

WELLAND INTERNAL AUDIT CONSORTIUM

Harborough District Council



Date: 31st March, 2010

MINIMUM ASSURANCE STATEMENT

REF: H/MAP 0910

EXECUTIVE SUMMARY

Context

The External Auditor (Audit Commission) requires annual assurance that the key controls for the Council's fundamental financial systems are operating effectively. The systems considered fundamental are:

Payroll, Debtors, Creditors, Local Taxation (Council Tax and NDR), Cash and Banking, Treasury Management, Benefits, and Accounting & Budgeting. The risk based Strategic Internal Audit Plan covers all these systems in detail over a three-year period. The systems that are not subject to detailed audit review during 2009/10 are listed in the scope below. In order to satisfy the minimum assurance required by Audit Commission, the Welland Internal Audit Consortium performs testing on all the high-level controls within each fundamental financial system and reports on the effectiveness of those controls.

The purpose of this audit as part of the managed audit approach is to provide a satisfactory level of assurance to the Audit Commission that the key controls within the fundamental financial systems are operating effectively to minimise the risk of undetected fraud or error that could lead to mis-statement of the annual accounts.

Overview

High-level controls have been identified on the basis of guidance provided by external audit, supplemented by the Consortium's knowledge and understanding of the client's control environment. That understanding is maintained and developed through periodic and fundamental audits of the systems, which are scheduled through a risk-based planning process. The areas included in this year's minimum assurance work (as these systems were not subject to detailed review during 209/10), are Accounting and Budgeting; Cash and Banking; Debtors and Payroll.

The assurance level for each area is shown in the table below:

Area 2008/09	2009/10 Assurance Rating	2008/09 Assurance Rating	Recommendations made in 2009/10
Accounting and Budgeting	Sound	Sound	1 Medium, 1 Low
Cash and Banking	Sound	Sound *	0
Debtors	Marginal	Marginal *	3 Medium, 1 Low
Payroll	Sound	Marginal	1 High, 1 Low

*denotes that this activity was subject to a full audit review in 2008/09.

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Overall, a sound level of assurance was gained that the key high-level controls across all areas examined are operating effectively, and key transaction streams have been substantiated. None of the weaknesses identified are likely to lead to material mis-statement of the accounts.

Some areas for improvement were identified:

ACCOUNTING AND BUDGETING

- **Bank Journals**

Bank Journals are currently administered by the Exchequer Services Manager and are not subject to review by an appropriate and independent officer. Without independent review of journals, there is a risk that incorrect or fraudulent journals may be administered.

- **Budget Monitoring reports**

Budget monitoring reports are provided to budget holders on a monthly basis showing cumulative expenditure against specific annual budgets. Increasing the detail of the budget monitoring reports, to include expected and actual monthly expenditure and a projected year end position may reduce the risk of overspends.

DEBTORS

- **Reconciliations**

The Income Officer carries out reconciliations between the Debtors module and the Main Accounting System on a monthly basis. Review of a sample of these recommendations found that not subject to documented review by an independent, senior Officer.

- **Suspense Account**

Items that have not been posted to the correct accounting code are posted to the Debtors Suspense Account until the correct code can be identified. Review of items that have passed through the Debtors Suspense Account in 2009/10 showed that three items had been put into the Debtors Suspense Account but had been promptly cleared. However, the Debtors Suspense Account includes a balance of £20 from 2006 that remains unresolved.

- **Reminders**

Overdue accounts are subject to recovery action initially from the Finance Team and then the Corporate Debt Recovery Team. Review of a sample of overdue accounts showed that first reminders are generated promptly (100% raised by due dates); however second reminders are not promptly generated (40% raised by due dates). Overdue debtor accounts should be subject to clear, prompt and documented recovery action.

- **Agreements to pay**

Agreements to pay can be set up by the Finance Team or the Corporate Debt Recovery Team; arrangements to pay are made where a debtor experiences difficulty in paying amounts due and subsequently pays the amount due over a period of time. Review of a sample of overdue accounts that have an agreement to pay showed that; 20% did not actually have an agreement in place but had been placed on the Finance System as making payments by agreement. In

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addition, staff do not have access to clear guidance on how agreements to pay should be set up and documentation to be retained.

- It should also be noted that in 2009/10 a piece of consultancy work was carried out in relation to the Corporate Debt Recovery Team that identified a number of areas of weakness for which actions have been agreed.

PAYROLL

- **Reconciliation**

Currently the Council uses two separate systems for HR and Payroll. These two systems are not routinely reconciled to ensure they hold the same employee details, subsequently, there is a risk that individuals maybe paid amounts that are not in line with their agreed contract.

- **Accuracy checks**

No accuracy checks are undertaken to ensure that deductions made are accurate. Without periodic checks there is a risk that deductions made and increments applied may be administered incorrectly.

The following Action plan includes recommendations to address the issues identified.

As some risks have been identified and some recommendations made, the overall assurance rating on the effectiveness of controls is

Sound

Scope

The audit included an examination and evaluation of effectiveness of the high level key controls operating within the following financial systems:

- Accounting and Budgeting
- Cash and Banking
- Debtors
- Payroll

The recommendations are listed on the action plan, followed by the detailed report.

Acknowledgements

The help and co-operation of the Officers in the relevant areas examined was much appreciated by the Auditor.

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ACTION PLAN

	RECOMMENDATION	Priority	Lead Officer Responsible	Agreed Action and completion date
	It is recommended that			
	<u>Accounting and Budgeting</u>			
ACBU1	Consideration should be given to increasing the detail provided on budget monitoring reports to include: <ul style="list-style-type: none"> • Monthly budget (profiled across the financial year) • Actual monthly expenditure • Projected year end position 	L	Head of Financial Services	The projected position was done for the last two quarters of 2009/10. Fully implemented going forward from 1/4/10. 1st July 2010
ACBU2	The Head of Financial Services to ensure that bank journals are subject to a documented check by an appropriate and independent officer.	M	Head of Financial Services	Reminder to appropriate officers that journals should be signed off. 1st July 2010
	<u>Debtors</u>			
DEBT1	The Head of Financial Services to ensure that monthly debtor reconciliations are subject to review and authorisation by an appropriate independent Officer.	M	Head of Financial Services	Reminder to appropriate officers that all reconciliations to be signed 1st July 2010
DEBT2	The Head of Financial Services to consider coding the outstanding remaining balance on the Suspense Account to an appropriate income code.	L	Head of Financial Services	This will be reviewed and written back to the accounts if appropriate. 1st July 2010

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	RECOMMENDATION	Priority	Lead Officer Responsible	Agreed Action and completion date
	It is recommended that			
DEBT3	The Head of Financial Services to review processes to ensure that overdue debtor accounts are subject to monthly review and that reminders are generated and issued promptly.	M	Head of Financial Services	Staff absence has had an impact – this has now been resolved and reviewing should improve. 1st July 2010
DEBT4	The Head of Financial Services to ensure that: <ul style="list-style-type: none"> • There are clear documented guidance detailing factors to be considered by staff when making Arrangements To Pay (A-To-P) • Debtors are required to clearly state and provide evidence of income and outgoings before an A-To-P is made • A-To-P are clearly documented and retained for evidence • A-To-P are subject to monthly review and documented follow up action where ATP are not adhered to. 	M	Head of Financial Services	In process of putting DD in place for recurring debtors. Any A-To-P are encouraged to pay by DD. Will consider producing guidance note but this is not a priority as we are focussing on DD arrangements first. 30th September 2010
	<u>Payroll</u>			
PAYR1	The Head of Financial Services to ensure that the Payroll System is reconciled to the HR System on a quarterly basis. The reconciliation should be undertaken by an appropriate officer, reviewed by an independent officer and have clear supporting documentation.	H	Head of Financial Services	New arrangements for delivering the Payroll service are being finalised and will address 30th September 2010
PAYR2	Consideration should be given to carrying out a documented midyear check (using the HMRC website calculator) on deductions applied and increments applied to a sample of employees pay slips to ensure that deductions made and increments applied are accurate.	L	Head of Financial Services	Will consider writing this into SLA when service delivery arrangements are agreed 30th September 2010

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NOTES:

Action Plan Grade Classification:	H-High, M-Medium, L-Low	Order of Priority of Implementation. Please note that it will normally be expected that all recommendations will be implemented within 6 months.
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The range of Assurance ratings is as follows:

Audit Opinion:	Explanation:
GOOD	Minor risks have been identified.
SOUND	Some risks have been identified and some recommendations made.
MARGINAL	A number of risks have been identified and changes should be made.
UNSATISFACTORY*	Unacceptable risks have been identified and changes must be made.
UNSOUND*	Major risks exist and fundamental improvements are required.

A rating of "Unsatisfactory" or "Unsound" requires immediate management attention and arrangements will be made for a further review to be carried out at a later (agreed) date.