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Interim Audit Report 2010/11

Wiltshire Council

June 2011



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This document summarises the key findings arising from our work to date in relation to both the audit of the Council's 2010/11 financial statements and the 2010/11 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Wiltshire Council (the Council) in relation to the 2010/11 financial statements; and
- our work to support our 2010/11 value for money (VFM) conclusion up to April 2011.

Financial statements

Our *Financial Statements Audit Plan 2010/11*, presented to you in February 2011, set out the four stages of our financial statements audit process.



During March 2011 we completed our planning and control evaluation work. This covered our:

- review of the Council's general control environment, including the Council's IT systems;
- testing of certain controls over the Council's key financial systems with the help of internal audit;
- assessment of the internal audit function;
- review of the Council's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year; and
- review of the Council's work to restate the 2009/10 financial statements under International Financial Reporting Standards (IFRS).

VFM conclusion

Our *VFM Audit Approach 2010/11* issued in February 2011 described the new VFM audit approach introduced this year by the Audit Commission and highlighted the key changes compared to the previous Use of Resources auditor's scored judgements regime.

We have completed some early work to support our 2010/11 VFM conclusion. This included:

- undertaking a preliminary VFM audit risk assessment; and
- obtaining evidence to address the requirements of specific VFM conclusion criteria.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2010/11 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

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

Financial statements	Organisational and IT control environment	<p>Your organisational control environment is effective overall.</p> <p>Our review of your IT control environment is on-going and is due to be completed prior to the start of our final accounts audit. Our work to date suggests that we will again be unable to rely fully on the Council's IT controls. We will liaise closely with Finance over the implications this will have on our audit approach and report the outcome of the IT audit in September.</p>
	Controls over key financial systems	<p>The controls over the majority of the key financial system are generally sound.</p> <p>However, there are some weaknesses in respect of individual controls which means we will need to complete additional substantive work at year-end.</p>
	Review of internal audit	<p>Internal audit generally complies with the <i>Code of Practice for Internal Audit in Local Government</i>.</p> <p>We were able to place full reliance on internal audit's work on the key financial systems. However, this was not the case for internal audit's IT audit work, where we are now performing significant additional testing ourselves.</p>
	Accounts production and specific risk areas	<p>The Council's overall process for the preparation of the financial statements is sound.</p> <p>The Council has implemented all of the recommendations in our <i>ISA 260 Report 2009/10</i> relating to the financial statements.</p> <p>The Council has taken the key risk areas we identified seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.</p>
	IFRS re-statement	<p>The transition to IFRS-based accounts has gone relatively smoothly so far and the Council has partially re-stated its 2009/10 financial statements under IFRS.</p> <p>We have reviewed the re-statement work to date and are content that the key changes have been appropriately identified and addressed. It is important that the remaining re-statement work is completed on a timely basis.</p>
Value for Money	Financial resilience	<p>Our VFM audit risk assessment and work to date has provided good assurance on the Council's arrangements to secure value for money on the use of resources.</p>
	Securing VFM	<p>We still have to complete our programme of audit work to inform our value for money conclusion, to be issued in September alongside our opinion on the Council's accounts.</p>

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall, and have not identified any specific areas for further improvement.

Our assessment for 'information systems relevant to financial reporting' reflects the issues identified in the following page which summarises our review of your IT control environment.

Aspect	Assessment
Organisational structure	3
Integrity and ethical values	3
Philosophy and 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	2
Communication	3
Monitoring	3

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

The review of your IT control environment is on-going and is due to be completed prior to the start of our final accounts audit.

Our work to date suggests that we will again be unable to rely fully on the Council's IT controls.

We will liaise closely with Finance over the implications this will have on our audit approach and report the outcome of the IT audit in September.

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 plan to rely partially on internal audit's review of SAP and other IT systems, with this work being complemented by our own wider testing of other aspects of the IT control environment.

As explained later in this report (see 'Review of internal audit' – page 7), we have been unable to rely on internal audit's IT audit work which has caused delays in the completion of our review. This work is therefore still on-going. However, due to the nature of the findings to date we have set out some high level conclusions at this stage.

Key findings

Last year we were unable to rely on your IT control environment because of significant weaknesses identified during our IT audit work. As a result, we had to perform a significant amount of additional substantive testing during our final accounts audit.

The Council has taken steps to address the issues identified last year and many improvements have been noted. However, these improvements have not yet addressed all the underlying issues sufficiently. The timing of the response also meant the improvements were not made until the second half of the financial year 2010/11.

As our audit work has not yet been completed we are not able to provide detailed feedback and recommendations on these issues – we will do this through our *Report to those charged with governance 2010/11* in September. However, our work to date has indicated that we will, at best, be able to place only partial reliance on the Council's IT control environment for our audit.

Aspect	Assessment
Access to systems and data	tbc
System changes and maintenance	tbc
Development of new systems and applications	tbc
Computer operations, incl. processing and backup	tbc
End-user computing	tbc

Key:

- ① Significant gaps in the control environment.
- ② Minor deficiencies in respect of individual controls.
- ③ Generally sound control environment.
- tbc Testing to be completed after year-end

It should be noted that the issues identified do not mean there have been fundamental failings in the day to day operation of the Council's IT systems. Rather the weaknesses we have continued to find mean we cannot rely on the operation of certain key controls to gain the assurance we require for our audit.

It is therefore likely that we will again need to alter our audit strategy and undertake significant additional substantive testing during our final accounts audit. This will involve direct extractions being made from underlying data for analysis, outside of placing reliance on key automated controls within SAP.

This will have implications on the overall amount of audit work we need to undertake and, as a result, our audit fee. We have discussed options with Finance staff and will work closely with them to minimise these additional costs. We will discuss and agree any ultimate fee implications with the Chief Financial Officer before updating the Audit Committee.

The controls over the majority of the key financial system are generally sound.

However, there are some weaknesses in respect of financial reporting, payroll, non-pay expenditure and treasury management.

We will need to complete additional substantive work in these areas at year-end.

Work completed

We work with your 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

The controls over the majority of the key financial systems are generally sound but we noted some weaknesses in respect of individual financial systems.

Where Internal Audit gave moderate assurance for these systems, recommendations have been included in their reports as appropriate and have not been repeated here.

Recommendations for a small number of other issues identified through our audit work are included in Appendix 1.

We have not yet assessed the controls over housing rents and benefits and we are now reviewing internal audit's work in these areas. For asset management, 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.

The weaknesses identified mean that we will need to complete some additional substantive work at year-end in some areas.

System	Assessment
Financial reporting	2
Schools expenditure	3
Housing rents income	tbc
Council tax income	3
Business rates income	3
Sundry income	3
Payroll expenditure	2
Non-pay expenditure	2
Benefits expenditure	tbc
Treasury management	2
Asset management	tbc

Key:

- 1 Significant gaps in the control environment.
- 2 Minor deficiencies in respect of individual controls.
- 3 Generally sound control environment.
- tbc Testing to be completed after year-end

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

We were able to place full reliance on internal audit's work on the key financial systems. However, this was not the case for internal audit's IT audit work, where we are now performing significant additional testing ourselves.

Work completed

We work with your 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 full 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 IA 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 IA Code. We reviewed internal audit's work on the key financial systems and IT controls and re-performed a sample of tests completed by them.

Key findings

Based on our assessment, internal audit generally complies with the IA Code. However, there was a marked difference in the quality of the IT audit work we reviewed compared to the non-IT work on financial controls. We were able to place full reliance on the testing of financial controls and noted improvements in terms of the adequacy of sample sizes used by internal audit.

This was not the case for the IT work, where we found that:

- internal audit's work did not cover all the areas within our agreed joint working protocol and was not documented sufficiently;
- the work mainly involved only evaluating whether controls were designed appropriately, rather than also testing whether they were effective in practice; and
- in some cases, the work completed did not support the conclusions drawn.

Aspect	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 – non-IT audit	2
– IT audit	1
Audit strategy and planning	3
Due professional care	3
Reporting	3

Key:

- 1 Non-compliance with the standard and/or significant deficiencies.
- 2 Minor deficiencies.
- 3 Full compliance with the standard.

When we identified these issues at the start of our interim audit visit in March, we discussed the findings with internal audit and Finance and initially agreed to defer further work to allow internal audit the opportunity to undertake additional testing in a number of areas.

Key findings (continued)

However, internal audit have been unable to deliver this in the main so we have now agreed that our IT audit specialists will perform the majority of the outstanding audit work. As highlighted above, this work is now underway.

We also identified one specific area for further development by internal audit more generally. In a number of cases we found that internal audit had not followed up control failures with additional queries to identify whether there were any compensating arrangements in place, which could then be tested to obtain the assurance necessary. The testing of controls had been performed correctly, but it is also important to respond flexibly if the results are not positive to see if it is possible to achieve the audit objective through an alternative way. This is something that should be considered in the future.

A recommendation to this effect has been included in Appendix 1.

The Council's overall process for the preparation of the financial statements is sound.

The Council has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Work completed

We issued our Accounts Audit Protocol to Finance in April 2011. This important document sets out our audit timetable and summarises the working papers and other evidence we require the Council to provide to support our audit work.

We continued to meet with 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 Council's progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

Key findings

The Council has incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This includes developing a new procedure for closedown of schools ledgers and issuing this to all schools.

We consider that the overall process for the preparation of your financial statements is sound.

The Council has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements in line with the timescales of the action plan. The table below sets out the Council's progress against high priority recommendations.

Issue	Progress
<p>The Central Finance department and the department for Children and Education should work closely together to review the procedures for closedown of the schools' ledgers.</p> <p>These revisions should be clearly communicated to all the schools and appropriate quality control procedures implemented to ensure the bank reconciliations and ledger balances are accurate.</p>	<p>A new procedure for closedown of schools' ledgers has been developed and issued to all schools to reflect the strict 31 March cut off to be implemented for closedown 2010/11.</p>
<p>The procedures for debt management should be reviewed and implemented so that the bad debt provision is based on clear and approved assumptions.</p>	<p>Debt management procedures have been reviewed and were taken to Cabinet in October 2010.</p>
<p>The Council is proposing undertaking a full revaluation of all fixed assets in 2010/11. This should also incorporate procedures to ensure that assets that may not already be on its Fixed Asset Register are also identified and valued.</p>	<p>The Council has worked with the new valuers to provide information for closedown.</p>

The transition to IFRS-based accounts has gone relatively smoothly so far and the Council has partially re-stated its 2009/10 financial statements under IFRS.

We have reviewed the re-statement work to date and are content that the key changes have been appropriately identified and addressed.

It is important that the remaining re-statement work is completed on a timely basis.

Work completed

From 2010/11 local authorities are required to prepare their financial statements under the International Financial Reporting Standards (IFRS) based *Code of Practice for Local Authority Accounting in the United Kingdom*. This contains a number of significant differences compared to the previous financial reporting regime.

We have reviewed the work the Council has undertaken to re-state its 2009/10 financial statements under IFRS and its preparations for producing 2010/11 balances in its accounts under IFRS.

Key findings

The Council has partially completed the re-statement of its 2009/10 financial statements under IFRS. The restatement of the balance sheet has been completed and IFRS accounting policies have been approved by the Audit Committee.

A full set of re-stated accounts has not yet been produced. This will need to be addressed on a timely basis to avoid impacting on the closedown process for the 2010/11 financial statements.

The Council set up an IFRS Working Group, which met every three months, to oversee the transition to IFRS. The Chief Financial Officer has chaired the group with the Chief Accountant taking lead responsibility for completing the process. The Working Group included representatives from Property and Finance but did not include representatives from other functions such as HR. Internal Audit were not formally part of the Working Group but were invited to meetings.

We did not identify any specific issues with the re-statement work to date and are content that key changes have been appropriately identified and addressed.

Further commentary is included below on the specific risk areas we identified in our *Financial Statements Audit Plan 2010/11* regarding the implementation of IFRS.

Specific risk areas

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

However, these still present 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 2010/11*, presented to you in March, we identified the key risks affecting the Council's 2010/11 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with Finance 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

The Council has taken these issues seriously and made good progress in addressing them. 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 Council has completed to date to address these risks.

Key audit risk	Issue	Progress
	<p>The transition to IFRS represents the largest change in accounting for a number of years. This will require a lot of planning and resources by the Council to ensure a smooth and successful transition to IFRS.</p>	<p>The transition to IFRS-based accounts has gone relatively smoothly so far and the Council has partially re-stated its 2009/10 financial statements under IFRS. We have reviewed the re-statement work to date and are content that the key changes have been appropriately identified and addressed.</p> <p>Summarised below is the latest position on specific IFRS transition topics.</p>
	<p>There potentially could be an increased number of finance leases as IAS 17 gives a broader definition of finance leases than the previous UK GAAP standard (SSAP 21) resulting in more assets coming on to the balance sheet.</p>	<p>The Council has reviewed all its property leases and has engaged external experts to review its equipment leases. No major changes in classification have been identified.</p> <p>During the final phase we will review all material leases and contracts to determine whether they been correctly treated as an operating lease or finance lease under IAS 17.</p>

Key audit risk	Issue	Progress
	<p>A new liability is to be recognised on the balance sheet when there is a requirement to pay wages and salaries, bonuses and particularly holiday pay.</p>	<p>The Council has calculated holiday pay accruals based on leave details supplied by a sample of staff. However, a number of assumptions have had to be made about staff numbers and pay rates due to information not being available for prior years.</p> <p>During the final process we will audit the balance using the data collated by the Council to ensure it is line with the requirements of the standard.</p>
	<p>Local authorities are to “component account” for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately.</p>	<p>The Council has engaged external valuers to carry out a revaluation of its assets and to identify which elements should be accounted for as separate components.</p> <p>During the final phase of our audit we will substantively test additions and valuations to ensure that these are correctly accounted for in line with the component requirements of IAS 16.</p>
	<p>UK GAAP emphasises the substance of control whereas IFRS considers the power to control. As a result there may be a different interpretation of those entities that should be consolidated which may require the Council to prepare Group Accounts for the first time.</p>	<p>The Council has carried out a review of organisations that it has significant dealings with and has not identified any entities which should be included in consolidated financial statements.</p> <p>We have reviewed this assessment and are satisfied that this approach is reasonable.</p>

Key audit risk	Issue	Progress
	<p>Local authorities are facing unprecedented pressure on their finances following the recent Government funding settlement.</p> <p>As with other parts of the organisation, the Council's Finance function will be affected by the Council's response to its reduced funding. There is a risk that any reductions in finance staff and increased workload will impact on the operation of financial controls and the accounts closedown process. Similarly, reductions to Internal Audit may impact on the assurance available regarding the control environment.</p>	<p>To date the Council has managed the impact of the current economic climate on the Finance function well. Finance support and leadership continues to be provided on a wide range of projects, initiatives and developments whilst also maintaining a focus on delivering the 'day job'.</p> <p>The Council is currently considering its options for the future structure and delivery of the internal audit function. It will be important to ensure that internal audit can continue to deliver the necessary assurance on financial and other controls during this period of reflection and the transition to any new structure.</p>
	<p>During our 2009/10 audit we identified a number of concerns over the operation of controls on the new SAP system and as a result we performed additional substantive testing for our year-end audit.</p>	<p>The Council has taken steps to address the issues identified last year and many improvements have been noted. However, these improvements have not yet addressed all the underlying issues sufficiently.</p> <p>Our IT audit work is still on-going. As outlined above, our work to date suggests that we will again be unable to rely fully on the Council's IT controls.</p>
	<p>During 2008/09 and 2009/10, audit adjustments were made to the accounts to ensure the correct accounting of the disposal of assets for foundation schools.</p> <p>In addition, we identified a number of control weaknesses surrounding the reconciliations of year end school balances.</p>	<p>The Council is reviewing how the assets of Voluntary Controlled and Voluntary Aided schools should be accounted for under IFRS. The guidance in this area is not clear and we are working with the Council to identify a consistent approach.</p> <p>A new procedure for closedown of school ledgers has been developed and issued to all schools for closedown 2010/11.</p>

We follow a new VFM audit approach this year.

Our VFM conclusion will consider how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Our VFM Audit Plan 2010/11 describes in more detail how the new VFM audit approach operates.

Background

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

There are no scored judgements under the new approach and the VFM conclusion is the only output. This remains a 'pass / fail' style assessment.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the new VFM audit approach

The key elements of the VFM audit approach are summarised below.



Our VFM audit risk assessment and work to date has provided good assurance on the Council's arrangements to secure value for money on the use of resources.

We still have to complete our programme of audit work to inform our value for money conclusion, to be issued in September alongside our opinion on the Council's accounts.

Work completed

We have looked at the Council's financial governance, financial planning and financial control processes, and its arrangements to challenge the achievement of value for money, in order to assess the key risks that would affect the Council.

The Council has worked hard over the last six months to meet the demands of the front loaded public sector cuts, which requires 12% in year savings. Management has had a recruitment freeze for some time and has also completed a staff restructuring programme. Management has also commenced a significant change programme which has the aim of delivering the required savings.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities such the interim financial statements audit work we have carried out, particularly the review of the Council's organisational control environment.


We have identified one key risk and we consider the arrangements put in place by the Council to mitigate the risk.

Key findings

Our work to date has provided good assurance on the Council's VFM arrangements. We have obtained evidence to address most of the VFM criteria, although there remain a few areas where we are still waiting for additional evidence.

There are no specific issues to report at this stage, although our work will continue over the summer.

Below we set out our preliminary findings in respect of specific audit risk areas identified during our work this year. We will report our final conclusions in our *ISA 260 Report 2010/11*.

Key VFM risk	Focus of work	Preliminary assessment
	<p>Like all authorities, the Council is facing unprecedented financial pressures and must take radical steps to ensure it continues to deliver value for money through its services in the face of reduced government funding.</p>	<p>Our work to date has confirmed that the Council has continued to maintain a range of arrangements to review, challenge and improve its current service delivery.</p> <p>Funding cuts as a result of the Comprehensive Spending Review have been front-loaded, so the most significant savings are required in years 1 and 2. This has been recognised by the Council in setting its Financial Plan. Management are taking responsibility for reviewing strategic priorities and the cost-effectiveness of activities.</p> <p>The Council has a large number of projects identified to deliver the required efficiencies and savings. A key challenge for the Council will be monitoring the progress of all the schemes to ensure the required savings are realised.</p> <p>We will complete further work in the summer to consider the approach being followed to deliver efficiency savings in the face of the current financial pressures.</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations

1 Priority one: 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.

2 Priority two: 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.

3 Priority three: 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.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	<p>SIMS/GL reconciliation</p> <p>There is a lack of formal evidence of preparation and review of the reconciliation between the Schools' Information Management System (SIMS) and the general ledger. This means that this operates as a process rather than a control.</p> <p>Recommendation</p> <p>As reconciliations are carried out in Microsoft Excel, the Council investigates the feasibility of obtaining a "plug in" feature for Excel which will allow the preparation and senior officer review of reconciliations to be evidenced electronically.</p>	<p>Agreed</p> <p>The reconciliation process will be reviewed and an appropriate formal authorisation procedure will be introduced.</p> <p>Responsible officer: Chief Accountant</p> <p>Due date: By 31 December 2011</p>
2	3	<p>Identification and review of open orders</p> <p>There is no formal procedure in place to monitor open orders. Lists of open orders are produced and checked by Finance on an ad hoc basis.</p> <p>Recommendation</p> <p>The process for reviewing and checking the appropriateness of open orders should be formalised. This should be carried out by SST on a regular basis.</p>	<p>Agreed</p> <p>A review will be carried out and a formalised and regular monitoring process will be introduced.</p> <p>Responsible officer: Chief Accountant</p> <p>Due date: By 31 March 2012</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	1	<p>Internal audit review of IT controls</p> <p>We were able to place full reliance on the testing of financial controls and noted improvements in terms of the adequacy of sample sizes used by internal audit. This was not the case for the IT work, where we found that:</p> <ul style="list-style-type: none"> ■ internal audit's work did not cover all the areas within our agreed joint working protocol and was not documented sufficiently; ■ the work mainly involved only evaluating whether controls were designed appropriately, rather than also testing whether they were effective in practice; and ■ in some cases, the work completed did not support the conclusions drawn. <p>Recommendation</p> <p>Internal audit work on IT controls should be performed and documented to the same standards as non-IT audit work.</p>	<p>Agreed</p> <p>Internal Audit is currently going through a period of transition which has had an impact on our ability to fully test all IT control areas.</p> <p>A meeting has been arranged between Internal Audit and KPMG for July 2011 to discuss and agree the joint working protocol from 2011/12, to agree our terms and standards of work, and to ensure closer liaison between Internal Audit and KPMG is achieved.</p> <p>Responsible officer: Principal Auditor (IT)</p> <p>Due date: By 30 July 2011</p>
4	2	<p>Follow up of control failures by Internal Audit</p> <p>In a number of cases we found that internal audit had not followed up control failures with additional queries to identify whether there are any compensating arrangements in place, which could then be tested to obtain the assurance necessary. The testing of controls had been performed correctly, but it is also important to respond flexibly if the results are not positive to see if it is possible to achieve the audit objective through an alternative way.</p> <p>Recommendation</p> <p>Where control failures are identified by internal audit, they should consider whether there are compensating arrangements in place that may provide assurance on the control objective being tested.</p>	<p>Agreed</p> <p>Internal Audit will seek to ensure that in all cases of identified control failures, we fully consider any compensating arrangements which may have been put in place by management, thereby providing assurance.</p> <p>We will seek to ensure that an open dialogue is maintained with clients so that our approach ensures that we identify all relevant controls put in place by management to mitigate risks in the service under audit review.</p> <p>Responsible officer: Principal Auditors</p> <p>Due date: Ongoing and to be reviewed at quarterly updates to the Audit Committee.</p>

Follow-up of prior year recommendations

The Council has implemented all of the high priority recommendations in our *Interim Audit Report 2009/10*.

This appendix summarises the progress made to implement the high priority recommendations identified in our Interim Audit Report 2009/10 and they have all been fully implemented.

Number of high priority recommendations that were:

Included in original report	18
Implemented in year or superseded	18



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