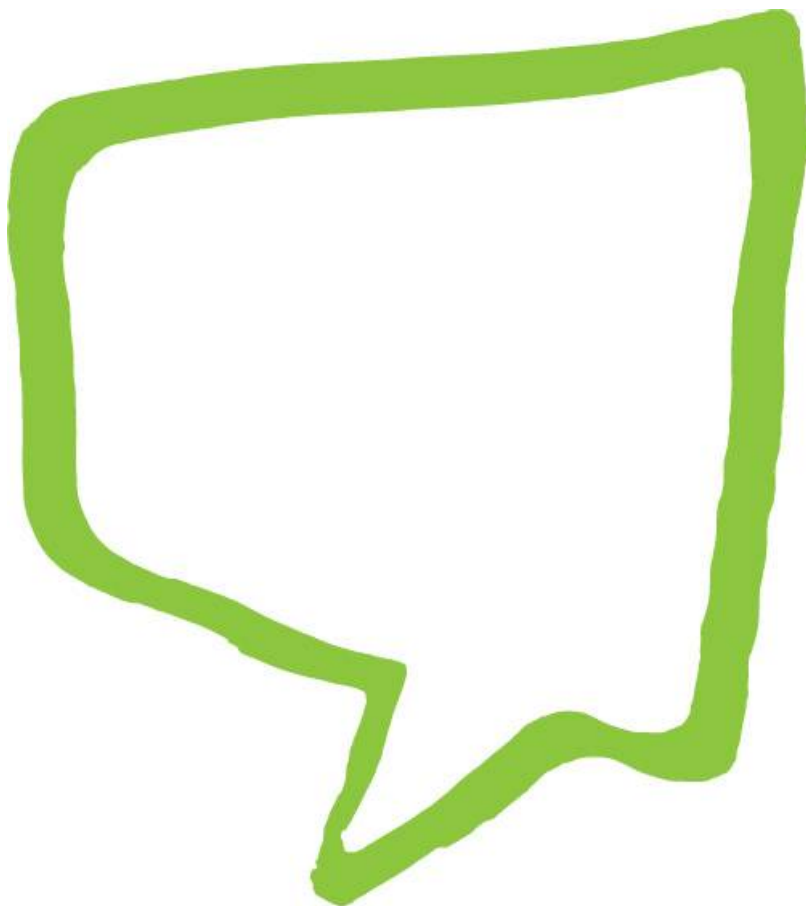


# Pre-Statement Audit Memorandum

Slough Borough Council

Audit 2009/10

June 2010



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## 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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# Summary report

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## Introduction

- 1 Each year we form an opinion on the Council's accounts. To comply with key statutory requirements and International Standards in Auditing (ISAs) we plan and conduct our audit work to update our knowledge of the Council's material financial systems and to confirm that the systems continue to operate in accordance with our understanding. We call this stage of our review the "pre-statements" work and it allows us to rely on the Council's system of controls wherever possible in completing our audit of your financial statements.
- 2 The work reported here was undertaken in February - April 2010 and comprised a review of the Council's material systems, and the operation of key controls.

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## Audit approach

- 3 We undertook our work as follows:
- 4 Risk assessment of the general environment within which the Council's information systems operate to determine overall levels of risk and our initial testing strategy.
- 5 The audit has been carried out to be ISA (International Standards on Auditing, United Kingdom and Ireland) compliant in accordance with the new Code of Audit Practice. The ISAs were introduced by the Auditing Practices Board, applying to all accounting periods starting after 15 December 2004.
- 6 The work we have completed is as follows.
  - Stage 1: carry out a risk assessment of the general environment within which the Council's information systems operate.
  - Stage 2: document the systems that provide material figures in the financial statements.
  - Stage 3: document the processes and controls in place within each system and undertake a walkthrough to ensure that the system is operating as stated.
  - Stage 4: assess which are the key controls to ensure the integrity of the accounting entries and obtain evidence that they are operating as intended on a cyclical basis.
- 7 This work identifies the extent to which we can gain assurance from the controls the Council has put in place, and informs our testing strategy once the financial statements have been presented for audit.
- 8 We identified the following information systems as being material for our purposes and conducted detailed testing on a sample of these systems in accordance with ISA(UK&I) 315.

**Table 1 Financial Systems coverage 2009/10**

<b>System</b>	<b>Detailed Testing</b>	<b>Appendix</b>
Oracle General Ledger	Interim audit testing complete	Appendix 1
Housing rents	Interim audit testing complete	Appendix 2
Cash management	Interim audit testing complete	Appendix 3
CRIS Payroll	Interim audit testing complete where assurance could not be brought forward from 2008/09	Appendix 4
Oracle Debtors	No clear controls ensuring that debtor accounts are only raised where income is actually due to the Council (2009/10 testing). Substantive testing to be carried out at year end	n/a
Integrated Adult Services (IAS)	Assurance brought forward through satisfactory walkthrough	n/a
Education systems	Assurance brought forward through satisfactory walkthrough	n/a
Investments	Assurance brought forward through satisfactory walkthrough	n/a
Fixed Assets/Capital	Ongoing	n/a
Accounts payable	Assurance brought forward through satisfactory walkthrough	n/a
NNDR	Ongoing - No reliance on controls over the initial debit. Substantive testing to be carried out at the year end.	n/a
Council tax	Ongoing - No reconciliation completed between the CT system and the GL and lack of control over voids. Substantive testing to be carried out at the year end.	n/a
Housing benefits	Assurance brought forward through satisfactory walkthrough	n/a

- 9 As auditing standards require us to obtain assurance on your transactions across the year, we intend to revisit our testing on some of the above systems after year end.

## Summary report

- 10 To support our work in these areas we have also undertaken a review of the overall control environment.

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### Main conclusions

- 11 We found a number of areas where the controls are not working as designed, or the design of the controls is weak.
- 12 We have placed reliance on Internal Audit where possible, and we support their conclusions to strengthen the control environment.
- 13 We are planning further work in July on the Council Tax and NDR systems to complete work that we were unable to finish at the pre-statement visit and we will be carrying out substantive testing where we have been unable to rely on the key controls. Our findings will be reported as part of the annual governance report in September.

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### The way forward

- 14 The Council has recently carried out a review of its financial management arrangements and has introduced improvements that will re-align responsibilities and increase accountability for the operation of system controls. Officers are confident that this action taken will deliver improvements and secure the necessary assurance over the integrity of transactions in these systems for the future.
- 15 The findings from this report and the Council's response to our comments will be used to inform our annual accounts audit which will take place between August and September 2010.
- 16 We would like to thank officers for their co-operation during the audit.

# Appendix 1 – Oracle General Ledger

**Table 2 Key Controls identified and tested**

Controls Tested	Impact on your accounts	Testing results	Implications for your accounts and next steps
2009/10 opening balances have been brought forward correctly.	This provides assurance that the general ledger starts the financial year with the correct balances.	A sample of opening balances on 1st April 2009 were checked and had been brought forward correctly.	We concluded that the control operates effectively for our purposes.
The general ledger balances to zero.	This control provides assurance that the total debits always equal the total credits i.e. the system is in balance.	The ledger was tested during the year and was found to be in balance.	We concluded that the control operates effectively for our purposes. We will gain further assurance from the trial balance at year end.
Automated and non-automated feeder systems are reconciled to the GL on a timely basis.	This provides assurance over the completeness and accuracy of the data within the ledger.	A number of reconciliations were found to be incomplete, missing, or not completed and reviewed in a timely manner, including housing rents, council tax and payroll.	We concluded that this control does not operate effectively. We will substantively test all key integrated and non-integrated feeder system reconciliations at year end.
Controls are in place over the setting up and amendment of GL codes.	This ensures that the coding structure of the ledger is fully authorised and cannot be compromised.	Only 11 officers have access to amend the ledger and set up new codes. No list of codes set up in the year was available, but given the small number of people with access, the controls in place are satisfactory.	We concluded that the control operates effectively for our purposes.

## Appendix 1 – Oracle General Ledger

Controls Tested	Impact on your accounts	Testing results	Implications for your accounts and next steps
Suspense accounts are reviewed and cleared monthly.	This control ensures that all transactions are correctly coded within the ledger and 'unusual' items are investigated in a timely manner.	Five accounts were checked and found to be adequately reviewed and cleared.	We concluded that the control operates effectively for our purposes. However, to complete assurance we will test year end suspense balances.
Raising and posting of journals.	This control ensures that entries into the ledger are accurate and subject to the correct delegation and authorisation processes.	We tested 20 journals and all were found to have been correctly authorised.	We concluded that the control operates effectively for our purposes. However, to complete assurance we will test year end material journals.
Invalid cost centre codes are rejected when entered into the system.	This control ensures that balanced entries can only be made against approved cost centres.	This is an automated control and testing of one item showed no issues arising.	We concluded that the control operates effectively for our purposes.

We will perform further testing at our post-statements visit to extend our assurance across the full year. We will also seek final year-end assurance over the following;

- Cut-off: Transactions are recorded in the general ledger and in the correct accounting period. We will gain assurance by substantively testing all feeder system reconciliations and new and old year income and expenditure.

# Appendix 2 – Capita Housing Rents

**Table 3 Key Controls identified and tested**

Controls Tested	Impact on your accounts	Testing results	Implications for your accounts and next steps
Tenancy agreement prepared and signed by both tenant and People 1st.	This control ensures that the rent relates to the Council.	We tested 20 new tenancies and found that all items had been correctly signed and reviewed.	We concluded that the control operates effectively for our purposes.
Suspense accounts are reviewed and cleared monthly.	This control ensures that all transactions are correctly coded within the ledger and 'unusual' items are investigated in a timely manner.	We found that the suspense account in Capita had not been cleared to zero since August 2009. The balance at 31st March 2010 was £5093 (net).	We concluded that this control does not operate effectively.
Monthly reconciliations are carried out and reviewed between the rents system, the General ledger and the cash receipts system.	This provides assurance over the completeness and accuracy of the data within the ledger.	Although reconciliations for the year had been completed, they had only been printed and signed up to October. The remaining reconciliations had been completed on the computer but not yet printed and reviewed.	We concluded that this control does not operate effectively. We will substantively test the reconciliation at the year end.
Reconciliation of rent properties between Simdell and Capita is completed and evidenced as reviewed.	This control ensures that the data is transferred completely between the old and new system.	We tested 20 properties and found no errors. There was limited evidence of review of the reconciliation by a senior manager.	We will engage an IT auditor to carry out further checks on the data transfer between the 2 systems to gain full assurance.



## Appendix 2 – Capita Housing Rents

Controls Tested	Impact on your accounts	Testing results	Implications for your accounts and next steps
Reconciliation of rent charges between Simdell, Capita and the rent spreadsheet is completed and evidenced as reviewed.	This control ensures that the data is transferred completely between the old and new system and that the rental debit is not materially mis-stated.	There was limited evidence of review of the reconciliation by a senior manager. We tested 20 rents and found some discrepancies in the target rents as already identified by officers. We tested a further 10 items of these errors and all had been corrected on the system.	We will engage an IT auditor to carry out further checks on the data transfer between the 2 systems to gain full assurance.
Reconciliation of rent arrears balances between Simdell and Capita is completed and evidenced as reviewed.	This control ensures that the data is transferred completely between the old and new system.	There was limited evidence of review of the reconciliation by a senior manager. We tested 20 arrears and found no errors.	We will engage an IT auditor to carry out further checks on the data transfer between the 2 systems to gain full assurance.
Reconciliation of tenant details between Simdell and Capita is completed and evidenced as reviewed.	This control ensures that the data is transferred completely between the old and new system.	There was limited evidence of review of the reconciliation by a senior manager. We tested 20 tenant details and found no errors.	We will engage an IT auditor to carry out further checks on the data transfer between the 2 systems to gain full assurance.

We will perform further testing at our post-statements visit to extend our assurance across the full year.

# Appendix 3 – Cash receipting

**Table 4 Key Controls identified and tested**

<b>Controls Tested</b>	<b>Impact on your accounts</b>	<b>Testing results</b>	<b>Implications for your accounts and next steps</b>
Cashier's daily reconciliation takes place and bank report produced to ensure all transactions are entered to CIVICA.	This control ensures that amounts are accurate, and that the receipts have been received into the system.	We tested 20 items and found no discrepancies.	We concluded that the control operates effectively for our purposes.
Global payment analysis reconciled to daily cash reconciliation and bank report.	This control ensures that amounts are recorded accurately and completely in the Council's records.	We tested 20 items and found no discrepancies.	We concluded that the control operates effectively for our purposes.
Control totals are received from IT, these are reconciled to the Global Fund Analysis.	This control ensures that the receipts are correctly classified in the Council's records.	We tested 20 items and found no discrepancies.	We concluded that the control operates effectively for our purposes.
End of Month Control Account Balance Reconciliation produced.	This provides assurance over the completeness and accuracy of the data within the ledger.	We tested 2 reconciliations and found that they were not dated. There is no assurance that these are prepared and reviewed on a timely basis.	We concluded that this control does not operate effectively. We will substantively test the reconciliation at the year end.

We will perform further testing at our post-statements visit to extend our assurance across the full year.

# Appendix 4 – Payroll

The items below relate to areas where we were unable to gain assurance over controls in 2008/09, or where the controls have weakened in the year.

**Table 5 Key Controls identified and tested**

Controls Tested	Impact on your accounts	Testing results	Implications for your accounts and next steps
Amendment forms are completed and subject to authorisation and HR/payroll review.	This control ensures the accuracy of the items in the accounts.	We tested 20 amendments for contract variations, 10 for maternity pay, 20 for mileage claims and 20 for overtime claims. 7 forms were not completed correctly, one amendment was not reflected on the system and one hourly rate had been miscalculated.	We concluded that this control does not operate effectively. We will substantively test transactions at the year end.
The payroll system is reconciled to the GL in a timely manner	This provides assurance over the completeness and accuracy of the data within the ledger.	The reconciliation had not been prepared for 6 months. The year end reconciliation is in the process of being prepared and reviewed.	We concluded that this control does not operate effectively. We will substantively test the reconciliation at the year end.
The correct deduction parameters have been uploaded, applied and reviewed.	This ensures the accuracy of the deductions.	There is no evidence of testing or review of the parameters to show that they were correctly input for 2009/10.	We concluded that this control does not operate effectively. We will substantively test transactions at the year end.

We will perform further testing at our post-statements visit to extend our assurance across the full year.

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# The Audit Commission

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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