

# **Audit of financial controls**

**South Somerset District Council**

**Audit 2011/12**

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# Introduction

**1** My audit plan for 2011/12, which was presented to the Audit Committee on 23 February 2012 explained the work I would be carrying out to meet my Code of Audit Practice (the Code) responsibilities.

**2** It is my responsibility as auditor of South Somerset District Council (the Council) to give an independent assessment of whether the financial statements give a true and fair view of the financial position of the Council and the income and expenditure of the year ended 31 March 2012.

**3** It is the Council's responsibility to put in place arrangements to ensure proper conduct of its financial affairs, and to monitor their adequacy and effectiveness.

**4** Under the International Standards on Auditing (UK and Ireland) (ISAs) I am required to gain an understanding of the Council's arrangements to identify and assess risks of material misstatement to its financial statements. This will comprise an assessment of audit risks for the organisation and the systems it uses to produce the financial statements.

**5** My assessment of these arrangements will determine the approach required for the audit of the Council's financial statements from June to September.

**6** In addition, ISA 265 specifically requires me to communicate deficiencies in internal control to those charged with governance; the Audit Committee.

## Follow up of previous recommendations

7 The Council needs to implement the recommendation that my predecessor made in his Annual Audit Letter for 2009/10. The findings are summarised in the following table.

Table 1: **Review of progress of previous recommendations**

Recommendation	Follow up finding	Audit conclusion
<p>R1 The Council should investigate and resolve data matches (Experian) on single persons' discounts for council tax. The Council should report progress to the Audit Committee.</p> <p>(Annual Audit Letter 2009/10)</p>	<p>The Council deferred the original target completion date from March 2011 to September 2011 and again to December 2011 in the 2010/11 Annual Audit Letter.</p>	<p>The Council has yet to report the results of these data matches to the Audit Committee.</p>
<p>R2 All budget holders should explain the action that is being taken to recover debts to comply with the Council's financial procedure. (Audit of Financial Controls 2010/11)</p>	<p>The Council revised its financial procedures and has brought debt recovery into the finance team.</p> <p>There is central monitoring of debt recovery.</p>	<p>The Council has implemented my recommendation.</p>

*Source: 2009/10 South Somerset District Council Annual Audit Letter and 2010/11 Audit of Financial Controls*

# Audit approach

**8** Information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements.

**9** My audit of the financial statements is undertaken in two phases.

- During the period of account I review the systems that generate entries in the financial statements in excess of £1.6 million (the materiality threshold) and, in particular, test the controls in these systems that prevent material errors in the statements.
- I test entries in the completed financial statements. This takes place after the year end usually from June to September.

**10** ISA 315 requires the auditor to show our understanding of the financial information systems that provide material balances in the accounts and to assess the risk of material misstatement arising from the activities and controls within these systems.

**11** Under ISA330 'the auditor's procedures in response to assessed risk,' the auditor can rely on controls if they have not changed since they were last tested. The auditor should test the operating effectiveness of such controls at least every third year. Where there are a number of controls for which the auditor determines that it is appropriate to use audit evidence obtained in prior audits, the auditor should test the operating effectiveness of a sample of these controls each audit.

**12** In this context, my 2011/12 work includes walk through testing on the material information systems to confirm my understanding of the key controls.

**13** The material information systems for the Council are:

- General Ledger;
- Accounts Payable (creditors);
- Accounts Receivable (debtors);
- Payroll;
- Property, plant and equipment (capital);
- Council Tax;
- NNDR;
- Housing Benefit;
- Cash receipting (including car park income); and
- Treasury Management.

**14** I have undertaken a detailed review of Internal Audit's working papers and supplemented its work with my own procedures for key controls of the above material information systems.

## Main conclusions

**15** I assessed the controls operating for each information system that lead to material balances in the financial statements (above £1.6 million)

**16** I have documented below the findings from the testing of controls and recommendations for improvement in the future. I have also set out the approach I propose to follow at the post statement audit, to gain the required assurances the 2011/12 financial statements are materially correct.

**17** My conclusions are summarised in table 2.

Table 2: **Summary of results of controls testing**

This table summarises the conclusions of external audit on the reliance that can be placed on key financial controls

System	Findings	Conclusions
General Ledger	I have not identified any significant weaknesses in key controls in the general ledger that would affect my opinion.	Subject to year end testing, I can place reliance on the key controls in the general ledger.
Accounts payable (creditors)	I have not identified any significant weaknesses in key controls in the system of accounts payable that would affect my opinion.	Subject to year end testing, I can place reliance on the key controls in accounts payable.
Accounts receivable (debtors)	Financial procedures require budget holders to confirm the invoices that have been raised. Not all budget holders have responded each quarter to these requests from Finance.  The Council has agreed that for year end (31 March) all budget holders will respond to the requests to confirm the debtors/ income recorded in their budgets.	I will review the action taken by the Council and review year end confirmations.
Payroll	I have not identified any significant weaknesses in key controls in the payroll system that would affect my opinion.	Subject to year end testing I can place reliance on the key controls in payroll.
Property Plant and Equipment	Some of the key controls operate only after the end of the financial year.  Other controls such as quarterly reconciliation to the general ledger and coding of capital expenditure operate throughout the financial year and I can place reliance upon these controls.	I will undertake my review of year end controls in June and July.

System	Findings	Conclusions
Council Tax	The Council has used data matches from Experian to identify where there are discrepancies with single person discounts. The Council has informed me that it has resolved all the cases where there is no council tax benefit involved. Where there is no response from the council tax payer in benefit cases there will be a benefit intervention review. The Council will report the results of the exercise once it is completed.	I will review the Council's work on ensuring that only valid discounts have been awarded. I will review the operation of year end controls.
Non domestic rates	I have not identified any significant weaknesses in key controls operating in the system of non domestic rates that would affect my opinion.	Subject to year end testing I can place reliance on the key controls in non domestic rates.
Housing Benefits	I have not identified any significant weaknesses in key controls within housing benefits that would affect my opinion.	Subject to year end testing I can place reliance on the key controls in housing benefits.
Cash receipting (including car park income)	I have not identified any significant weaknesses in key controls within cash receipting that would affect my opinion.	Subject to year end testing I can place reliance on the key controls in cash receipting.
Treasury management	Interest receivable is not material for my opinion but I seek assurance on investments from year end testing of balances.	I will seek direct confirmation from counter parties for entries in the balance sheet.

*Source: Internal Audit and External Audit*

**18** I have the following recommendations to improve internal control.

### Recommendations

**R1** All budget holders should respond to requests from finance to confirm the accuracy of outstanding invoices.

**R2** The Council should report to the Audit Committee the results of the exercise to check the validity of single person discounts.

Martin Robinson

June 2012



## Appendix 1 Action plan

### Recommendations

#### Recommendation 1

All budget holders should respond to requests from finance to confirm the accuracy of outstanding invoices.

<b>Responsibility</b>	Donna Parham, Assistant Director (Finance and Corporate Services)
<b>Priority</b>	High
<b>Date</b>	1 October 2012
<b>Comments</b>	Agreed. The Assistant Director (Finance and Corporate Services) will review and update the Council's financial procedures.

#### Recommendation 2

The Council should report to the Audit Committee the results of the exercise to check the validity of single person discounts.

<b>Responsibility</b>	Ian Potter, Revenues and Benefits Manager
<b>Priority</b>	Medium
<b>Date</b>	31 March 2013
<b>Comments</b>	The Revenues and Benefits section is currently very busy with the local implementation of the Council Tax reduction scheme and changes to business rates.

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