

Interim Audit Memorandum

Dover District Council

Audit 2010/11

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Scope of interim audit

1 Each year during our interim audit we review the key financial systems that feed into a material balance in the financial statements. We update our systems documentation and perform a walkthrough of a transaction through each of the systems to confirm the key controls that are in place.

2 We test the key controls for each material system over a three-year cyclical plan. If our walkthrough confirms the system and controls have not changed from the prior year, we can rely on the assurance obtained from our cyclical testing. This reduces the amount of substantive testing we need to complete during the year-end audit visit.

3 We also review and test the IT control environment and key IT controls during the audit. Our IT controls work is currently in progress and will be completed during the final accounts audit visit.

4 During our interim visit in February 2011 we revisited our documentation and walked through the following systems:

- general ledger;
- accounts receivable;
- accounts payable;
- council tax;
- NNDR;
- benefits;
- housing rents;
- fixed assets;
- cash;
- housing repairs;
- treasury management;
- payroll and
- car parking income.

5 We reviewed any changes made to the systems and their key controls. This included the transfer of payroll from the internal payroll department to an external provider on 1 April 2010.

6 Based on our cyclical plan we are reviewing controls in the following systems this year:

- **General ledger** - We tested a sample of journals covering the period from April 2010 to March 2011. We reviewed the control accounts prepared in December 2010 and will review the control accounts prepared at the year-end as part of the final accounts audit.

- **New payroll process** (processing was outsourced from April 2010) - We have documented and tested the new payroll processes and controls at the Payroll shared service provider, Dover District Council and the HR shared service.
 - **Housing repairs** - We have tested all key controls for the 11 month period up to February 2011. We will complete year end testing as part of the final accounts audit.
 - **Council Tax** - We have tested all key controls for the year to March 2011, except for review of the year-end control account reconciliation and authorisation of council tax write-offs. We will complete this testing during the year-end audit visit.
 - **NDR** - We have tested all key controls for the 11 month period up to February 2011. We will complete year end testing as part of the final accounts audit.
- 7 We have continued to work with the Council as it prepares for the first year of IFRS. This has included reviewing the revised accounting policies and the work completed by the Council to date in relation to the restatement of the 2009/10 financial statements
- 8 The results of the work completed to date are set out in this report.

Review of financial systems

Overall findings

9 Except for the payroll system, we hope to be able to place reliance on the key controls within the Council's main financial systems, as in previous years. Based on work completed to date, key controls in all systems other than payroll are operating as intended, providing us with good assurance for opinion purposes. However, we have yet to complete all our planned testing (as summarised above) and need to ensure the key controls remain in place for the rest of the year. We will complete our work on controls at our final accounts visit in July 2011.

10 We have highlighted some issues from work completed so far that we need to report to management and those charged with governance (the Governance Committee). These issues are set out in the following paragraphs.

Payroll

11 As part of our pre-statements work, we have reviewed the new payroll system provided across East Kent by the shared service provider (the provider). During our work both we and officers at the East Kent District Councils identified that some key controls managed by the provider were not operating effectively. In particular:

- **General ledger coding:** During the initial period of the contract there appeared to be insufficient controls in place at the provider to ensure payroll costs were appropriately classified. Officers at the East Kent District Councils had to intervene manually several times to correct errors. Because of these issues Dover District Council's finance team established a process to check and correct payroll coding prior to the processing of the payroll data in the Council's ledger.
- **Data security:** East Kent District Council staff were able to view very high level records relating to the provider's non East Kent client. They were not able to see any personal details for the other client's employees or other sensitive information. However, the officers did raise concerns about the security of data on the system.
- **Incorrect payments:** Officers at Dover District Council identified incorrect payments made outside the payroll system via CHAPS. Manual corrections were required to address this.
- **Evidencing of controls:** We identified scope for improved documentation of controls by the provider.

12 We have discussed our findings with officers at Dover District Council. We note the action taken by the Council to maintain good controls at a local level, including detailed review of reports and data produced by the provider. This has enabled the Council to identify and correct payroll errors where appropriate. We understand action has also been taken by the provider to strengthen internal controls and address the issues raised during the year.

Recommendation

R1 Continue to work with the payroll shared services provider to ensure that appropriate controls are in place and operating effectively.

Cash receipting system

13 The Council introduced a new cash receipting system (AIM) in August 2010. Although it appeared to be operating effectively, it was later found, by officers, that some cash receipt amounts were being corrupted when they were transferred to the bank account codes in the cash book. This issue was identified through the completion of monthly bank reconciliations, but had not been resolved with ICT at the date of our last audit visit in April 2011.

Recommendation

R2 Continue to work with ICT to resolve the problems with the cash receipting system and ensure that the general ledger cash balances are correctly stated and fully reconciled in the year end balance sheet.

14 Council officers have advised us that ICT have subsequently made a number of changes to how the data is processed from AIM into the general ledger (eFIN) to resolve this issue. The Council has completed internal testing to rectify the corruption issues. As a result the majority of the 2010/11 unreconciled data has now been reconciled. We will review the reconciliation of the data during our year end audit visit.

IFRS

15 We have continued to work with the Council as it prepares for the first year of IFRS. The Council's progress in completing its IFRS restatement of the 2010/11 comparatives has been delayed as staff changes bed in. As a result we have had to reschedule our audit visits to accommodate this. However, the Council has recently made more significant progress in its preparations and has now substantially completed its restatement of the 1 April 2009 and 31 March 2010 balance sheets.

16 Due to the delays in the completion of the restatement we will review the following key areas of the IFRS restatement as part of our post-statements audit:

- **Valuation of investment properties:** Properties need to be valued at 'existing use fair value' when they are re-categorised as investment properties. This revaluation is not yet complete.
- **Identification of embedded finance leases:** The Council's review of contracts for embedded leases is not yet complete. This includes major contracts such as those for waste collection and housing repairs.
- **Componentisation of non current assets:** The Council is in the process of separately identifying and valuing material expenditure on components or separate parts of assets incurred from 1 April 2010.
- **Comprehensive Income and Expenditure Statement:** This replaces the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses. We did not review this statement during our last audit visit in April 2011 as our focus was on the restatement of the Balance Sheet (Statement of Financial Position).
- **Cash Flow Statement:** The restated cash flow statement was not available at our last audit visit.
- **Segmental reporting:** We will review the Council's reporting of the breakdown of the main operating activities that are reported to its chief operating officer as part of our review of the 2010/11 financial statements.

Appendix 1 Action Plan

Recommendations

Recommendation 1

Continue to work with the payroll shared services provider to ensure that appropriate controls are in place and operating effectively.

Responsibility	Finance team Payroll Lead
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Priority	High
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Date	30/6/2011
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Comments	The Council is aware of the issues that have arising during the transition to the new payroll provider and is continuing to work with the provider in their resolution.
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Recommendation 2

Continue to work with ICT to resolve the problems with the cash receipting system and ensure that the general ledger cash balances are correctly stated and fully reconciled in the year end balance sheet.

Responsibility	Head of Finance
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Priority	High
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Date	30/6/2011
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Comments	ICT have made a number of changes to how the data is processed from the cash receipting system to the general ledger. The majority of the unreconciled 2010/11 entries have now been reconciled.
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