



East Devon District Council

Interim Report

External Audit 2008-09

June 2009

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1 Executive summary

Introduction

This report summarises the findings from our interim audit, carried out in accordance with the requirements set out in our 2008-09 Audit Plan. As part of this work we have considered:

- the extent to which we can place reliance on the work of Internal Audit;
- the adequacy of the controls over information technology;
- the adequacy of controls over the financial reporting process and arrangements for year-end closedown and preparation of the annual accounts; and
- the key systems in place at the Council and the adequacy of the key controls in operation.

Our work, at this stage, has principally been focussed on our accounts audit responsibilities, under the Code of Audit Practice. In addition, we have reviewed the adequacy of budgetary control arrangements, risk management, governance and counter fraud arrangements as part of our Use of Resources work. This work will inform our assessment of the risk of misstatement in the accounts and there may be further issues which we will need to bring to your attention when we have completed our audit of the financial statements.

Key messages for the Council

The overall arrangements in place for the delivery of the Internal Audit programme are considered to be meeting minimum standards, although there are a number of significant opportunities for improvement which have been identified. The findings and recommendations from our review are set out in Section 2.

Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal control system, and concluded that, from the work undertaken to date, there are no material weaknesses which could adversely impact on the council's financial statements. We identified some areas for improvement which are set out in Section 3.

No material weaknesses have been identified through our review of the key financial systems. There are a number of recommendations to enhance the existing processes, set out in Section 4.

The arrangements for closedown and financial reporting are considered to be adequate for the Council to meet their statutory requirements regarding financial reporting. We have identified one area for improvement which is set out in Section 5.

We have followed up the action plans arising from our 2007-08 interim and final accounts audits and have attached this for completeness at Appendix B. Some progress has been

made against a number of our previous recommendations but a significant number remain which have not been implemented or will be implemented as part of accounts preparation process, and we shall complete our review of the outstanding areas as part of the final accounts audit.

Use of this report

This report is part of a continuing dialogue between the Council and us and is not, therefore, intended to cover every matter, which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

The way forward

We have discussed our findings with officers, including the Corporate Director, Head of Finance and the Internal Audit and Governance Manager, and agreed the actions required to implement the recommendations, which are set out at Appendix A. We have summarised the recommendations arising from our previous audit reviews, where action remains outstanding, in Appendix B.

We will complete our remaining work as part of the audit of the final accounts and our Use of Resources assessment and discuss any issues arising with management. These will then be summarised in our ISA 260 report.

Acknowledgements

We would like to take this opportunity to thank the officers who have been involved in our interim audit for their assistance and co-operation.

2 Review of Internal Audit function

We review Internal Audit's overall arrangements against the CIPFA Standards for Internal Audit in detail every three years to ensure that they are adequate to produce robust and reliable work. We undertook a full review in 2007-08. In accordance with CIPFA standards such a comprehensive review is only required every three years unless there is an indication that a more frequent review is required. We have performed a comprehensive refresh of our review in 2008-09 considering the recommendations we made last year and the issues raised by the Task and Finish Forum and the Audit and Governance Committee. Due to the planned change in arrangements for 2009-10 a further full review will be undertaken again next year.

Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by Internal Audit and can conclude that, the service in itself, is contributing positively to the internal control environment and overall governance arrangements within the Council.

In addition, where Internal Audit have completed specific work and detailed testing on an area that we have determined as representing an accounts risk to the Council's financial statements, we will review this work in detail to establish whether we can place reliance upon the testing they have undertaken and the conclusions reached. Where we seek to place reliance on specific areas, we undertake re-performance work to ensure that we would have drawn the same conclusions from the testing undertaken and resultant findings. This approach ensures that we maximise the assurance gained from Internal Audit's work in addressing the risk factors we have identified from our overall review of the financial statements and minimises duplication of audit work.

Findings and recommendations

We have concluded that overall Internal Audit arrangements for the delivery of the Internal Audit programme meet the minimum standards, and are sufficient for us to gain assurance over the work that they have completed on the internal control environment at the Council.

We have, however, identified some areas where existing arrangements could be significantly improved to ensure full compliance with the CIPFA Standards for Internal Audit. These findings are set out below.

Internal Audit strategy

Internal Audit currently produce a five year strategy and an Internal Audit Charter. These two documents include the majority of the requirements set out by the CIPFA standards for an Internal Audit strategy. However, there are gaps in the information which should be included in order for Internal Audit to be fully compliant with the CIPFA standards.

Recommendation 1

The Internal Audit Charter/Strategy should be updated to include the following:

- explicitly state the role of Internal Audit in the investigation of fraud;
- set out the extent to which Internal Audit can undertake additional consultancy work; and
- make specific reference to how the Head of Internal Audit will form and evidence their overall opinion on the control environment for the Annual Governance Statement.

Scope

The Internal Audit service have formal arrangements in place to develop the scope of audit reviews and to annually revise the scope of the review in advance of the audit field work, through discussion with Heads of Service. From our discussions with officers relating to ad hoc extraordinary audits, we have found that this process does not always have the effect of ensuring that the scope is tailored to the needs of the Council. Whilst the audit scope is not expected to include the detail of work to be performed, it should set out the focus of each element of work.

There are arrangements in place to formally obtain feedback from managers at the end of each audit on the quality of service which Internal Audit provided, whether it met the needs of the relevant department and whether the review added value. Where areas for improvement in performance are identified discussions take place between the Head of Internal Audit and the relevant Head of Service. We believe this process could be further enhanced by collating the feedback and reporting this to the Audit and Governance Committee, as part of the quarterly monitoring reports.

Recommendation 2

Internal Audit should ensure that the full scope and focus of audit work is agreed with appropriate officers, including ad hoc reviews, prior to commencement of the detailed field work.

Recommendation 3

Internal Audit should ensure that feedback is obtained from management for all completed audit reviews and act on the feedback received, to ensure that they are continuing to meet the needs of the Council. The results of the feedback should be reported to the Audit and Governance Committee.

Reporting

The 'Reporting Policy to SMT' sets out the reporting arrangements between Internal Audit and the Senior Management Team. The key principles within this document, such as the timescales for issuing the final report and the closedown timetable, should also be included within the audit planning memorandum sent to the relevant manager prior to individual audit reviews commencing. This would ensure that the information is clearly communicated to the individuals involved in the audit. The timescales for issuing the draft report should also be identified.

Recommendation 4

The reporting processes used by Internal Audit could be improved by documenting within the planning memorandum details of close down meetings, an indicative date for issue of a draft report, the expectation for management responses and when the final report will be issued.

Audit documentation

We undertook a detailed review of two Internal Audit files to ensure they fully complied with the CIPFA Internal Audit standards. Our review has identified a number of areas where quality assurance could be improved:

- On one of the files, we assessed a sample of five of the 40 tests for compliance with the CIPFA standards on documentation and audit evidence. We found there was no evidence on the file to support the conclusions reached for one of the tests. On another of the five tests, the work that was carried out was on control account reconciliations, however it had been referred to as suspense accounts throughout the testing. Therefore the conclusion reached was misleading. In order for us to be able to place reliance on the work of Internal Audit, the testing needs to be fully documented and conclusions supported by sufficient, appropriate evidence.
- We assessed the extent to which prior year recommendations had been followed up. On one of the files reviewed, there was a clear audit trail between the recommendations and how they had been resolved. On the second file, while the prior year recommendations were attached to the file, the audit trailing linking how the recommendations had been followed up was not complete. This process should be clearly documented to ensure that all prior year risks are considered and followed up by Internal Audit.
- Internal Audit use their audit manual to determine sample sizes for the majority of testing. We found sample sizes were documented on the file, however there is no documented justification for the size of the sample used. Justification should be provided on each test for the sample size used. If there is a standard sample size in accordance with the audit manual, this should be stated and that no reasons identified to deviate from this size. If alternative sample size used, justification should be documented.
- Our compliance reviews identified that some control findings which were identified as part of the testing, had not been carried forward to the report conclusions. Where issues are identified as part of the testing, Internal Audit should document on the audit file, why the issue has not been carried forward to the conclusion to ensure that all relevant issues are reported on.
- Our review of two completed IA files, identified that walkthrough testing is not performed. While walkthroughs may not be appropriate for systems based reviews such as Customer Services, walkthroughs should be performed on key systems financial system to confirm understanding of the process and the controls.

We have reviewed all the Internal Audit reports taken to the Audit and Governance Committee during the 2008-09 financial year which had been issued at the time of our on site work. The majority of reports conclude on the level of assurance which has been

obtained. However, there were a few reports, carried out by contractors, where the overall level of assurance was not set out in the report. While this was later reported to the Audit and Governance Committee as part of the monitoring report, it is of benefit if this is also included within the conclusion of the report issued to officers to summarise the findings of the review.

Recommendation 5

Internal Audit should ensure that:

- sufficient, appropriate audit evidence is documented on audit files to support conclusions reached;
- the follow up of prior year recommendations is clearly evidenced and documented on the file;
- all control findings identified are fed through to the report; and
- the rationale and basis for sample sizes is fully documented on all audit files.

Recommendation 6

Internal Audit should ensure that all reports include a conclusion on the level of assurance obtained.

Recommendation 7

Internal Audit should perform walkthrough tests annually to support systems documentation. These walkthrough tests should be documented with evidence relating to the financial year under review, to demonstrate that the auditor's understanding of the Council's systems is accurate.

Quality assurance

The CIPFA Internal Audit standards require that, in addition to the review of audit work carried out, Internal Audit should have arrangements in place to carry to ensure that internal quality reviews are undertaken periodically to ensure compliance with the Code and Internal Audit Manual. Our detailed assessment of two of the Internal Audit reviews, has identified that while the normal review process is in place and documented, there are no arrangements for a sample of files to be reviewed under the quality control arrangements, to ensure compliance with the audit manual, as required by the CIPFA Internal Audit standards. Given the small size of the Internal Audit function at the Council, practical ways to apply this will need to be considered.

Recommendation 8

Internal Audit should carry out a quality control review on a sample of reviews, outside of the normal review process, to demonstrate compliance with the audit manual.

Performance measures

A requirement of the CIPFA Internal Audit Standards is that a performance management and quality assurance framework must include:

- a comprehensive set of performance measures developed in consultation with appropriate parties;
- an action plan to implement improvements; and
- the Head of Internal Audit should report the results of the performance management in the annual audit report.

We raised a recommendation to introduce performance measures in our 2007-08 interim report. This recommendation has not yet been implemented.

Reporting against agreed performance measures with an action plan to address service improvements will give the Audit and Governance Committee a structured method to monitor the performance and progress of the Internal Audit service. It should ensure that resources invested by the Audit and Governance Task and Finish Forum provide value by demonstrating effective outcomes.

The Audit and Governance Task and Finish Forum have undertaken a review of the Internal Audit service. The minutes to these meetings, outline the action points raised. These action points should be formalised into an action plan, with agreed timescales and responsible individuals to ensure that improvements to the Internal Audit service are implemented and monitored.

Recommendation 9

Internal Audit should introduce a comprehensive set of performance measures and report against these measures at agreed periodic intervals to the Audit and Governance Committee. The performance measures should be approved through the Audit and Governance Committee.

Recommendation 10

Internal Audit should produce an action plan to implement improvements to the service, with timescales for completion. This should include the recommendations made by the Audit and Governance TAFF.

Annual report

The CIPFA Internal Audit Standards require that in addition to the interim reporting by Internal Audit to the Audit and Governance Committee, Internal Audit should also produce an annual report. This should summarise the work carried out during the year and provide an overall opinion on the control environment to support the Annual Governance Statement, as well as disclosing a number of other elements.

Internal Audit currently produce monitoring reports that compare the work planned against the actual work delivered as well as a Corporate Governance Assurance Statement Action Plan which covers the issues which are relevant in preparation of the Annual Governance Statement. These monitoring reports also update the Audit and Governance Committee on issues coming out of Internal Audit reviews as they are identified.

Whilst the final monitoring report, which covers the full financial year, includes some of the required information, it does not cover aspects such as the overall opinion on the control environment and compliance with the CIPFA Internal Audit standards.

Recommendation 11

Internal Audit should publish an annual report to supplement the information within the final monitoring report, to include:

- an overall opinion on the organisation's internal control environment;
- a summary of the audit work undertaken and a comparison against the audit plan;
- a summary of any issues that are relevant to the preparation of the Governance Statement;
- a comment on compliance with the CIPFA Internal Audit standards; and
- the performance of Internal Audit against the agreed performance measures.

Provision of the Internal Audit service

The Audit and Governance Committee have been addressing the short term resource issues relating to the Internal Audit service. We are also aware of, and have been involved in, the discussions around the longer term delivery of the Internal Audit service.

Recommendation 12

The Council should consider the longer term provision of the Internal Audit service and how it can provide suitable assurance together with any additional advisory or value for money services.

3 Review of Information Technology controls

Our information systems specialist has performed a high level review of the general IT control environments as part of the overall review of the internal control system.

The Council makes extensive use of information technology (IT) to process financial transactions and to produce their financial statements, the principal finance system is Cedar e-financials. This is an off-the-shelf purchased package which is supported by two finance system administrators. Key interfaces into Cedar include payroll data from the Trent system and council tax data from the Academy system.

The IT Department is well structured and organised, providing good change management and segregation of duties. Internal Audit have recently reviewed this area and their findings have been discussed and action to improve arrangements agreed. In particular, we note the report, dated Autumn 2008, includes a recommendation to improve the process for removing staff that are leaving the Council from their email accounts. Our review would re-enforce this and the Internal Audit action plan, dated February 2009, states that the IT Department are in discussion with Human Resources (HR) to mitigate this risk.

The Council have also been working towards the Government Code of Connection, meaning that security of the network in general has been significantly increased over the past few months. In particular, we would re-enforce the requirement for the Council to increase its monitoring of security vulnerabilities in line with Government guidelines.

We have completed our review and concluded that there were no material weaknesses within the IT arrangements that are likely to adversely impact our audit of the accounts. We have identified the following areas where arrangements could be strengthened further.

Findings and recommendations

Lockout

At present the network locks out a user out when they have incorrectly entered a username and /or password five times. The user is then locked out of the network for 30 minutes before being able to try again. Industry best practice, set out in ISO 27001, identifies that there should be a permanent lock out after three unsuccessful attempts at access. The risk is that an attacker could try five times, wait 30 minutes and try again continuously without monitoring, thereby increasing the risk of unauthorised access being gained.

Recommendation 13

The number of access attempts to the network, before lockout is enabled, should be reduced to three attempts and lockout should be permanent to facilitate declining procedures by IT.

Intrusion detection system (IDS)

There is currently no IDS in place. An IDS is software that operates on the network and is designed to alert IT if any data traffic is detected as moving outside pre-defined settings. This movement could indicate a potential breach of security. By having an IDS, IT are better able to protect the network by responding immediately. Without this, there is a risk that the Council maybe unaware of an attacker attempting to gain unauthorised access and not be in a position to take prompt action.

Recommendation 14

The Council should consider implementing an Intrusion Detection System.

4 Review of key financial systems

We review all the key financial systems to assess whether there are any major controls weaknesses that could affect the level of testing required at our final accounts audit. We rely on the work undertaken by Internal Audit, where appropriate to do so and have reviewed the following key financial systems:

- main accounting system;
- non-payroll expenditure;
- payroll;
- income;
- cash and treasury management
- fixed assets;
- council tax;
- housing benefit;
- NNDR; and
- housing rents.

We have concluded that key controls are in place for the systems that we have reviewed and we have not identified any issues that would impact on our risk assessment for the Council. The following findings have been identified as areas for improvement.

Findings and recommendations

Clearance of suspense accounts

Suspense accounts should be cleared on a regular basis to ensure that all income and expenditure is allocated to the appropriate budget or balance sheet code. If suspense accounts are left un-cleared, the Council is unable to monitor its budget accurately and effectively.

In our 2007-08 ISA260 report, we recommended that the Council should clear suspense accounts on a regular basis and we recognise that the Council has made significant progress in clearing these accounts. However, at the time of our interim work the cashiers account had not been cleared. While there was evidence that this account had been reviewed, the un-reconciled balance on this account was £13,279.39.

Recommendation 15

The Council should continue to ensure that all suspense accounts are cleared on a timely basis.

Bank account and control account reconciliations

Monthly reconciliations are performed between the main financial systems and the various subsystems in operation. Monthly reconciliations are also performed between the financial

system and the council's bank accounts. The reconciliation process is in place to ensure the accuracy of the accounting records.

From our review of key controls, we have identified that there is no documented evidence that the following reconciliations are reviewed by an individual other than the person who prepares the reconciliation:

- bank reconciliations;
- debtors;
- creditors;
- NNDR; and
- council tax.

In addition, our review of control account reconciliations between the main financial system and the NNDR and council tax systems, identified that reconciling items are identified but that they are not investigated. Many reconciling items in one month will be resolved in the next month due to timing issues, such as delayed payments, although other amounts may not be resolved and have to be reconciled at the year end. By identifying and reviewing these items during the year, resource pressures could be reduced at the year end during closedown and any related issues or risks would be raised in a timely manner.

Recommendation 16

All control account and bank account reconciliations should be reviewed by an individual other than the preparer, to ensure accuracy, and this review should be evidenced. All reconciling items should be investigated and followed up to ensure that outstanding issues are resolved in a timely manner.

Income

Formal write off procedures are available to all staff on the council's intranet. The write off procedures currently available, make reference to the outgoing Financial Services Manager, by name, as an individual with the authority to authorise write offs. These procedures should be updated to reflect the new arrangements.

As part of our review of the controls around write off procedures we identified an example of an invoice where a credit note had been issued when it should have been a write off as the service had already been provided. If credit notes are issued rather than writing off the income, the true financial position of the council is distorted as income and expenditure are both understated.

Recommendation 17

Write off procedures should be updated to take account in changes in staff, to ensure only appropriate staff are able to authorise write offs.

Recommendation 18

We recommended that staff are informed, or procedures should be put in place, to ensure staff are aware of the difference between issuing a credit note and writing off an amount so that they are used appropriately. This is to ensure income and expenditure is not misstated.

Fixed assets

In our 2007-08 ISA260 report we recommended that the asset register should be updated on a quarterly basis. Due to problems encountered during the 2008-09 financial year in rolling forward the asset register, the process of updating the register regularly has not taken place. As a result, in year transactions, including additions, disposals and depreciation have only been performed at the year end.

Recommendation 19

In-year transactions, including additions, disposals and depreciation, should be performed at regular intervals, at least quarterly, to keep the asset register up to date.

Housing rents

There should be segregation of duties between collection and recording of payments. Our testing identified that the four individuals in the housing rents team are able to amend the housing rents system, such as the rent amount, transfer amounts between accounts and process refunds, as well as to take payments over the phone. While the risk is reduced because the payments are not in cash, there is an increased risk of misappropriation and fraudulent activities.

Recommendation 20

The Council should review the ability of housing rents officers to amend data within the housing rents system and to be able to receive payments.

5 Review of financial reporting controls and closedown procedures

We have reviewed the controls in place to ensure that information generated and communicated from the various activities of the Council come together to deliver reliable financial reporting. Financial reporting processes include journal entries, applying appropriate accounting principles and mapping general ledger accounts to the financial statement.

In addition, we have reviewed the annual accounts closedown schedule, the guidance issued to departments and have discussed our requirements for working papers to support the audit with officers.

We have had regular discussions with the finance team and other key officers on relevant accounting issues during the year. These include:

- treatment of the bike and car loan schemes,
- the format of the existing budget monitoring arrangements and how it can be improved, and
- preparation for the IFRS conversion, including accounting for holiday pay accruals.

We will continue to liaise closely with the finance team whilst the financial statements are prepared.

We have identified a number of areas where improvements can be made, to the current arrangements. These have been detailed below.

Findings and recommendations

Journals

We recommended, in our 2007-08 ISA260 report that the Council should ensure journals are authorised, where appropriate, introducing input thresholds and authorisation limits.

As part of our audit work, we tested a sample of 30 journals with values between £74 and £26,879,000, and found that there was no authorisation of any of the journals. Our testing also identified that there are no input thresholds within the finance system.

We also assess whether journals have sufficient documented evidence to support them. Our testing identified that the evidence kept to support journal transactions varies significantly between different members of the finance team.

The movement of income and expenditure and balance sheet items by journal transfer needs to be adequately controlled if the accounting system is to be relied upon to produce financial statements that are free from material mis-statement.

We will undertake detailed testing on a sample of journals posted onto the finance system as part of the year-end processes as year end movements as part of our final accounts audit, to obtain necessary assurance that the finance data is accurate.

Recommendation 21

The Council should ensure that journals:

- are authorised, where appropriate, introducing input thresholds and authorisation limits; and
- have adequate supporting documentation to maintain a full and clear audit trail.

Closedown arrangements

After the Financial Services Manager (FSM) left the Council in September 2008 an interim appointment was made on a fixed term basis until January 2009. The post was vacant until the role was filled by a temporary member of staff, in May 2009, who will contribute to the accounts preparation. The FSM has, in prior years, been the lead contact for the audit of the accounts.

While the vacancy has been filled for the accounts preparation process, the position was vacant in the lead up to year end and in the initial stages of the closedown process. There is a risk for the audit that there will be a lack of accountability and responsibility taken for aspects of the final accounts, which will need to be managed. In addition the temporary member of staff will not be available during the accounts audit, which may impact on this process.

A Action plan

No	Recommendation	Priority	Management Response	Responsible Officer & Timescale
1	<p>Internal Audit - strategy</p> <p>The Internal Audit Charter/Strategy should be updated to include the following:</p> <ul style="list-style-type: none"> • explicitly state the role of Internal Audit in the investigation of fraud; • set out the extent to which Internal Audit can undertake additional consultancy work; and • make specific reference to how the Head of Internal Audit will form and evidence their overall opinion on the control environment for the Annual Governance Statement. 	Medium	Agreed.	Internal Audit and Governance Manager September 2009
2	<p>Internal Audit - scope and focus</p> <p>Internal Audit should ensure that the full scope and focus of audit work is agreed with appropriate officers, including ad hoc reviews, prior to commencement of the detailed field work.</p>	Medium	Already implemented.	Internal Audit and Governance Manager

No	Recommendation	Priority	Management Response	Responsible Officer & Timescale
3	<p>Internal Audit - feedback</p> <p>Internal Audit should ensure that feedback is obtained from management for all completed audit reviews and act on the feedback received, to ensure that they are continuing to meet the needs of the Council. The results of the feedback should be reported to the Audit and Governance Committee.</p>	Low	Already implemented.	Internal Audit and Governance Manager
4	<p>Internal Audit - reporting</p> <p>The reporting processes used by Internal Audit could be improved by documenting within the planning memorandum details of close down meetings, an indicative date for issue of a draft report, the expectation for management responses and when the final report will be issued.</p>	Low	Already implemented.	Internal Audit and Governance Manager
5	<p>Internal Audit - audit documentation</p> <p>Internal Audit should ensure that:</p> <ul style="list-style-type: none"> • sufficient, appropriate audit evidence is documented on audit files to support conclusions reached; • the follow up of prior year recommendations is clearly evidenced and documented on the file; • all control findings identified are fed through to the report; and • the rationale and basis for sample sizes is fully documented on all audit files. 	High	Agreed.	Internal Audit and Governance Manager September 2009

No	Recommendation	Priority	Management Response	Responsible Officer & Timescale
6	<p>Internal Audit - level of assurance</p> <p>Internal Audit should ensure that all reports include a conclusion on the level of assurance obtained.</p>	Medium	Already implemented.	Internal Audit and Governance Manager
7	<p>Internal Audit - walkthroughs</p> <p>Internal Audit should perform walkthrough tests annually to support systems documentation. These walkthrough tests should be documented with evidence relating to the financial year under review, to demonstrate that the auditor's understanding of the Council's systems is accurate.</p>	Medium	Agreed.	Internal Audit and Governance Manager September 2009
8	<p>Internal Audit - quality assurance</p> <p>Internal Audit should carry out a quality control review on a sample of reviews, outside of the normal review process, to demonstrate compliance with the audit manual.</p>	Medium	Agreed.	Internal Audit and Governance Manager September 2009
9	<p>Internal Audit - performance metrics</p> <p>Internal Audit should introduce a comprehensive set of performance measures and report against these measures at agreed periodic intervals to the Audit and Governance Committee. The performance measures should be approved through the Audit and Governance Committee.</p>	High	Agreed.	Internal Audit and Governance Manager September 2009

No	Recommendation	Priority	Management Response	Responsible Officer & Timescale
10	<p>Internal Audit - action plan from TAFF</p> <p>Internal Audit should produce an action plan to implement improvements to the service, with timescales for completion. This should include the recommendations made by the Audit and Governance TAFF.</p>	High	Agreed.	Internal Audit and Governance Manager September 2009
11	<p>Internal Audit - annual report</p> <p>Internal Audit should publish an annual report to supplement the information within the final monitoring report, to include:</p> <ul style="list-style-type: none"> • an overall opinion on the organisation's internal control environment; • a summary of the audit work undertaken and a comparison against the audit plan; • a summary of any issues that are relevant to the preparation of the Governance Statement; • a comment on compliance with the CIPFA Internal Audit standards; and • the performance of Internal Audit against the agreed performance measures. 	High	Already implemented.	Internal Audit and Governance Manager

No	Recommendation	Priority	Management Response	Responsible Officer & Timescale
12	<p>Internal Audit - long term provision of service</p> <p>The Council should consider the longer term provision of the Internal Audit service and how it can provide suitable assurance together with any additional advisory or value for money services.</p>	High	Already implemented.	<p>Internal Audit and Governance Manager</p> <p>Subject to Audit and Governance Committee approval on 25 June 2009</p>
13	<p>Information Technology - lockout</p> <p>The number of access attempts to the network, before lockout is enabled, should be reduced to three attempts and lockout should be permanent to facilitate declining procedures by IT.</p>	Low	Agreed.	<p>Head of ICT</p> <p>December 2009</p>
14	<p>Information Technology - Intrusion Detection Scheme (IDS)</p> <p>The Council should consider implementing an Intrusion Detection System.</p>	Low	Agreed to investigate in line with the Government guidelines.	<p>Head of ICT</p> <p>December 2009</p>
15	<p>Clearance of suspense accounts</p> <p>The Council should continue to ensure that all suspense accounts are cleared on a timely basis.</p>	Medium	Agreed and being done.	<p>Head of Finance</p>

No	Recommendation	Priority	Management Response	Responsible Officer & Timescale
16	<p>Control and bank account reconciliations</p> <p>All control account and bank account reconciliations should be reviewed by an individual other than the preparer, to ensure accuracy, and this review should be evidenced. All reconciling items should be investigated and followed up to ensure that outstanding issues are resolved in a timely manner.</p>	Medium	Agreed and being done.	Head of Finance
17	<p>Income - write off</p> <p>Write off procedures should be updated to take account in changes in staff, to ensure only appropriate staff are able to authorise write offs.</p>	Low	Agreed.	Head of Finance 30 September 2009
18	<p>Income - write off / credit notes</p> <p>We recommended that staff are informed, or procedures should be put in place, to ensure staff are aware of the difference between issuing a credit note and writing off an amount so that they are used appropriately. This is to ensure income and expenditure is not misstated.</p>	Low	Agreed.	Head of Finance 30 September 2009
19	<p>Fixed asset records</p> <p>In-year transactions, including additions, disposals and depreciation, should be performed at regular intervals, at least quarterly, to keep the asset register up to date.</p>	Medium	Agreed.	Head of Finance 30 September 2009

No	Recommendation	Priority	Management Response	Responsible Officer & Timescale
20	<p>Housing rents</p> <p>The Council should review the ability of housing rents officers to amend data within the housing rents system and to be able to receive payments.</p>	Medium	This needs to be considered further as we do not want to jeopardise efficiencies of working.	Head of Housing and Social Inclusion 28 August 2009
21	<p>Journals - authorisation and supporting documentation</p> <p>The Council should ensure that journals:</p> <ul style="list-style-type: none"> • are authorised, where appropriate, introducing input thresholds and authorisation limits; and • have adequate supporting documentation to maintain a full and clear audit trail. 	Medium	<p>Agree that Journal to be authorised after the event but do not intend to introduce authorisation limits.</p> <p>Staff will be reminded of the need to provide good supporting documentation.</p>	Head of Finance 31 July 2009

B Follow up of 2007-08 recommendations

Recommendation	Follow Up	Further Action Required
<p>Internal Audit - charter</p> <p>The Internal Audit Charter should be updated to include the role of the Internal Audit service in investigating potential fraud cases</p>	<p>Recommendation has not yet been implemented. Further recommendation made in this report.</p>	<p>Implementation will be reviewed in 2009-10.</p>
<p>Internal Audit - annual report</p> <p>Internal Audit should publish an annual report to include the following:</p> <ul style="list-style-type: none"> • an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and any qualifications to that opinion; • a summary of any issues that are relevant to the preparation of the Governance Statement; • a comparison of performance against plan; • a comparison of performance of the function against its performance measures; and • a comment on compliance with the CIPFA Internal Audit Standards. 	<p>Recommendation has not yet been implemented. Further recommendation made in this report.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>

Recommendation	Follow Up	Further Action Required
<p>Internal Audit - performance measures</p> <p>We recommend that Internal Audit should introduce a set of performance measures, and report achievement against these measures, at the end of the year to the Audit and Governance Committee. Internal Audit should also publish an action plan to demonstrate what actions are being taken to improve the service provided, with timescales for completion</p>	<p>Recommendation has not yet been implemented. Further recommendation made in this report.</p>	<p>Implementation will be reviewed in 2009-10.</p>
<p>Private sector renewals grant</p> <p>Amend the accounts to correctly disclose these transactions and improve arrangements to ensure that grant income is clearly linked to the assets it has been used to purchase.</p>	<p>To be followed up as part of the final accounts audit work.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>
<p>Asset registers</p> <p>The Council should record all assets on a single asset register which will improve asset management and financial reporting.</p>	<p>The single asset register is still a work in progress. The plant and equipment are in the process of being put onto the single asset register.</p> <p>Housing assets will have to be left for a year due to the practicalities of getting the relevant information required for the central asset register.</p>	<p>Implementation will be reviewed in 2009-10.</p>

Recommendation	Follow Up	Further Action Required
<p>Maintenance of the asset registers</p> <p>The Council should update its asset register on a regular, at least quarterly, basis.</p>	<p>The asset register has not been updated during the year. Further recommendation made in this report.</p>	<p>Implementation will be reviewed in 2009-10.</p>
<p>Valuation report and certificate</p> <p>The Council should ensure a valuation report and certificate is prepared at the time of any (re) valuation of assets.</p>	<p>Certificates and formal reports are planned to be obtained. Not yet known whether this will be a full valuation or a table top exercise. This requirement will be communicated to the valuers when the valuation is booked. The requirement for separate land values from buildings will be built into the request to get valuations.</p> <p>To be followed up as part of the final accounts audit work.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>
<p>Review of internal valuations</p> <p>The Council should formally consider adopting best practice and have internal valuations reviewed by an external chartered surveyor, on a sample basis.</p> <p>Appropriate procedures should be put in place to ensure that information added to the fixed asset register is reviewed for accuracy.</p>	<p>No external review of internal revaluations is planned.</p> <p>The internal revaluations input at year end.</p> <p>To be followed up as part of the final accounts audit work to ensure a review process is applied.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>

Recommendation	Follow Up	Further Action Required
<p>Treasury management policy</p> <p>The Council should update its treasury management policy to reflect restrictions in place on its investments, such as the maximum amount held with one institution, or the maximum length of investment.</p>	<p>The treasury management policy has not been updated.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>
<p>Calculation of provision for bad debts</p> <p>The Council should ensure that their provision for bad debts is calculated in accordance with the requirements for accounting for financial instruments.</p> <p>Aging analysis should be made available for all debtors.</p>	<p>Aged debt analysis is now available for housing benefits.</p> <p>Aged debt analysis still not available for housing rents.</p>	<p>Aged debt analysis should be made available for housing rent debtors.</p> <p>Implementation will be reviewed as part of the final accounts audit.</p>
<p>Bank reconciliation</p> <p>The Council should review its bank reconciliation process, to ensure that:</p> <ul style="list-style-type: none"> • cash in transit is identified as 'cash in bank'; and • only cash items are included within the reconciliation. 	<p>To be followed up as part of the final accounts audit work.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>
<p>Review of un-presented cheques</p> <p>The Council should continue to ensure that un-presented cheques are reviewed, and that all cheques older than six months are cancelled and re-issued, as appropriate.</p>	<p>The Council has implemented procedures to review un-presented cheques as they expire. Progress has been made against the backlog of un-presented cheques.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>

Recommendation	Follow Up	Further Action Required
<p>Journal authorisation</p> <p>The Council should ensure journals are authorised, where appropriate, introducing input thresholds and authorisation limits.</p>	<p>Journal authorisation has not been implemented.</p> <p>There are no input thresholds or authorisation limits.</p>	<p>Implementation will be reviewed as part of the final accounts audit and in 2009-10.</p>
<p>Review of suspense accounts</p> <p>The Council should ensure that all cash receipts are allocated to income codes on a regular basis.</p>	<p>Progress has been made in clearing suspense accounts during the year.</p> <p>However after the initial process of clearing the accounts, suspense accounts have not been cleared down on a regular basis.</p> <p>Further recommendation made in this report.</p>	<p>Policy on clearance of suspense accounts should be introduced.</p> <p>Implementation will be reviewed as part of the final accounts audit and in 2009-10.</p>
<p>Working papers</p> <p>The Council should ensure that accurate and complete working papers are prepared to support all figures in the financial statements and associated notes, meeting the requirements set out in our arrangements letter.</p>	<p>To be followed up as part of the final accounts audit work.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>
<p>Soft loans</p> <p>The Council should ensure their soft loans are correctly accounted in accordance with FRS 26 & 29.</p>	<p>To be followed up as part of the final accounts audit work.</p>	<p>Implementation will be reviewed as part of the final accounts audit.</p>



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