

Regularity Report

Tonbridge and Malling Borough Council

Audit 2006/07

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Introduction

- 1 This report sets out the detailed findings of our audit of the Council's 2006/07 Statement of Accounts ('the accounts').
- 2 The key purpose of the report is to highlight to officers any internal control weaknesses or areas for improvement we have identified during the course of our work. We would encourage officers, in recognition of the role of the Audit Committee, to inform members of the more detailed findings contained within this report.

Background

- 3 The financial year 2005/2006 saw the introduction and application of the new International Standards of Auditing (UK&I) (ISA). In 2006/07, these standards are now embedded and determine our approach in the way we communicate any issues that have arisen during the course of the audit. We are obliged to communicate formally through the ISA 260 report all significant and material matters to those charged with governance to ensure that the integrity of the audit process is maintained. Such matters were reported to the members of the General Purposes Committee on 26 September 2007 and are included within this report along with other minor matters relating to the accounts for more detailed consideration by officers.

Audit approach

- 4 The Audit and Inspection Plan for 2006/07 set out the work we undertook to meet our Code of Audit Practice ('the Code') responsibilities.
- 5 Under the Code, one of our primary responsibilities is to audit the accounts and to give an opinion on whether they present fairly the financial position of the Council and its expenditure and income for the year in question and have been properly prepared in accordance with relevant legislation and applicable accounting standards. We are also required to give a conclusion on the Council's achievement of value for money in the application of its resources.

Main conclusions

- 6 Following a number of minor amendments made to the accounts during the course of the audit, an unqualified opinion on the Council's accounts for the year ended 31 March 2007 was issued on 28 September 2007.
- 7 In the following 'Detailed findings' section we have made recommendations in relation to internal control weaknesses or areas for improvement. We have also noted areas of good and improving practice. An action plan for addressing the recommendations made is to be discussed with senior officers.

Detailed findings

- 8 To enable us to reach an opinion on the accounts our audit was undertaken in two stages: pre-statements audit and post-statements audit (or, in other words, pre and post approval of the accounts by Council in June 2007).
- 9 Our pre-statements audit focused upon updating our documentation and evaluation of material information systems that support the entries in the accounts. Where appropriate we also completed walkthrough and compliance testing of key controls within these systems to determine whether we could place reliance on them to support our audit opinion. Effective operation of such systems is essential to prevent and detect errors arising during the year and therefore, if these processes operate effectively, the risk of material misstatements in the accounts is reduced.
- 10 During the post-statements audit we reviewed the accounts themselves, with the level of work dependent upon the reliance we could place on the effectiveness of controls in place over material information systems.
- 11 During the pre and post statements audit we maintained a close liaison with the finance team through regular meetings. Ongoing discussions were held throughout the audit process in an effort to ensure that all significant and developing accounting concerns were considered.
- 12 The rest of this report sets out in separate sections the findings during the audit stages.

Pre-statements audit

Pre-statements audit approach

- 13 The approach to this work was to:
 - understand the Council and the environment in which it operates (both nationally and locally) and identify any associated risks of material misstatement in the accounts;
 - document processes and trace a single transaction through each of the Council's information systems which feed into material entries in its accounts;
 - where appropriate identify, evaluate and test key internal controls in each material information system;
 - based on our testing of key internal controls, assess the reliance which can be placed on the Council's information systems to support our audit opinion on the accounts;

- identify remaining areas and risks of material misstatement where post-statement testing is required to support the audit opinion;
 - where appropriate recommend strengthening internal controls and/or arrangements; and
 - review specific matters brought to our attention that may impact on our opinion.
- 14 We liaised with Internal Audit (IA) to maximise the overall level of audit coverage and to avoid any duplication of work. During the period, an Audit Protocol was finalised to define the respective roles and responsibilities and clarify expectations for both parties. This also details how we will work together to make the most efficient and effective use of available audit resources.
- 15 A key area where efficiencies can be achieved is in relation to testing of key controls, and to achieve this we will be sharing our systems documentation with IA. This will make it easier in future to place maximum reliance on the work of IA.

Items noted during the pre-statements audit

Testing key internal controls

General ledger

- 16 Our cyclical testing approach meant that the general ledger was not identified for controls testing in 2006/07. Therefore reliance was placed on controls testing performed in 2005/06 subject to walk through tests having been performed in 2006/07 to confirm our understanding of the controls in operation and to ensure there had been no fundamental changes to the system. The work performed identified that many of the controls in the system do not operate until the year end, apart from journal controls that operate throughout the year. Walkthroughs confirmed that control account reconciliations were carried out monthly and are appropriately authorised and that journals were always two sided and were appropriately authorised. However, we did note that on occasions some journals are authorised by the officer processing the journal. Officers have advised that only ten staff have access to the journals input screens on the ledger, and therefore it is considered a minimal risk.
- 17 In respect of budgetary control five out of the 12-monthly budget reports reviewed did not contain evidence to show that the reports had been reviewed. Staff indicated that they would only send a confirmation if the variance from budget was greater than £5k. Confirmation of monthly budget monitoring needs to be sent to the accounts assistant as proof that the review has taken place. A more effective control would be if the review was signed by the budget holder, Internal Audit have recommended that this be actioned in 2007/08.

Recommendation

R1 Monthly budget monitoring reports should be reviewed and authorised by the budget holder and confirmation of review submitted to the accounts clerk in finance.

Sales ledger/debtors

- 18 Work performed by Internal Audit and our walkthrough confirmed that the system and controls within it were operating as described. Sales ledger/debtors was identified for cyclical controls testing in 2006/07.
- 19 Controls testing carried out reviewed the following key controls.
- Each service area is responsible for having procedures in place for ensuring that, where appropriate, an invoice is raised. These procedures are reviewed annually.
 - Invoices and income is coded to the correct account code, this is identified through the monthly budget control monitoring reports.
 - A monthly reconciliation of the sales ledger. Reconciliations are prepared by one Exchequer Services Officer, checked by a second officer and referred to the Exchequer Services Manager for examination and authorisation.
- 20 Our review identified one significant weakness as follows.
- The reconciliation of the sales ledger to the general ledger had not been completed for the months of April, August, September, October and December 2006. This issue was raised in our Annual Governance report issued to the General Purposes Committee on the 26 September 2007. Staff shortages were partly responsible for the missing reconciliations and the Director of Finance has since taken the appropriate action to ensure that these reconciliations are carried out as a priority.
- 21 Adequate assurance was gained from controls testing completed to reduce the risk of material misstatement in the accounts. The control failure reported above was not considered critical as the reconciliations had been completed at year end and budget monitoring at the Authority was considered strong during the Use of Resources assessment carried out during the year.

Recommendation

R2 The reconciliation of the sales ledger to the general ledger should be carried out on a regular monthly basis.

Purchase ledger/creditors

- 22 Work performed by Internal Audit and our walkthrough confirmed that the system and controls within it were operating as described. Internal Audit noted that the Principal Planning Officer had authorised invoices for payment but was not on the authorised signatory list but was considered to have the appropriate seniority to authorise cheque payments. IA recommended that the authorised signatory list be updated to include this officer. Purchase Ledger/Creditors was identified for cyclical controls testing in 2006/07.

23 Controls testing carried out reviewed the following key controls.

- Orders are approved by the appropriate budget holder within the appropriate spending limits.
- Goods received notes are matched to the order.
- Invoices are matched to supplier account (invoice).
- Payment run agreed to invoices and authorised.
- Control accounts reconciled regularly and reviewed.

No issues were identified, all controls were found to be working as expected.

Treasury Management

24 Work performed by Internal Audit and our walkthrough confirmed that during the year the No 1 Bank Account Reconciliation was not carried out on a regular and timely basis. This issue was reported in our Annual Governance Report issued to the General Purposes Committee on the 26 September 2007. The review also identified that the Investment Income Reconciliation had been both completed and authorised by the Exchequer Manager. A further review of the procedures, together with the Treasury Management Strategy showed that there is sufficient information available for investing short term surpluses. However, now that the Authority has called back 50 per cent of funds from the external fund manager to manage in-house procedure notes need to be drafted to detail how long term investments are to be made.

Recommendations
<i>R3 The Council should ensure that bank reconciliations are completed monthly and any significant differences investigated and resolved in a timely manner.</i>
<i>R4 The investment income reconciliation should be reviewed/authorised by a senior officer to that preparing the reconciliation.</i>
<i>R5 Procedure notes covering long term investments/strategy should be prepared.</i>

Housing Benefits

25 An understanding of how relevant transactions are initiated, recorded, processed and reported and the related controls over the Benefits system was obtained from a review of Internal Audit documentation, a review of procedure notes and through discussions with the Principal Benefits Officer. The Benefits section implemented the IDOX DIPS system during 2005/06 but as yet procedural guidance has not been updated to reflect the changes to procedures. Given the high turnover of staff within the Benefits section it is vital that procedures are in place. In part this is due to IDOX not yet providing basic guidance which was supposed to have been included within the terms of the contract. Walkthroughs were carried out to confirm that the systems and controls were operating as described.

Recommendations

R6 Housing Benefit procedure notes should be reviewed and amended to take into account the IDOX DIPS system.

Council tax

- 26 Discussions were held with officers to confirm that our systems notes from 2005/06 were still valid. A walkthrough was completed and confirmed that the systems and controls identified were operating as expected. Council tax was identified as a system to be controls tested in 2006/07.
- 27 Controls testing carried out reviewed the following key controls.
- VO listing agreed to council tax system on a weekly basis.
 - Daily receipting agreed to the council tax system.
 - Annual reconciliation of the council tax system to the general ledger.
 - Suspense accounts reviewed daily.
 - Systems parameters entered are reviewed on an annual basis.

No issues were identified, all controls were found to be working as expected.

NNDR

- 28 Discussions were held with officers to confirm that our systems notes from 2005/06 were still valid subject to minor changes to some procedures although the key controls on which we were relying had not changed from 2005/06. A walkthrough was completed and confirmed that the systems and controls identified were operating as expected.

Payroll

- 29 Work performed by Internal Audit and our walkthrough confirmed that the majority of the systems and controls within it are operating as expected. The walkthrough identified that the BACs Payroll run is not authorised by a senior officer to those processing and checking the payments contained within the payment run. This is an issue that both Internal Audit and the Audit Commission have raised in previous reports. The inherent risk is that staff could insert fraudulent payments within the payroll which otherwise would go undetected. Whilst it is accepted that the Authority's budgetary control processes are robust it is not clear whether they would pick up all fraudulent activity. Checks on the BACs run should be completed by the payroll staff and the Exchequer Manager should review the BACs report, agree the total to the payment run prior to submitting the BACs payment. Payroll was identified as a system to be controls tested in 2006/07.

- 30 Controls testing carried out reviewed the following key controls.
- Appropriate documentation in relation to starters, leavers and changes to accounts and this is correctly transferred to the payroll system.
 - Payroll exception reports are reviewed.
 - Timesheets are authorised for payment.
 - BACs payment run is authorised by a senior officer prior to submission.
 - Payroll control accounts are reconciled on a regular and timely basis.
 - Suspense accounts are reviewed and cleared by finance on a regular and timely basis.
 - Department heads verify the accuracy of their monthly payroll bills.
- 31 Our review identified three significant weaknesses as follows.
- Exception reports are not signed and dated as having been reviewed although there was evidence of review in the form of tick marks on those reports tested. Signing and dating exception reports when reviewed would increase accountability and ensure that the appropriate individuals are reviewing the reports.
 - BACs report is not authorised by a senior officer prior to submission. Reference to the comments above.
 - On some occasions individual department heads do not evidence the review of monthly payroll reports. Payroll reports should be verified and confirmation of this supplied to the Senior personnel officer. Without verification there is a greater possibility of ghost employees on the payroll.
- 32 In general the controls over payroll were found to be working satisfactorily with the exception of the above. Budget monitoring is considered to be strong in general at the Authority and therefore the risk of a material error occurring in the financial statements as a result of the weaknesses identified was considered low.

<i>Recommendations</i>
<i>R7 Exception reports should be signed and dated to evidence reviews carried out and to increase accountability.</i>
<i>R8 The Payroll BACs run should be reviewed by the Exchequer Manager and agreed to the total of the payment run prior to releasing the BACs payment.</i>
<i>R9 Department heads should review the monthly payroll reports and sign and date them to signify approval.</i>

Fixed Assets

- 33 An understanding of how relevant transactions are initiated, recorded, processed and reported and the related controls over the asset management system was obtained through a review of Internal Audit documentation, review of procedure notes and through discussions with finance staff. A walkthrough was completed and confirmed that the systems and controls identified were operating as expected.

Leisure Income

- 34 An understanding of how relevant transactions are initiated, recorded, processed and reported and the related controls over the Leisure Income system was obtained through a review of Internal Audit documentation, review of procedure notes and through discussions with Leisure department staff. The walkthrough did not identify any major weaknesses within the system and controls were found to be operating as expected.

Car Park Income

- 35 An understanding of how relevant transactions are initiated, recorded, processed and reported and the related controls over the Car Park Income system was obtained through a review of Internal Audit documentation, review of procedure notes and through discussions with Parking Office staff. Walkthrough tests confirmed that the systems and controls documented were operating as expected.

Closedown procedures

- 36 Ongoing discussions were held with the finance team to discuss current accounting issues and any changes in the CIPFA Statement of Recommended Practice (SoRP) that may impact on the production of the statement of accounts. This was supplemented with a final accounts protocol to ensure that officers and ourselves understood what was required of each other during the final accounts audit. This was produced and agreed with officers in March 2007.
- 37 Our subsequent review of the closedown process found that it worked efficiently as in previous years. The accounts were produced and approved by the set deadline and contained all required statements. Whilst we acknowledge that the financial statements provided for audit were of a very high standard, there were a few typographical errors and inconsistencies contained within them. A number of minor revisions were required to ensure compliance with the SoRP and to improve disclosure items.
- 38 The working papers provided were also of a high quality and in particular provided a good audit trail supporting entries in the financial statements. Working papers were provided in electronic format on a CD Rom and were cross referenced back to the final accounts protocol. This process is essential to the efficient audit of the financial statements and was noted as notable practice during our review of Use of Resources work carried out during the year.

Statement of internal control

- 39 In 2005/06 arrangements to support the Statement of Internal Control were noted as a significant improvement over previous years; Managers Assurance Statements (MAS) were produced in line with good practice and the SIC review process by members was found to be sufficiently robust. In 2006/07, our review of the process behind the preparation of the Statement of Internal Control found the documentation and evidencing to have maintained this good standard.

Overall assessment

- 40 Our overall assessment of the Council's material information systems was that although in general adequate controls were found to be in place in respect of most inherent risks there are a number of improvement areas that officers should address.

Post-statements audit

Background

- 41 The Director of Finance (s151 Officer) is responsible for preparing annual accounts and making them available for public inspection. In preparing the accounts the Director of Finance has to select suitable accounting policies, keep proper financial records, make reasonable and prudent judgements and estimates and comply with the Code of Practice on Local Authority Accounting in the United Kingdom.
- 42 Our responsibility, as external auditors, was to form an independent view on the accounts and issue our opinion as to whether they present fairly the financial position of the Council.

Audit approach

- 43 Our approach to the audit of the accounts for opinion purposes aimed to provide sufficient assurance that the statements are free from material error or misstatement. We achieved this through:
- seeking to place reliance on key controls identified in the Council's material information systems;
 - undertaking a detailed risk assessment of the accounts using audit tools such as analytical review; and
 - undertaking substantive audit work tailored for national and local issues.

Changes to the accounts

Material and non-trivial errors

- 44 Material errors are those (individually or in aggregate) above our materiality figure of £1.056 million. Non-trivial errors are those between £105,600 and our materiality figure of £1.056 million. During the course of the audit, the material and non-trivial errors set out in Table 1 below were identified and amended.

Table 1 Adjusted misstatements in the financial statements

Details of significant / material adjustments made to the financial statements caused by misclassification error.

Issue	Value of misstatement £000	Impact on surplus/(deficit)
Note 17 - Outstanding capital commitments. Capital commitments was understated by £132k in respect of four projects completed in 2006/07 where an agreement has been made with Kent County Council for a contribution.	132	None.

Source: Audit Commission working papers

Other accounts amendments

- 45 A number of minor amendments were also required to disclosures made within the accounts to ensure both compliance with the SoRP and clarity of reporting. The most significant of these were as follows.
- An additional paragraph has been included in note 17 to the accounts for budgeted amounts of £300k in respect of capital projects that the Authority will contribute towards.
 - The view of our technical review team, and supported by the local audit team findings, was that the accounts presented to audit were of a consistently high standard.

Specific non-material issues

Cash Management

- 46 The Council's bank balance was in overdraft on the 30th of March 2007 due to an error that occurred during the processing of an Inter Account Transfer from the Main Accounts to the Payments Accounts instead of a transfer from the Special interest bearing account to the Main Account. This error had no significant impact on the Councils overall resources.

Council Tax - Bad Debt Provision

- 47 The Council Tax Bad debt provision has been largely prepared on the same basis as last year in that the debt has been aged and a percentage provision applied. The percentages are the same as last year. An additional £100k has been added to the provision. The Authority is taking a prudent approach whereby residents are expected to dispute bandings and therefore not pay which will affect the collection rate. The effect of this is not yet known - any dispute would initially go to the Valuation Office which could then take up to 6 months for the Authority to be notified of any change. The risk is that the provision is too high and the Authority should consider the position on an annual basis,

Hadlow Tower

- 48 T&M act as a guarantor for the Vivat Trust on a loan of up to £100,000 from the Architectural Heritage Fund. This is disclosed in the accounts in the Contingent Liabilities note. This has not been included in the risk register.

Recommendations

R10 The risk register should include that the Authority are guarantors of a loan of £100k.

Accounting Practices

Capital project management

- 49 Our 2005/06 Annual Governance Report raised concerns over capital budgeting and monitoring procedures at the authority and recommended that schemes are periodically re-appraised with any surplus budgets identified to maximise effective use of funds available. A review of capital expenditure during 2006/07 identified expenditure, net of government grants of £2,257k compared to an initial budget of £4,191k and a revised budget of £4,389k indicating no apparent improvement to the monitoring process. The main variances were attributable to slippage and under-spend against budget. It is considered that capital project monitoring needs to be strengthened in order to provide assurance that money spent against budget is being properly managed and reported to members. The risk is that capital accruals and commitments are not being properly identified and therefore may not be disclosed in the accounts, as noted in paragraph 17 above 'Adjustments to the financial statements'.
- 50 Officers have stated that new procedures are being implemented during 2007 with the aim of improving capital project management. We will continue to monitor the situation as part of our 2007/08 interim audit.

Recommendations

R11 Officers should strengthen capital project management procedures as a priority and implement appropriate arrangements to ensure that money spent against budget is being managed and reported effectively.

Related party transaction returns

- 51 Despite requests from officers, related party returns were not received from two ex-councillors; Lavery and Munro, as required by the SORP and ISA+550.

Recommendations

R12 The Authority should ensure that if all related party returns are not received before the audit commences satisfactory alternative evidence has been obtained in accordance with the SORP.

The way forward

- 52 The Council should implement the above recommendations, directing resources according to the priority assigned to each. Senior officers' responses to the recommendations are set out in the Action Plan in Appendix 1 to this memorandum. Progress in implementing the recommendations will be monitored during our 2007/08 audit.

Appendix 1 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Monthly budget monitoring reports should be reviewed and authorised by the budget holder and confirmation of review submitted to the accounts clerk in finance.	3	Chief Accountant	Yes	Budgetary control procedures tightened during 2007/08 to include signed evidence held by accountancy office.	April 2007
7	R2 The reconciliation of the sales ledger to the general ledger should be carried out on a regular monthly basis.	3	Exchequer Services Manager	Yes	Actioned.	April 2007
8	R3 The Council should ensure that bank reconciliations are completed monthly and any significant differences investigated and resolved in a timely manner.	3	Exchequer Services Manager	Yes	No 1 and 2 accounts are now reconciled by the 12th of each month, and signed off by Exchequer Services Manager.	April 2007
8	R4 The investment income reconciliation should be reviewed/authorised by a senior officer to that preparing the reconciliation.	2	Exchequer Services Manager	Yes	Reconciliations are prepared and sign off by Exchequer Services Manager on a monthly basis.	April 2007
8	R5 Procedure notes covering long term investments/strategy should be reviewed/drafted.	2	Exchequer Services Manager	Yes	Included within current strategy following discussions with CE.	2007/08
9	R6 Housing Benefit procedure notes should be reviewed and amended to take into account the IDOX DIPS system.	2	Principal Benefits Officer	Yes	Notes have been written and passed to Senior Management for approval. Will be made available for staff in April 2008.	April 2008
10	R7 Exception reports should be signed and dated to evidence reviews carried out and to increase accountability.	3	Exchequer Services Manager	Yes	Actioned.	April 2007

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Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R8 The Payroll BACs run should be reviewed by the Exchequer Manager and agreed to the total of the payment run prior to releasing the BACs payment.	3	Exchequer Services Manager	Yes	Review will be carried out prior to BACS payment being made so it can be reviewed or recalled as necessary. Copy of BACS summary will be passed to Exchequer Services Manager for certification as part of authorisation process.	January 2008
10	R9 Department heads should review the monthly payroll reports and sign and date them to signify approval.	3	Chief Personnel Officer	Yes	Department Heads are to notify Chief Personnel Officer with approval.	2007/08
14	R10 The risk register should include that the Authority are guarantors of a loan of £100k.	2	Chief Planner (Policy)	Yes	Risk Register held by Planning Policy Section now includes comment on potential risk	January 2008
14	R11 Officers should strengthen capital project management procedures as a priority and implement appropriate arrangements to ensure that money spent against budget is being managed and reported effectively.	2	Director of Finance	Yes	New procedures commenced in April 2007.	April 2007
15	R12 The Authority should ensure that if all related party returns are not received before the audit commences satisfactory alternative evidence has been obtained in accordance with the SORP.	2	Principal Accountant	Yes	Noted via ISA 260 for implementation with letter issued in March 2008.	March 2008