

Audit Summary Report

June 2008



Opinion Interim Report

Southampton City Council

Audit 2007/08

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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Introduction

- 1 The Audit Commission's Code of Audit Practice requires that we give an opinion on the Council's annual financial statements. In doing this, we are required to plan and perform our work in accordance with the International Standards on Auditing (UK and Ireland) (ISA (UK&I)).
- 2 To ensure compliance with the ISAs (UK&I), we are required to understand and test the financial and other relevant information systems generating and supporting the entries in the financial statements. Our work to date has comprised our review of the Council's systems and the operation of the key controls.
- 3 This report covers the work undertaken at our interim visit, and summarises our findings and conclusions in respect of this work. The key conclusions are highlighted within the main body of this report, with the recommendations set out in the attached Appendix 1.
- 4 This audit was undertaken during January to April 2008.

Audit approach

- 5 This interim work has been carried out to support our opinion on the Council's financial statements, and in order to comply with ISA (UK&I) 315.
- 6 ISA 315 entitled 'understanding the entity and its environment and assessing the risks of material misstatement' requires the auditor to:
 - 'obtain an understanding of the entity and its environment, including its internal controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures'.
- 7 To comply with ISA 315, we have undertaken the following work at this visit.
 - Stage 1: Identifying the risks of material error in the financial statements at the audited body level.
 - This included an assessment of external and internal factors, business risks, financial performance, internal control, and any other risks relating to the Council, including undertaking a risk assessment of the general IT environment within which the Council's financial systems operate. It was based on our existing knowledge, recent Audit Commission work carried out at the Council, and review of agendas, minutes and other key documentation.

- Stage 2: Identifying the risks of material error in the financial statements at the systems level, which involved:
 - identifying the information systems which contribute to material figures in the financial statements. These systems consist of the procedures and records established to initiate, record, process and report the transactions, and to maintain accountability for the related assets and liabilities;
 - documenting the processes and internal controls in place within each material information system, and undertaking a walkthrough test of the processes and controls to ensure these are operating as stated; and
 - assessing and evaluating the internal controls to identify which are the key controls to ensure the integrity of the accounting entries.
 - Stage 3: Determining a testing strategy.
 - Our testing strategy is the way in which we seek to obtain sufficient assurance on the entries in the financial statements to enable us to form our opinion, and can consist of reliance on controls, or substantive testing of figures in the financial statements, or a combination of both. We have to ensure that our testing is sufficient to mitigate the risks of error identified in the previous steps.
 - Stage 4: Pre-statement testing.
 - Where our understanding of the system identified that we could obtain assurance on entries in the financial statements from the system's key controls, these controls were tested on a sample basis to ensure that they operated as intended.
- 8 The work undertaken at stage 2 above, identified the following financial and other information systems of the Council as material to the production of the Council's financial statements.
- General ledger.
 - Agresso debtors.
 - Agresso creditors.
 - Academy - housing benefits, council tax and NNDR.
 - I-World - housing rents and repairs.
 - PARIS - social services.
 - Northgate payroll.
 - Cash management.
 - Fixed assets.
- 9 We have implemented a cyclical review of the systems, involving a full review of each system every three years and only a partial review in other years. The partial review involves updating the information held on the system, and undertaking a walkthrough test of the system (stage 2 above).

10 This year we selected the following systems for a full review.

- General ledger (mandatory).
- Housing benefits.
- Council tax.
- Housing repairs.
- Social services.
- Fixed assets.

Main conclusions

11 We found that the key controls in the financial and other information systems reviewed were generally sound, operating as designed, and provide a good platform for our financial statements work. There were, however, several areas where controls were not operating as expected and where improvements could be made to further strengthen the controls.

12 The most significant weaknesses identified during our audit are set out in table 1 below, with our recommendations set out in Appendix 1.

Table 1 Key areas for improvement

Area	Finding
Housing benefits	<ul style="list-style-type: none"> • Quarterly reconciliations of Academy and Agresso have been attempted, but this has reverted to an annual reconciliation due to time pressures.
Social services	<ul style="list-style-type: none"> • Due to known weaknesses in the social services income system we have been unable to undertake controls testing. Instead, we have reviewed the system in detail to identify how it should operate and how it has operated in year. We will then focus our attention on substantive testing at the year end.

13 We are unable to place reliance on the controls in these areas and will be carrying out additional substantive tests on related figures in the Council's financial statements before giving our opinion.

14 In addition to our testing on the financial and other information systems, we undertook work in the following areas.

- Grant claims.
- An IT risk assessment.
- An update of the internal audit assessment against standards.

15 Findings from these reviews are as follows.

Grant claims

There was a significant improvement in the timing and quality of the grant claims received for audit in 2006/07. Working papers and key officers responses were also improved, which resulted in fewer qualification letters being issued.

There are still Improvements that can be made to enhance the grants process; for example:

- introducing a designated co-ordinator to agree all reports; and
- identification of who within Capita, should receive copies of grant reports.

IT risk assessment

A risk assessment was undertaken of the general IT environment, to consider the impact on the financial statements and the risk of misstatement. The review concluded that there was a low risk of issues arising that would have a material impact on the accounts, however a number of recommendations were made.

- A full set of IT policies and standards were provided for review, however a number are out of date and need revising
- An internal audit report from July 07 reported that development staff had poor segregation of duties, poor oversight and access to live data
- There is no schedule in place for updating the disaster recovery plan, and as a result the updates are carried out on an ad-hoc basis
- IT disaster recovery is a continuing risk in both the Corporate and ICT risk registers, as business continuity plans do not coordinate with ICT.
- There has been no testing undertaken, in the last 12 months, on the restoration of material systems.

Update on the Internal Audit assessment against standards

A review has been undertaken of the progress against achievement of the CIPFA standards. This will be reported separately.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<i>Housing Benefits</i>						
6	Allocate suitable resources to ensure that reconciliations of the Academy and Agresso systems can be completed quarterly.	3	Rob Carr	Agreed	Reconciliations have now been completed between HB subsidy on Academy to HB awards paid in Agresso for 2006/07 and 2007/08.	Complete
<i>Social Services Income</i>						
6	Identify the cause of the failure of the social care billing, and implement changes to the system to ensure that this does not continue into future years.	3	Carolyn Williamson	Agreed	Significant resources are still being employed to manage the current billing situation. A major project to develop a new charging policy and billing system to be introduced for 2009/10 is now underway.	Implement by April 2009
<i>Grant Claims</i>						
7	Identify a designated grants co-ordinator, with whom all reports should be agreed	2	Rob Carr	Agreed	Andy Lowe is the designated grants co-ordinator	Complete
7	Identify who within Capita should receive copies of the grant reports	2	Rob Carr	Agreed	We will liaise with the client team and Capita and agree the distribution of grant reports.	End June

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<i>IT Risk Assessment</i>						
7	<p>Implement changes identified from our risk assessment of IT systems.</p> <ul style="list-style-type: none"> • Ensure that IT policies and standards are up to date and revised on a regular and timely basis. • Ensure that there is adequate segregation of duties and oversight and that development staff do not have access to live data. • Ensure that the disaster recovery plan is update on a regular and timely basis. • Ensure that BCPs coordinate with ICT. • Ensure that regular testing is undertaken on the restoration of data from material systems. 	2	Martin Tipper	Agreed	<p>Need a list of the major risk areas so that this can be completed.</p> <p>Will investigate and put appropriate controls in place.</p>	<p>Phased Programme</p> <p>End July</p>