



GOVERNMENT

# Interim Audit Report 2009/10

Wiltshire Council

June 2010

AUDIT

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, who is the engagement partner to the Authority, telephone 0118 964 2238, email christopher.wilson@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

**This document summarises the key findings arising from our work to date in relation to both the 2010 use of resources assessment and the audit of the Authority's 2009/10 financial statements.**

**The following page summarises the headline messages. The remainder of this report provides further details on each area.**

### Scope of this report

This report summarises the key findings arising from:

- our work on the 2010 use of resources (UoR) assessment up to March 2010, along with the implications of the Audit Commission's recent announcement about the cessation of the UoR auditors' scored judgements regime; and
- our interim audit work at Wiltshire Council ('the Authority') in relation to the 2009/10 financial statements.

We have completed some early work on your 2010 use of resources assessment. This included our:

- review of the progress the Authority has made over the last twelve months against each of the Key Lines of Enquiry; and
- work to address the specific risk areas identified in our *Audit Fee Letter 2009/10*.

Our *Financial Statements Audit Plan 2009/10*, presented to you in February 2010, set out the four stages of our financial statements audit process and identified a number of specific risk areas. During March 2010 we completed our planning and control evaluation work. This covered our:

- review of the Authority's general control environment, including the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems with the help of internal audit;
- assessment of the internal audit function; and
- review of the Authority's accounts production process, including work to address the specific risk areas and prior year audit recommendations.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 outlines our key findings from our work to date on the 2010 use of resources assessment.
- Section 4 sets out our key findings from our interim audit work in relation to the 2009/10 financial statements.

Our recommendations are included in Appendix A. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix B.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This section of the report summarises the headlines from the audit work we have completed to date.

### Overall messages

- The Council has faced unprecedented change over the last year, not just through its establishment as a new unitary authority but also through the significant changes to its IT environment and key financial systems. It is to be expected that the scale of these changes would have an impact on day to day operations, and this has been seen.
- As summarised on the next page and explained further throughout this report, our audit has identified a very large number of issues, many of which have been highlighted as high risk / priority.
- A large number of these issues relate to IT controls, reflecting the complex and changing IT environment within the Council. Others relate to the consistent and effective application of financial and other controls.
- We have issued a total of 50 recommendations to address these identified issues – this version of the report has been produced for the Audit Committee and only includes details on the high priority recommendations, of which there are 18. It is important that the Council develops an appropriate and timely response to these recommendations, which are appended to this report.
- We recognise the scale of the challenge that Council staff have faced in implementing the IT and other changes that have been necessary in the last year. Despite the large number of issues identified by our audit to date, we have seen steady progress being made to address the issues by the Council throughout the year, particularly over the last few months.
- The issues identified so far this year will have a major impact on our audit. In particular, we will not now be able to rely on the operation of many controls and this will necessitate an increase in the volume of substantive audit work during our final accounts audit. However, we remain confident that despite these challenges, the Council should be able to produce materially accurate and auditable accounts.

The table overleaf summarises the headlines from the various elements of audit work. Each element is then discussed in more detail in the detailed report. Our recommendations are included in Appendix A. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix B.

## Headlines (continued)

<b>Use of resources assessment</b>	<ul style="list-style-type: none"> <li>• The Audit Commission has recently announced that its Comprehensive Area Assessment will cease with immediate effect. As a result, auditors are no longer required to complete UoR scored judgements. We are, however, summarising the results of the audit to date to provide feedback on identified strengths and improvement opportunities.</li> <li>• Overall, there are sufficient procedures in place for Managing Finances, with expected improvements in the financial statements process. However, improvements could be made in cost / performance benchmarking, fees and charges strategy and debt monitoring.</li> <li>• The Council continues to actively manage its resources with a significant programme in place to rationalise its assets, but areas of improvement can still be made in planning arrangements and obtaining internal and external feedback on staffing matters. Procedures for Governing the Business remain robust, and improvements have been made in Data Security.</li> </ul>
<b>Organisational and IT control environment</b>	<ul style="list-style-type: none"> <li>• Your organisational control environment has not been fully effective overall and we noted a number of areas for further improvement. This is not unexpected, given the significant organisational change the Council has faced recently.</li> <li>• In particular there have been difficulties with budget monitoring with budget holders unable to access monitoring and forecasting information due to problems with SAP.</li> <li>• The organisational control environment has been impacted by the move to SAP and key financial control systems have not been effective. There have also been significant weaknesses in the IT control environment.</li> </ul>
<b>Controls over key financial systems</b>	<ul style="list-style-type: none"> <li>• Many of the controls over the SAP financial system have not been fully effective throughout the year. In particular there have been significant weaknesses in respect of the controls over purchasing systems. There have also been a number of other control weaknesses in the areas of payroll, performing bank reconciliations and credit control.</li> <li>• We will need to complete significant levels of additional substantive work in these areas at year-end. We have raised numerous recommendations to address the areas of concern identified.</li> </ul>
<b>Review of internal audit</b>	<ul style="list-style-type: none"> <li>• Internal audit complies with the Code of Practice for Internal Audit in Local Government.</li> <li>• We were able to place reliance on some of Internal Audit's work on the key financial systems. We did, however, encounter particular difficulties in relying on Internal Audit's work in the area of IT systems.</li> </ul>
<b>Accounts production and specific risk areas</b>	<ul style="list-style-type: none"> <li>• The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.</li> <li>• However, there are still significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.</li> </ul>

# Use of resources assessment

**The Audit Commission has recently announced that its Comprehensive Area Assessment will cease with immediate effect. As a result, auditors are no longer required to complete UoR scored judgements**

**We are, however, summarising the results of the audit to date to provide feedback on identified strengths and improvement opportunities**

**There are sufficient procedures in place for Managing Finances, with expected improvements in the financial statements process. However, improvements could be made in cost / performance benchmarking, fees and charges strategy and debt monitoring**

## Work completed

The use of resources process required us to make scored judgements on three themes which are further broken down in to Key Lines of Enquiry (KLOEs). We commenced our work in March 2010 when the Council submitted its self-assessment. During the first stage of our work we focused on reviewing the self assessment and supporting evidence, undertaking relevant audit procedures to test and challenge the completeness and accuracy of the information provided. We also considered the progress the Council has made over the last year against each of the KLOEs and held meetings with key officers throughout the organisation.

We submitted our indicative scores and supporting narrative to the Audit Commission in April 2010. However, following the recent announcement by the Government that the Comprehensive Area Assessment (CAA) regime would not continue, the Audit Commission has now confirmed that both CAA and the UoR scored judgements will cease with immediate effect.

This means that we will no longer report this year’s UoR scores to the Council. We will, however, still complete a programme of work on the UoR KLOEs to support our 2009/10 VFM conclusion. This will only need to obtain evidence sufficient to achieve what was level 2 (performing adequately) under the UoR regime, as this is sufficient for an unqualified VFM conclusion. We will report the final outcome of our VFM conclusion to you in our *Report to those charged with governance 2009/10* in September 2010.

## Key findings

- Our work to date suggests that the Authority has maintained or improved its performance across all KLOE focus areas and has made some improvements where our 2009 assessment flagged up areas for further development.
- We have summarised early findings against each theme in the table below:

Theme	Summary of progress and findings
 <p>Managing finances</p>	<p>There have been significant improvements in the annual financial statements process (although this will ultimately be judged on the quality of the statement of accounts and supporting working papers), engaging with stakeholders in the budget setting process and encouraging competition to improve efficiency.</p> <p>However, we have not been provided with evidence of continued cost / performance data to review VFM, or demonstrating benchmarking of unit costs. There is no strategic fees and charges policy, nor evidence of debt monitoring. Furthermore, the SAP implementation has led to significant difficulties which mean that flexible reporting tools have not been available throughout the year and budget holders have not had access to real-time information.</p>

## Use of resources assessment (continued)

Procedures for Governing the Business remain robust, and improvements have been made in Data Security.

The Council continues to actively manage its resources with a significant programme in place to rationalise its assets, but areas of improvement can still be made in planning arrangements and obtaining internal and external feedback on staffing matters.

Theme	Summary of progress and findings
 <p><b>Governing the business</b></p>	<p>Overall, there have been some specific improvements in several areas during 2009/10. In particular, there has been an increased importance and profile given to data security, and there have not been any high profile data security breaches during the current year, unlike previously. The Council is continuing to monitor this area, and make improvements where areas of weakness are identified.</p> <p>There is a Counter Fraud and Corruption Strategy in place, however as noted in prior year there could be improvements over communicating this and ensuring compliance with partners.</p> <p>Governance procedures in place remain robust and there have been improvements in that there is also now a fully independent audit committee.</p>
 <p><b>Managing resources</b></p>	<p>Natural resources has not been required to be assessed in the current year.</p> <p>Asset management processes appear to be robust and the Council has an ambitious programme in place with the Workplace Transformation Programme both in its scope and anticipated future benefits. However, further improvements can still be made in the areas of partnership working and also in ensuring that records from the inherited districts are properly maintained.</p> <p>Workforce Planning is being assessed for the first time in 2009/10. The Council has performed well in this area by successfully managing to redeploy many staff following the move to One Council. However improvements can be made through undertaking detailed succession and workforce planning across all departments, and by collating and evaluating internal data from employees on their morale, and obtaining feedback externally from local communities on their treatment from Council staff.</p>

## Use of resources – next steps & specific use of resources risks

**We have considered the specific use of resources risks we first set out in our *Audit Fee Letter 2009/10***

### Next steps

Although we are no longer required to submit UoR scored judgements to the Audit Commission, we do still need to complete a programme of audit work to support the VFM conclusion which we issue alongside our opinion on the Council's accounts. The majority of the evidence base for this comes from the UoR audit already completed, but we will still need to supplement this with further work in the summer to ensure that sufficient evidence has been obtained for all the defined VFM criteria. This work will include:

- obtaining additional evidence where there were gaps in our knowledge from the first stage of the audit;
- reviewing 'year end' evidence to support certain arrangements or demonstrate performance (e.g. financial outturn information, performance information); and
- undertaking sample spot check testing on National Indicators and other local performance indicators, to consider the effectiveness of the Council's arrangements for securing data quality.

We will report on the outcome of this work in our September *Report to those charged with Governance*, prior to issuing our VFM conclusion.

### Specific Use of Resources risks - Work completed

- Our *Audit Fee Letter 2009/10* included our initial assessment of the risks impacting on our 2010 use of resources assessment and value for money conclusion. For each risk, we consider the arrangements put in place by the Authority to mitigate the risk and the impact of the Authority's arrangements on individual KLoEs. The specific risks identified in our 2009/10 audit plan are:
  - Local Government Reorganisation & Business Management Programme (BMP) – phase 3;
  - SAP data migration; and
  - PFI schemes.
- We have re-considered all risk areas as part of our planning work. Issues have been noted in relation to the SAP data migration and we expect this to have an impact on the level of testing required as part of our accounts audit.

### Key findings

- On the following page we comment on the latest position in respect of these risks. We will report our final conclusions in our *ISA 260 Report 2009/10* and, where appropriate, through specific audit reports.

## Specific use of resources risks (continued)

We have had preliminary scoping discussions with management on LGR / BMP project

The SAP data migration review identified a number of issues and weaknesses which will need to be considered for our final accounts audit and VfM conclusion

We have had initial discussions with management regarding the accounting for PFI schemes

Key risk	Relevance to KLoEs	Risk	Latest position
	<ul style="list-style-type: none"> <li>• KLOE 1.2</li> <li>• KLOE 1.3</li> </ul>	<p>The planned benefits and savings expected from LGR and BMP are not achieved.</p> <p>Appropriate systems have not been implemented to allow tracking, recording and reporting of these savings.</p>	<p>We have had initial discussions with management to ensure the scope of the project both addresses the risks identified and provides relevant and timely observations for the Authority.</p> <p>Fieldwork for this project will take place over the summer.</p>
	<ul style="list-style-type: none"> <li>• KLOE 1.3</li> <li>• KLOE 1.4</li> </ul>	<p>The migration of data from the previous financial systems is incomplete or inaccurate.</p>	<p>Our review identified a number of issues with both the management of this process and the transfer of specific balances to the new system.</p> <p>We have summarised the findings from this review in a separate audit report, which will highlight these issues and make a number of recommendations.</p>
	<ul style="list-style-type: none"> <li>• KLOE 1.3</li> </ul>	<p>The accounting treatment for the Authority's PFI schemes is inappropriate, resulting in material errors in the statement of accounts.</p>	<p>We have had initial discussions with management regarding the accounting for the Authority's various PFI schemes. We are awaiting receipt of accounting papers, after which we will undertake our review.</p>

# Organisational control environment

**Overall, your organisational control environment has not been fully effective**

**We noted a number of areas for further improvement**

**The organisational control environment has been impacted by the move to SAP and key financial controls have not been fully effective**

**There have also been significant weaknesses in the IT control environment**

**In particular there have been difficulties with budget monitoring with budget holders unable to access monitoring and forecasting information due to problems with SAP although it is recognised that finance staff have been working with budget holders to develop practical solutions to ensure the process has continued to operate**

## Work completed

- Controls operated at an organisational level of have an impact on controls at an operational level and if there are weaknesses this would have implications for our audit. Most of the organisational controls we assess are linked to our use of resources work, which also considers the Council's system of internal control. In particular, the areas of risk management, internal control and ethics and conduct also have implications for our financial statements audit.
- We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

## Key findings

- Overall, we consider that your organisational controls have not been fully effective, and have noted a number of areas for further improvement.
- Issue 1: Key financial system controls have not been effective during the year, which impacts on the overall general control environment. These are considered further in section 4.
- Issue 2: Significant weaknesses over access rights to the IT systems have been identified. The scale of these is such that they also impact on the overall general control environment. These are also considered in Section 4.
- Issue 3: Budget holders have been unable to access real-time monitoring and forecasting information in the year due to problems with the SAP Integrated Planning Module. It is however recognised that finance staff have worked with budget managers to develop practical solutions to ensure this process has continued to operate, albeit with significant resource implications.

These weaknesses will have an impact on our audit strategy and we will need to complete a significant amount of additional substantive work at year-end. We have been working closely with the Chief Financial Officer (CFO) and his finance team to develop a pragmatic audit approach which will provide the necessary level of assurance over key account balances. We will also discuss any implications on our audit fee with the CFO as this becomes clearer.

Recommendations are included in Appendix A.

Aspect	Assessment
Organisational structure	3
Integrity & ethical values	3
Philosophy & operating style	3
Participation of those charged with governance	3
Human resource policies and practices	3
Risk assessment process	3
Information systems relevant to financial reporting	1
Communication	3
Monitoring	2

Key:

- 1 Significant gaps in the control environment
- 2 Minor deficiencies in respect of individual controls
- 3 Generally sound control environment

# IT control environment

**The IT control environment over some of the key financial system has not been effective**

**In particular, there have been significant weaknesses identified in respect of SAP, Civica Icon (cash receipting) and Cyborg**

**We also noted a number of other areas for further improvement in general. These were:**

- **Physical security**
- **User access including:**
  - **Segregation of duties**
  - **Registration of users**
  - **Passwords**
  - **Access reviews**
  - **Super user control**
- **Change control**
- **Back ups and restore**

## Work completed

- The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.
- In completing this work, we can partially rely on internal audit’s reviews of IT general controls as produced in response to our Internal Audit working protocol. This has been complemented by our own testing of access to programs and data; change control, program development and operations.
- We also placed reliance on specific work we have done previously on the Business Management Programme and on the migration of data to the new SAP financial management system.

## Key findings

- We found varying levels of effectiveness in your IT control environment with regards to the range of key applications involved in the financial reporting process, with significant points raised against SAP, Civica Icon and Cyborg. We also noted other minor points of further improvement.
- Weakness 1: The user access administration process for SAP is weak, although improvements were noted as being made towards the end of the financial year. Also, configuration of access rights is not yet stable.
- Weakness 2: Logica, third party consultants used in the implementation and ongoing support of SAP, have unmonitored constant access both to promote all changes into the SAP live environment and within SAP via shared accounts given the powerful SAP\_ALL role.
- Weakness 3: For Cyborg, there are an inappropriate number of end user staff with access to all operational functions within the system and Accero, third party company used for system support, have direct unmonitored access to the live environment.

These weaknesses mean that will not be able to place full reliance on SAP, Civica Icon and Cyborg and will need to alter our audit strategy. This will include additional substantive testing at year-end.

However, these findings must be seen in the context of the complex and changing IT environment operating in the Council over the last year.

Recommendations are included in Appendix A.

Aspect	Assessment
Access to systems and data	2
System changes and maintenance	1
Development of new systems and applications	3
Computer operations, incl. processing and backup	2

Key:

- 1 Significant gaps in the control environment
- 2 Minor deficiencies in respect of individual controls
- 3 Generally sound control environment

# Controls over key financial systems

The controls over some of the key financial system have been ineffective

In particular, there have been significant weaknesses in respect of the controls over purchasing systems

There have also been numerous other control weaknesses in the areas of payroll, performance of bank reconciliations, billing of sundry income and credit control

We will need to complete significant levels of additional substantive work in these areas at year-end

We have raised numerous recommendations to address the areas of concern identified

## Work completed

- We work with the Council's internal auditors to update our understanding of the Council's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.
- Our assessment of a key system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

## Key findings

- Controls over some of the key financial systems are ineffective, and there are many other weaknesses identified in respect of other individual financial systems.
- Weakness 1: Due to issues following the migration to SAP which impacted on key systems, relevant financial reporting data was not available for a significant part of the year.
- Weakness 2: Instances have been identified by Internal Audit whereby a department has been billing customers and receipting cash outside of the new SAP system.
- Weakness 3: Some key controls over the payroll system have been found to be ineffective. We are also aware that there have been high profile cases of accidental overpayments to staff having occurred (although we understand those identified have been repaid to the Council).
- Weakness 4: Authorisation controls over non-payroll expenditure have been ineffective. The procedures put in place following the move to SAP have not been consistently followed. Internal Audit's testing has also identified numerous duplicate payments and there have been some small frauds identified during the year in this area.

### Key:

- ① Significant gaps in the control environment
- ② Minor deficiencies in respect of individual controls
- ③ Generally sound control environment

Key system	Assessment
Financial reporting	①
Grant income	②
Housing rents income	③
Council tax income	③
Business rates income	③
Sundry income	①
Payroll expenditure	①
Non-pay expenditure	①
Benefits expenditure	②
Cash	①
Treasury management	②
Capital expenditure	②
Asset disposals	②
Asset valuations	②

## Controls over key financial systems (continued)

**The controls over some of the key financial system have been ineffective**

**In particular, there have been significant weaknesses in respect of the controls over purchasing systems**

**There have also been numerous other control weaknesses in the areas of payroll, performance of bank reconciliations, billing of sundry income and credit control**

**We will need to complete significant levels of additional substantive work in these areas at year-end**

**We have raised numerous recommendations to address the areas of concern identified**

### **Key findings(continued)**

- Weakness 5: Following difficulties with the interfacing of the Cash receipting system with SAP, bank reconciliations were unable to be performed for a large part of the year. A small number of bank reconciliations performed by the Council's schools were also found to be ineffective.
- Weakness 6: The Council had difficulties with chasing of overdue debtors due to problems from the cash receipting system described above. There were also inconsistencies identified with the approach for chasing debtors among departments.
- Internal audit gave limited assurance in their reporting over the key financial systems.
- The weaknesses identified mean that we will need to complete significant additional substantive work at year-end.
- A number of recommendations are included in Appendix A.
- A significant area of weakness identified in the prior year was in the area of Capital accounting. We have held discussions with Central Finance over the procedures that have been put in place to improve fixed asset accounting and are hopeful that this should result in fewer issues in this area during our year end substantive work. However, we have not yet assessed the controls over this area as many of the key controls are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

# Review of internal audit

Internal audit complies with the *Code of Practice for Internal Audit in Local Government*.

We were able to place reliance on some of internal audit's work on the key financial systems.

We did, however, encounter particular difficulties in relying on Internal Audit's work in the area of IT systems.

## Work completed

- We work with the Council's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work.
- Where we intend to rely on internal audit's work in respect of the Council's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.
- The *Code of Practice for Internal Audit in Local Government* ('the Code') defines the way in which the internal audit service should undertake its functions. We assessed internal audit against the eleven standards set out in the Code.
- We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

## Key findings

- We completed an assessment this year of Internal Audit's compliance with the Code of Practice. Based on our assessment, Internal Audit complies with the Code.
- We identified one area of further development:
- Area 1: Internal Audit report the findings of their work to the Audit Committee. We suggest, however, that the detail of these findings is increased, particularly in areas where only a limited or no assurance opinion could be provided. This could include detailed specific risks in an appendix. We also recommend that the Audit Committee tracks progress made by the Council on such recommendations.

We recommend that you translate this point into future reports to the Audit Committee. A recommendation to this effect has been included in Appendix A.

### Key:

- 1 Non-compliance with the Standard
- 2 Min or deficiencies
- 3 Full compliance with the Standard

Standard	Assessment
Scope of internal audit	3
Independence	3
Ethics for internal auditors	3
Audit Committee	3
Relationships with management, other auditors and other review bodies	3
Staffing, training and development	3
Audit strategy and planning	3
Undertaking audit work	2
Audit strategy and planning	3
Due professional care	3
Reporting	3

## Review of internal audit (continued)

**Internal audit complies with the *Code of Practice for Internal Audit in Local Government*.**

**We were able to place reliance on some of internal audit's work on the key financial systems.**

**We did, however, encounter particular difficulties in relying on Internal Audit's work in the area of IT systems.**

### Key findings (continued)

- We were able to place reliance on Internal Audit's work in the area of account balances. However, we were not able to place reliance on all aspects of their work over the Council's IT systems and we had to carry out significant additional testing in these areas.
- In general we noted a good quality of system documentation, and the sample sizes used by internal audit were generally sufficient. On occasions where the sample sizes were insufficient these were discussed with Internal Audit and they completed further testing at short notice, which was appreciated.
- No Internal Audit work was performed on the Cyborg payroll system, covering staff at many of the Council's schools. This was not initially detailed in our Joint Working Protocol as we were not informed that the Payroll for certain staff had not transferred to SAP. However it would have been beneficial if this had been carried out given the significance of this system. Following discussions with Internal Audit we will perform our own controls testing on this system in July.
- In the area of IT systems the Internal Audit work papers were often difficult to follow and there was no evidence of review by the Head of Internal Audit. There was also a lack of evidence to support findings, which made re-performance of the work challenging. Whilst we appreciate this is a complex area due to the changes and number of systems the Council has operated in the year, the nature of the testing performed was not always focused on key areas and there are also a number of improvements that could be made through more robust testing and clearer documentation of findings.
- As a consequence of this we encountered delays and had to perform significant amounts of additional testing on the IT systems ourselves.

These areas have been discussed with the Head of Internal Audit.

## Accounts production process

**The Authority's overall process for the preparation of the financial statements is adequate**

**The Authority has implemented some of the recommendations in our ISA 260 Report 2008/09 relating to the financial statements**

### Work completed

- We issued our Prepared by Client to the Chief Financial Officer in May 2010. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide to support our audit work. We have discussed our requirements in detail in various meetings with Finance staff in April 2010.
- We continued to meet with the Chief Financial Officer and Finance staff on a regular basis to support them during the financial year end closedown and accounts preparation.
- As part of our interim work we specifically reviewed the Authority's progress in addressing the recommendations in our *ISA 260 Report 2008/09*.
- We also discussed your progress in preparing for the transition to International Financial Reporting Standards (IFRS), which local authorities are required to adopt from the 2010/11 financial year.

### Key findings

- The Authority has incorporated a number of measures into its closedown plan to improve the project management of this complex process. This includes ensuring additional staffing resources are in place to manage the closedown process and ensuring that adequate planning has been performed to support the closedown.
- We consider that the overall process for the preparation of your financial statements is adequate, and should help avoid the issues seen last year. The areas which you need to pay particular attention to are:
  - thorough completion of the 2009 SORP checklist and review of the draft financial statement by the Chief Financial Officer;
  - ensuring procedures over fixed asset accounting and impairments have been fully considered;
  - ensuring the requirements of our Prepared By Client list are met; and
  - provision of information to support our audit on a timely basis.
- The Council has also begun preparing for the move to IFRS in 2010/11. We have had initial discussions with finance staff to understand the actions being taken to prepare for IFRS and no concerns are noted at this stage. There is clearly a significant amount of work to come for the transition to IFRS, however, and it will be important to monitor this closely.
- The Authority has implemented some of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements in line with the timescales of the action plan. Due to the nature of some of the processes put in place we cannot assess their effectiveness until the final audit work performed later in the year. Please see Appendix 1 for further details.

# Specific risk areas

**The Authority has taken the key risk areas we identified seriously and made good progress in addressing them**

**However, there are still significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit**

## Work completed

- In our *Financial Statements Audit Plan 2009/10* we identified the key risks affecting the Council’s 2009/10 financial statements.
- Our audit strategy and plan remain flexible as risks and issues change throughout the year. There have been no changes to the risk previously communicated to date, although we note that there are now additional significant risks over the control environment following the move to SAP due to the control environment not being fully effective in the year.
- We have been discussing these risks with the Chief Finance Officer and Central Finance staff as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

## Key findings

- While the control environment in the year has been ineffective, the Council can be seen to have taken these issues seriously and made some progress in addressing them, particularly towards the end of the year. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.
- The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
	<p>A large number of material errors and omissions were identified in the Council’s 2008/09 financial statements submitted for audit, caused in part by weaknesses in the resourcing and planning of the accounts closedown process.</p>	<p>The draft accounts have not yet been submitted to Audit Committee.</p> <p>We are confident that the experience of staff involved and resources allocated will ensure a much smoother close-down process, including appropriate levels of review of the Statement of Accounts before submission to Audit Committee.</p> <p>A closedown timetable has been produced, and provided the dates set are met and the information provided is reasonable, these procedures should be sufficient.</p> <p>We have stressed the need for submissions of data by departments to be checked by the Central Finance team before being issued to us during the final audit.</p>

## Specific risk areas (continued)

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, there are still significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit

Key audit risk	Issue	Progress
 <p><b>Fixed asset accounting</b></p>	<p>Specific areas of concern were noted in 2008/09 regarding the Council's controls over its fixed assets, including monitoring and recording of assets to ensure accounting records reflect the true position, accounting for revaluations and impairment, the timing of fixed asset processes and the correct identification of the capital / revenue expenditure split.</p>	<p>From our discussions with management we understand that the Council has implemented various actions to improve accounting in this area. This includes:</p> <ul style="list-style-type: none"> <li>● increasing the number of experienced personnel working within this area;</li> <li>● amending the processes for adding assets in SAP;</li> <li>● review of the Fixed Asset Register;</li> <li>● review of Capital expenditure in 09/10;</li> <li>● regular meetings between Central Finance and the Estates team to plan impairment considerations; and</li> <li>● production of a financial regulations manual, and holding of briefing sessions.</li> </ul> <p>The effectiveness of these new policies cannot yet be assessed until our final audit work is performed, however the procedures put in place suggests that improvements will have been made.</p>
 <p><b>BMP</b></p>	<p>There is a risk that the data migrated onto SAP from the old financial systems will not be accurate or complete, and that opening balances may be misstated.</p>	<p>Our IT audit specialists have identified weaknesses in the procedures and migration of data. We will report separately on this work.</p> <p>To mitigate this we have planned to perform additional substantive procedures into our final audit work to mitigate the risk that significant misstatements may have occurred.</p>
 <p><b>Transition to One Council</b></p>	<p>There is a risk that the key controls over systems such as Council tax, NNDR, and the Housing Revenue account which have inherited from the divisional district councils may not be operating appropriately.</p> <p>There is also a risk that these systems may not be appropriately reconciled to the General Ledger and that the disclosures within the accounts are not sufficient and accurate.</p>	<p>We have performed controls testing at the hubs on key systems. While we have found some minor control deficiencies (as reported in Appendix 1), we have found the systems to be largely working appropriately.</p> <p>Further work on these systems is planned as part of our year end substantive processes.</p> <p>Reconciliations of balances to the General Ledger and accounting disclosures will be reviewed at year end.</p>

## Specific risk areas (continued)

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, there are still significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit

Key audit risk	Issue	Progress
 <p>PFI</p>	<p>Wiltshire Council has inherited a Private Finance Initiative (PFI) funded office and three schools from its predecessor bodies and a planned housing scheme from one of the demising district councils.</p> <p>These must be accounted for in line with the CIPFA SORP 2009. The SORP adopts IFRS PFI accounting for the first time in 2009 and may result in some assets being accounted for in the Council's balance sheet for the first time.</p> <p>We will review the Council's current PFI contracts and consider the financial models that have been used to account for these arrangements to ensure that balances have been correctly disclosed in the financial statements.</p>	<p>We have had initial discussions with the Council regarding their processes for ensuring these issues are appropriately addressed.</p> <p>We will consider the actual contracts and proposed accounting treatment as part of the year end audit.</p>
 <p>Valuation of Investments</p>	<p>The Council's investment management strategy and controls should be compliant with the CIPFA Prudential Code.</p> <p>CIPFA has also published revised guidance on the accounting for Icelandic bank investments and these should be considered when determining the valuation of these assets.</p>	<p>CIPFA has continued to publish guidance on the treatment of the valuation of these assets, and from discussions with Finance staff the Council we understand they are aware of this guidance and will be factoring it into year valuations.</p> <p>We will review these valuations as part of our year end procedures.</p>

## Appendix A – Key issues and recommendations

We have raised 50 recommendations in total

Of these, 18 are considered high priority and are included in this Appendix - a more detailed version of this report has been provided to management which includes details on all 50 recommendations

These cover a variety of different areas and should be addressed by the Council as a matter of priority

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p><b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> <p style="text-align: right;"><b>1</b></p>	<p><b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> <p style="text-align: right;"><b>2</b></p>	<p><b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> <p style="text-align: right;"><b>3</b></p>

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
1	<b>1</b>	<p><b>Manual raising of Purchase Orders and lack of authorisation</b> Purchase orders are not raised for all spend using the SRM purchasing system. Invoices are being posted to the system manually and some without being appropriately authorised. This leads to the risk that fraudulent invoices could be paid or invoices paid twice in error.</p> <p><b>Recommendation</b> All expenditure should be entered on to the SRM procurement system. A search for duplicate invoices should also be performed as currently the system only checks SRM invoices against all other SRM invoices. (And likewise for non-SRM invoices.)</p>	<p>A review of procurement processes is currently in hand as part of the work following the SAP Healthcheck. A key outcome of this work will be to ensure that all expenditure is entered on the SRM procurement system.</p> <p><b>Caroline Bee (in liaison with SST) - March 2011.</b></p>
2	<b>1</b>	<p><b>Onetime vendor payments</b> One time payments are able to be made through the 'Onetime' vendor, this bypasses the control for new vendors. These are required to be accompanied by direct payment forms however these were not completed for a number of invoices.</p> <p><b>Recommendation</b> The 'Onetime' vendor account should be monitored closely and payments through it should be kept to a minimum.</p>	<p>Processed around one time vendors will be reviewed.</p> <p>Protocols for financial controls have been drafted for SST by the Section 151 Officer. One of the key requirements is that SST should monitor payment through the onetime vendor account.</p> <p><b>Darren Law - July 2010</b></p>

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No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
3	1	<p><b>Number of users who can post journals</b> Journals can be posted by 118 users. This appears to be more than is necessary, and the approach across different departments for reviewing and authorising journals is inconsistent, resulting in instances of journals being posted without review.</p> <p><b>Recommendation</b> A formal process should be implemented and adhered to by all departments. The number of users should also be rationalised and limited to as few people as necessary. Proper review procedures should also be implemented.</p>	<p>A review of financial access has been undertaken, and will be implemented in early 2010-11.</p> <p>Rationalisation of access planned for the early part of the 2010-11 financial year.</p> <p><b>Matthew Tiller - July 2010</b></p>
4	1	<p><b>Non-timely clear down of suspense accounts</b> Suspense accounts are being cleared down on a monthly basis however there are still some large balances. This is due to the late entry of opening balances on to the system, resulting in a large number, and high value, of unreconciled items.</p> <p><b>Recommendation</b> An exercise of completely clearing the suspense and holding accounts should be performed so that the account balances are nil at the start of each month. The longer the transactions go without being cleared down the more difficult they are to determine.</p>	<p>New process is in place to ensure ownership of all suspense accounts and to ensure they are reviewed regularly and in a timely fashion.</p> <p><b>Matthew Tiller - April 2010</b></p>
5	1	<p><b>Verification of fixed assets at hubs</b> The Council has inherited a significant number of assets from the old districts. In the case of Salisbury the detailed records on these properties held by the Estates department are currently being updated from original records. It is recommended that this exercise is completed as a matter of importance, and following this the records of this district and the other districts are verified for accuracy, to avoid potential misstatements in the Council's asset records.</p> <p><b>Recommendation</b> The Council should undertake an exercise to ensure that all of its assets can be identified and the records in respect of them are up to date.</p>	<p>An exercise to review and maintain records of all fixed assets is on-going and will be all fully up to date on the property database in time for the full revaluation for 31 March 2011.</p> <p>Figures for 2009-10 accounts tie back to the closing balances of individual council audited accounts.</p> <p><b>Matthew Tiller</b></p>

## Appendix A – Key issues and recommendations (continued)

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No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
6	1	<p><b>Procedures for adding/removing temporary staff to payroll</b> Non-HR staff have been identified as adding/removing people to the payroll. There is a risk that staff could remain on the system or be added to it and continue to be paid without them working for the Council.</p> <p><b>Recommendation</b> There should be a formal procedure for the adding/removing of temporary staff from the payroll. In addition the groups of people who have access to do this should be reviewed.</p>	<p>Only staff employed within HR/Payroll and Recruitment have the access levels to add or remove staff from the SAP payroll. Staff are only removed from the payroll following signed authorisation from the Manager of the person leaving which is sent through to HR/Payroll for action.</p> <p>A review has been requested to check only the staff employed in the above 3 teams have access to set up or remove staff from the payroll.</p> <p><b>July 2010</b></p>
7	1	<p><b>Timely performance of Bank reconciliations</b> Bank reconciliations were not performed for part of the year and not signed off, due to problems caused by SAP. However failure to perform a bank reconciliation causes a fraud risk, and could cause the general ledger to show an incorrect balance. Reconciling items may also not be identified.</p> <p><b>Recommendation</b> Monthly bank reconciliations should be performed for the main accounts which are signed as evidence of review.</p>	<p>Number of bank accounts significantly reduced and daily work to reconcile undertaken by bank reconciliation team and reviewed regularly by management.</p> <p><b>Matthew Tiller - April 2010</b></p>
8	1	<p><b>Review of payroll exception reports</b> There is not always evidence of Payroll exception reports having been review/authorised. Without such a review it is unclear whether a key control is operating, and therefore there is a risk that staff could be over or under paid.</p> <p><b>Recommendation</b> Payroll exception reports should be signed as evidence of review, and any significant value items investigated by management.</p>	<p>Payroll exception reports are run and the team resolve queries / problems. New working practices are that the team leader signs off exception reports after checking all necessary actions have been undertaken by the team.</p> <p><b>July 2010</b></p>

## Appendix A – Key issues and recommendations (continued)

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No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
9	1	<p><b>Council Tax to Civica and SAP reconciliation</b> Reconciliations are not being performed on a regular basis between the council tax database and Civica/SAP. Without evidence of the reconciliation having been reviewed there is a risk that a significant misstatement could arise within the balance. Additionally, there is also a lack of formal guidance in place for staff performing these reconciliations .</p> <p><b>Recommendation</b> Reconciliations should be performed on a regular basis and should be reviewed and signed off by management.</p>	<p>Reconciliation is undertaken monthly electronically and reviewed by managers.</p> <p><b>Darren Law - April 2010</b></p>
10	1	<p><b>No debt management policy in place</b> There is no debt management policy in place and therefore no formal framework under which the function can operate. Without a formal policy there is a risk that overdue debts are not appropriately chased leading to a bad debt risk.</p> <p><b>Recommendation</b> There should be a formal debt management policy in place covering how debts should be identified and managed.</p>	<p>A debt management policy has been drafted and will be incorporated into the financial controls protocol.</p> <p><b>Darren Law - July 2010</b></p>
11	1	<p><b>Invoices are being raised outside of SAP</b> Due to a £25 minimum invoice value being required for SAP entries, instances have occurred whereby billing and cash processing has occurred outside of SAP.</p> <p><b>Recommendation</b> All transactions should be posted in SAP regardless of size.</p>	<p>Effective from April 2010, all transactions will be posted to SAP, including these below £25.</p> <p><b>Darren Law - April 2010</b></p>

## Appendix A – Key issues and recommendations (continued)

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No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
12	1	<p><b>User account administration (system administrators) – Civica Icon</b> Any of fourteen user accounts can add / create further users – a relatively high number of users with powerful access, of which use of this access is unmonitored.</p> <p>There is an increased risk of unauthorised access to Civica Icon being created and amended for potentially inappropriate use.</p> <p><b>Recommendation</b> Immediately review and consider reducing number of users with the ability to perform user and system administration. Also, consider monitoring procedures being put into place around use of these powerful user accounts.</p>	<p>The number of users with the ability to perform users and system administrators is to be reviewed.</p> <p><b>Darren Law - September 2010</b></p>
13	1	<p><b>User account administration (leavers) – SAP</b> Although an adequate process is now in place for setting up and linking SAP user accounts for agency/temporary/contract staff with HR records, for majority of the financial year this was not in place.</p> <p>Comparison of all leavers against the current SAP user list identified four user accounts still active for staff that had left in December 2009, however, last logon dates were noted as being prior to date of leaving.</p> <p>However, a further two user accounts were also identified for staff that had left in June 2009 but had not been disabled and had a last logon date in March 2010.</p> <p><b>Recommendation</b> Immediate further investigation is made as to why two user accounts assigned to staff that have since left have been used past the formal leaving date.</p>	<p>The two user accounts have now been disabled.</p> <p><b>Les Snelgrove - June 2010</b></p>

## Appendix A – Key issues and recommendations

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These cover a variety of different areas and should be addressed by the Council as a matter of priority

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
14		<p><b>User account administration (system administrators) – SAP</b>                      An inappropriately high number of currently active SAP user accounts have been assigned the powerful SAP_ALL role (17 in total), allowing access to perform all functions within SAP. Of these user accounts, 15 are assigned to third party consultants Logica and were not monitored for any potential unexpected use throughout the financial year. Also identified there is no specific documented policy in place relating to super-users or system administrators as a whole.</p> <p>There is an increased risk of unauthorised access to SAP being used, or created and amended for potentially inappropriate use.</p> <p><b>Recommendation</b>                      Immediately review and consider reducing the number of user accounts with ability to perform user and system administration.</p> <p>Also, consider monitoring procedures being put into place around use of the remaining powerful user accounts, particularly those used by third parties.</p>	<p>A review of user accounts is currently in hand. Any necessary reductions will be actioned accordingly, and appropriate monitoring processes implemented.</p> <p><b>Les Snelgrove - March 2011</b></p>
15		<p><b>Change control process and access to production environment – SAP</b>                      Although there is a manual process in place to request, authorise and test changes made to the SAP production environment, not all changes have these key stages formally documented as being performed and the actual performance of making changes is completed by third party consultants Logica.</p> <p>The Council currently does not have a process in place to monitor and review these changes to ensure that only those requested and authorised by the Council have been made. Therefore, there is an increased risk of unauthorised changes being made to the production environment without being picked up via lack of a regular monitoring process.</p> <p><b>Recommendation</b>                      Consider immediate introduction of a formal regular internal process that documents and checks appropriate authorisation has been given for all changes made by Logica into the SAP production environment. Also, if possible review all of the changes made in the financial year to date to identify whether any have potentially been made without authorisation from the Council.</p>	<p>Current internal processes are subject to review to ensure appropriate authorisation takes place.</p> <p><b>Les Snelgrove - March 2011</b></p>

## Appendix A – Key issues and recommendations

We have raised 50 recommendations in total

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These cover a variety of different areas and should be addressed by the Council as a matter of priority

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
16	1	<p><b>User account administration (super-users / system administrators) – Cyborg</b>                      Out of 170+ user accounts, 33 have been assigned the '*****' group which allows access to perform all operational functions in Cyborg (apart from system / user administration).</p> <p>System / user administration is performed via the 'S.O.' user account, for which the five-character password has not been changed since May 2004 and is shared by four different staff. We also identified that there is no specific documented policy in place relating to super-users or system administrators as a whole.</p> <p><b>Recommendation</b>                      Review and consider reducing the number of user accounts with ability to perform all operational functions via the '*****' group.</p> <p>Immediately change the 'S.O.' user account password and consider increasing the strength to an adequate standard. Also, review and consider whether the number of staff with knowledge of the password should be reduced.</p>	<p>The Cyborg payroll ceased from 31 March 2010.</p> <p>The 33 payroll staff still need view only access to Cyborg. They have all been assigned '*****' which was changed to view only.</p> <p>The 'S.O' user account's password has been updated to aid security and is known by the 4 staff that need this level of access to Cyborg to support payroll with retrospective payments which go back into previous financial years.</p>
17	1	<p><b>Access to production environment – Cyborg</b>                      Although no changes were noted as occurring to the Cyborg program code in the financial year, it was identified that Accero, the third party company used for support purposes, have the potential for constant unmonitored access to the live environment and within the system itself via a user account assigned the '*****' group (allowing access to all operational functions within Cyborg).</p> <p><b>Recommendation</b>                      Consider either disabling third party access to the Cyborg live environment by default (enabled by Council IT staff only when needed) or introduce a process that monitors and reviews this access when used by the third party.</p>	<p>The Cyborg system ceased operation on 31 March 2010 and no pay runs or BACS payment are made from this system.</p> <p>The Council has a 12 month contract with Accero for support purposes whilst a suitable IT storage system is implemented to hold all the payroll information that currently sits in Cyborg.</p>

## Appendix A – Key issues and recommendations (continued)

We have raised 50 recommendations in total

Of these, 18 are considered high priority and are included in this Appendix - a more detailed version of this report has been provided to management which includes details on all 50 recommendations

These cover a variety of different areas and should be addressed by the Council as a matter of priority

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
18	1	<p><b>User account administration (system administrators) – East Hub (Civica IBS)</b>                      Any of sixteen user accounts can add / create further users, as well as perform other high level tasks within the application – a relatively high number of users with powerful access, of which use of this access is unmonitored. Also identified there is no formally documented policy in place relating to the roles and responsibilities of these powerful users (across all Hubs). Therefore, there is an increased risk of unauthorised access to Civica IBS in the East Hub being created and amended for potentially inappropriate use.</p> <p><b>Recommendation</b>                      Immediately review currently appropriateness of user accounts assigned this level of powerful access and consider reducing number of users with the ability to perform user and system administration.</p>	<p>A review of user accounts with their level of access will be undertaken and streamlined accordingly.</p> <p><b>Les Snelgrove - March 2011</b></p>

## Appendix B – Follow-up of prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 report 2008/09* and re-iterates any recommendations still outstanding.

Number of recommendations that were:		
Included in original report	Implemented in year or superseded	Remain outstanding/effectiveness not yet assessed (re-iterated below)
18	8	10

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at March 2010
1	1	<p><b><u>Material errors in 1st draft of the Statement of Accounts</u></b></p> <p><b>Recommendation</b></p> <p>Prior to submitting the draft accounts to Audit Committee, management should thoroughly review the accounts to ensure the figures are consistent with those per the accounting system. This should also include completion (and documentation) of the SORP checklist, casting of all primary statements and notes and checking cross-references / internal consistency throughout. This would help eliminate the number of errors and disclosure issues identified as part of our audit work.</p>		<p>We are unable to assess the status of this at interim stage, as it is a process which occurs during the accounts closedown.</p> <p>We have re-iterated the need for this recommendation to be addressed and management have ensured plans are in place.</p>
2	1	<p><b><u>£7.3m error within revaluation gains in prior year</u></b></p> <p><b>Recommendation</b></p> <p>Review the processes for adding assets to the fixed asset register to ensure all improvements can be easily attributed to the original asset. Additionally where a particularly significant gain is noted on an individual asset in the year this should be reviewed to ensure that it does not actually relate to several assets.</p>		<p>Management have designed the processes for adding assets in SAP to ensure that each asset has a project code set up to which costs can be allocated. Any improvements can then be easily added to the correct asset.</p> <p>All revaluation gains will be processed by the central finance team at year end. These will be manually processed and reviewed by management, particularly in the case of large gains. We will consider whether this has been implemented effectively from our final audit testing.</p>

The adequacy of some of the procedures the Authority has implemented in response to the recommendations in our ISA 260 report 2008/09 cannot yet be assessed.

The control over the performance of bank reconciliations in an appropriate and timely manner remains an area of concern.

## Appendix B – Follow-up of prior year recommendations (continued)

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at March 2010
3	1	<p><b><u>Fixed assets sold which were not on the Fixed Asset Register</u></b></p> <p><b>Recommendation</b> Ensure that a thorough review of the Fixed Asset Register is performed.</p>		<p>We understand from our discussions with Central Finance that this has taken place in part during the migration process; however it was seen as a priority to import all the data accurately before changes were made.</p> <p>The capital finance team have already identified changes that need to be made and will be performing a review before the year end to move, delete or amend assets.</p> <p>We will consider the effectiveness of this further through our final audit testing.</p>
4	1	<p><b><u>Items revalued during the year not identifiable on the FAR</u></b></p> <p><b>Recommendation</b> In order for the Council to be sure of the assets it holds, the Fixed Asset Register should be fully reviewed. Each asset description should be much more detailed and a 'collection' of assets such as school buildings should be named or numbered similarly.</p>		<p>We understand from discussions with management that all new assets will be loaded using a new standard form to include more detailed descriptions. SAP also has a free text field unlike in the previous FAR and staff are encouraged to include as much information as possible.</p> <p>The property database maintained by estates is still being updated for the district councils as in some cases the property details must be loaded manually as only paper copies are held. Once the upload is complete the properties will be matched up to the fixed asset register using UPRNs (unique property reference numbers.) This will allow more information to be available on each of the older assets.</p> <p>Assets can be assigned a "super asset number" to group them into categories. A review is being performed to group assets to make them easily identifiable.</p> <p>We will consider the effectiveness of this through our final audit testing.</p>

**Appendix B – Follow-up of prior year recommendations (continued)**

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at March 2010
5	1	<p><b><u>Procedures for arranging Impairment review</u></b></p> <p><b>Recommendation</b></p> <p>Finance and Estates departments should work closely together in order to identify all the types of assets that should be subject to the impairment review.</p>		<p>We understand that since the implementation of SAP and the introduction of new personnel to the capital finance team there have been regular meetings held with the estates property team, in particular John Price (Estates Revaluations) as well as with senior members of the central finance team, and that a revaluations and impairment approach for 2009/10 was discussed and agreed upon by both departments.</p> <p>We will consider the effectiveness of this through our final audit testing.</p>
6	1	<p><b><u>Timing of Fixed Asset processes</u></b></p> <p><b>Recommendation</b></p> <p>Undertake the processes for fixed assets as monthly or quarterly routines. There should also be a thorough and regular review by a more senior person within the Finance function to ensure the processes are being performed and documented appropriately.</p>		<p>We understand from discussions with management that fixed asset processes, for example depreciation are now calculated on monthly basis. Additions and disposals are posted as and when they occur, therefore reducing the amount of work to be performed at year end. The processes are reviewed by Steve Macdonald who is responsible for monitoring the asset register and reporting to senior management. In addition the increase in the size of the capital accounting team will put less pressure on the completion of year end tasks.</p> <p>We will consider the effectiveness of this through our final audit testing.</p>
7	2	<p><b><u>Capitalisation of aborted capital project costs</u></b></p> <p><b>Recommendation</b></p> <p>A review of all projects capitalised in the year should occur before the accounts are finalised to ensure that all projects still meet the criteria for being capitalised under the SORP.</p>		<p>An independent review was completed on the 2008/09 accounts and the necessary adjustments in relation to the Westbury Bypass were incorporated. We understand that an internal review will be carried out at 09/10 year end to ensure the correct criteria are being met. In addition it was noted that the improved training given to staff should have decreased the risk that significant errors are made.</p> <p>We will consider the effectiveness of this through our final audit testing.</p>

## Appendix B – Follow-up of prior year recommendations (continued)

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at March 2010
8	2	<p><b><u>Bank reconciliations</u></b>  <b>Recommendation</b>                      Ensure there are processes in place as part of monthly procedures for bank reconciliations to be prepared and then authorised on a timely basis</p>		Based on our controls testing it appears that bank reconciliations were not being performed for the first part of the year due to the introduction of SAP. Management expect them to be performed properly and signed off starting 31 March 2010.
9	2	<p><b><u>Wrong version of DCS I&amp;E figures reported to Cabinet</u></b>  <b>Recommendation</b>                      When compiling the Outturn report, Corporate Finance should obtain sign-off from each Principal Accountant to ensure the input figures are appropriate.</p>		<p>From discussions with management they have confirmed that 'Quality Assurance Processes' are in place to resolve this.</p> <p>We will consider the effectiveness of this through our final audit testing.</p>
10	2	<p><b><u>Journal adjustment made into wrong financial year</u></b>  <b>Recommendation</b>                      Each department should ensure that where journal adjustments/corrections are required after the year end close down, these are noted so that any material adjustments (after the year end closedown has occurred) can be made to correct the figures that are shown in the appropriate year's accounts.</p>		We will consider the effectiveness of any procedures put in place through our final audit testing.