substantively test journals as part of our post statements work.
- 12 We discussed with officers whether there should be independent authorisation of all journal entries, including online journals and all high value journals. The view expressed by officers was that this would not be an efficient use of officer time, and that there were compensating controls in place, such as the limitation on who can raise journals and in what circumstances, and the wider check of budgetary control. However, officers have agreed to carry out a review of all journals over £500,000 as part of the annual closedown of accounts process.

Recommendation

- R1** The Council should introduce additional review procedures for all high value journal entries.

Council Tax

- 13 For 2009/10, there was a 1p discrepancy in some of the Council Tax bands between what was billed and what had been approved by the Council. The financial impact of this was insignificant and has not therefore impacted on our proposed post statements work.
- 14 Council Tax bills are sent out as soon as possible after the Council Tax is determined. Council Tax officers stated that they did not have access to Council agenda papers and because of time pressure relied on a hand-written note from Accountancy, which could not be located when we carried out our work.

Main conclusions

Recommendation

R2 Council Tax banding levels should be formally communicated to Council Tax officers following Council approval.

Housing and Council Tax Benefit

- 15 There is a daily reconciliation of Council Tax Benefit granted between the Council Tax Benefit (CTB) and Council Tax systems to ensure that the total amount of CTB is accurately recorded. We found that the reconciliation had not been kept up to date. At the time of testing the spreadsheet was 51 days out of date. Therefore, any inaccurate transfers between the systems may not be identified and resolved promptly.
- 16 To obtain the assurance we need to give our audit opinion on the financial statements, our response to this control weakness is that we will ensure that we test the year end reconciliation as part of our post statements work.

Recommendation

R3 The daily reconciliation between the CTB and Council Tax systems should be kept up to date.

BACS runs

- 17 Audit trails for the approval of BACS payment runs are held for one year, which prevented us from accessing evidence of authorisation for payments near the beginning of the 2009/10 accounting period.
- 18 We have obtained sufficient assurance for this financial year, but the BACS payment audit trails will need to be retained for a longer period to avoid problems in future audit years.

Recommendation

R4 BACS payment audit trails should be retained for an appropriate time period.

IT access controls

- 19 As part of our audit work we have assessed access controls over the material financial systems. We have compared controls in place to good practice. Areas where weaknesses have been highlighted are where controls do not meet the following benchmarks:
 - password length - a minimum of seven characters;
 - password complexity - including one capital letter and one digit as a minimum;
 - frequency of password changes - at least every 45 days;
 - use of previous passwords - prohibiting the re-use of the previous nine passwords;

- preventing logging-in to more than one computer;
- displaying details of the previous log-in; and
- blocking access after three unsuccessful attempts.

20 Controls which did not meet these standards are detailed in the table below.

Table 1 Material systems access controls

The table shows areas where controls fall short of good practice.

Access controls	Logotech	NNDR	Cash receipting	SWIFT	SAP/FMS	HBCTB
Password length	Minimum 1	Minimum 1	Minimum 1	✓	✓	Minimum 6
Password complexity	Not in place	Not in place	Not in place	Not in place	Not in place	✓
Password change	Not in place	Not in place	Not in place	✓	✓	✓
Password re-use	Not in place	Not in place	Not in place	✓	✓	6
Preventing logging-in to more than one computer	✓	Not in place, but warning message displayed	Not in place	✓	✓	Not in place, but justified for customer service.
Showing previous log-in details	Not in place	Not in place	Not in place	Not in place	Not in place	✓
Blocking access after failed log-ins	Not in place	Not in place	Not in place	✓	✓	✓

21 To obtain the assurance we need to give our audit opinion on the financial statements, we identified and tested other controls to provide us with the required level of assurance.

Recommendation

R5 The Council should improve log-in controls to minimise the risk of unauthorised systems access.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 The Council should introduce additional review procedures for all high value journal entries.	1	Chief Accountant, Finance Manager - Technical Services, Assistant Chief Accountant	Yes	<p>The SAP system limits access to journal entries and a log is actively maintained to ensure that only staff designated as needing access have the journal facility allocate to them. There is a protocol in place which adds a further control to ensure that all staff so designated have been agreed via the relevant Finance Manager (for Directorates) or by senior management within the Financial Management function.</p> <p>The request to have all journals authorised is not considered best use of management's time and this will be especially the case moving forward in the Sunderland Way Of Working, which is designed to make Council processes more efficient and remove unnecessary controls.</p> <p>A further control requires that journal entries are restricted to cost centres to which the actioner has authorisation eg most directorate users can only action within a constrained set of Cost Centre codes (eg schools can only affect their school cost centres for instance).</p>	June 2011

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>Staff with cross ledger journal posting authority, are specifically authorised finance staff. Journals can not be posted across organisations.</p> <p>Effective budget monitoring controls and account reconciliations also identify any 'rogue' entries. The regular reporting to Cabinet of both revenue, capital and balance sheet items and the final accounts process itself also assist in identifying journal posting errors during the year and at year end.</p> <p>In researching this issue - all journal entries over £500,000 in value were reviewed for 2009/10 (90.67 per cent of all journals) for all revenue and balance sheet items. All of the journal entries were carried out by Financial Management staff or duly authorised by senior finance staff from the Directorates who are line managed by Finance Managers. The risk of error is thus considered to be very low.</p> <p>This exercise will be carried out annually to provide an additional review of high value journal entries.</p>	

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R2 Council Tax banding levels should be formally communicated to Council Tax officers following Council approval.	3	Finance Manager - Technical Services, Billing Manager, Revenues Systems Team Manager	Yes	This minor error related to different 1p roundings on four of the Hetton Town Council (HTC) bandings not reflecting the final figures approved by full Council. To put this error into context the total error was a net 'over-collection' of £32.96. Procedures were modified for 2010/11 to ensure this type of error could not be repeated. Formal notification is now in place and designated officers (DDN/SH/DB) check the details of at least one Council Tax Bill from each banding for the properties within the HTC area and those outside of the HTC area, to ensure the bills show the correct Council approved figures. The hard coded details (not automatically produced by the system) set out on the Council Tax Bills are also checked to ensure the correct information is included.	Already actioned
7	R3 The daily reconciliation between the CTB and Council Tax systems should be kept up to date.	3	Revenues Systems Team Manager	Yes	We would confirm that the spreadsheet had not been kept up to date at the time of the audit and that this was to be brought up to date after annual billing/year end testing was completed. With an integrated Revenues & Benefits system the risk of getting out of step is minimal but there has been (on very rare occasions) a claim that has not been completed correctly (due in the past to PC/ Network problems).	Already Actioned

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>Because of this fairly rare occurrence, a reconciliation of the figures from the Council Tax Benefit report to the figures on the Council Tax transactions report, relating to benefit amounts, is carried out. The risk of getting out of step is minimal because the vast majority of claims go through without issue and the 'posting' to the Council Tax account is joined up and integrated.</p> <p>A new development has recently been put in place which means that through an overnight job scheduler we have automated certain functions, so that the relevant figures from the particular reports can be picked up and placed into the spreadsheet. This will ensure that the spreadsheet reconciliation is kept up to date on an ongoing basis.</p> <p>As an added assurance the Revenue Systems Team Manager has introduced an audit check that includes all of the various system changes. The new development set out above is now included as an extra check to ensure that the spreadsheet reconciliation does not get out of date in future.</p>	

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R4 BACS payment audit trails should be retained for an appropriate time period.	2	Finance Manager - Technical Services	Yes	<p>The software providers have indicated that system logs are only retained on the system for 12 months. The Finance Manager - Technical Services has requested a review as a possible system enhancement / development. However if there is an additional cost implication of this we will instead keep hard copy logs covering a rolling 18-month period – this would cover at least a full year’s logs for audit purposes.</p> <p>In the current absence of a longer period than 12 months history we are retaining the hard copy logs from 1 April 2010 as a fall back position for next year’s audit.</p>	Already actioned from 1 April 2010
8	R5 The Council should improve log-in controls to minimise the risk of unauthorised systems access.	2	All System Owners which include: Chief Accountant, Finance Manager - Technical Services, Assistant Chief Accountant, Head of Transactional Services,	Yes	<p>All of the systems identified with the exception of the Cash Receipting System can only be accessed via the Council’s network. The Council’s network fully complies with the access controls set out in the report and as such meets the required/desired controls and this factor could be considered with regard to this recommendation.</p> <p>The Cash Receipting system is to be replaced shortly and the controls expected will be reviewed, as will be the case with the other key systems identified in order to check and move to the suggested standards set out where they can be changed and where it is cost effective to do so.</p>	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
			Head of Performance, Commissioning and Change		<p>It should be recognised that some systems are quite dated particularly Logotech and this is not considered to be a major issue in that only the Treasury Management team have access to what is effectively a reporting tool that sits outside of SAP. All systems have controlled and limited staff access and only authorised staff have update rights to each system, while others only use reporting and viewing tools.</p> <p>Taking all of the above factors into account there would appear to be appropriate access restrictions in place (at least 2 tiers of controls), one that meets the desired standards and further individual access restrictions where most are being met. As indicated above the Cashiers system is to be replaced, which may address the issues over access and the SWIFT system is currently being reviewed to see if the access restrictions can be further improved.</p>	

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
