

Government and Public Sector

November 2009

Sefton Metropolitan Borough Council

2008/09 Annual Audit Letter

The Members
Audit and Governance Committee
Sefton Council
Southport Town Hall
Lord Street
Southport
PR8 1DA

November 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Contents

Section	Page
Introduction	4
Audit findings	5
Matters affecting future accounting periods	8
Appendix A: Summary of Recommendations.....	9

Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Sefton Metropolitan Borough Council that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit Plan (September 2008)
- External Audit Progress Report (March 2009)
- External Audit Progress Report – Update (June 2009)
- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources
- Report to those charged with Governance (ISA (UK&I) 260)

The matters reported here are those that we consider are most significant for the Authority and a summary of the recommendations that we have made can be found in Appendix A.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's

Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Authority's Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 September 2008.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009. We identified the following key issues from our audit of accounts:

- Material adjusted errors – there were no material errors which were not adjusted. The following material items were adjusted within the financial statements:-
 - Incorrect classification of assets under construction as operational assets (£17.6m).
 - Understated NNDR bad debt provision (£6.8m).
 - Reclassification of short term NNDR debtors and creditors to long term (£4.5m).
- Systems of internal control – the following are high priority recommendations stemming from our final year end audit work:-
 - Bank reconciliations should be performed for each school.
 - The Council should review its policy on re-issuing out of date cheques.
 - The procedures for opening and closing bank accounts should be reviewed and improved as necessary.

A summary of other high priority control recommendations from our interim audits is also included in Appendix A.

Use of Resources

The Audit Commission requires us to assess the overall arrangements that the Authority has in place in the following three areas:

- Managing finances.
- Governing the business.
- Managing resources.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements – performs adequately;
- 3 Exceeds minimum requirements – performs well; or
- 4 Significantly exceeds requirements – performs excellently.

The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Authority.

Managing finances

We have scored the KLoEs for managing finances as follows:

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health	2
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	2
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	2
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The Authority promotes and demonstrates the principles and values of good governance	2
2.4	The Authority manages its risks and maintains a sound system of internal control	2

Managing resources

We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The Authority makes effective use of natural resources	2
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs	2
3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	N/A

Note: KLoE 3.3 is not a specified KLoE(s) for 2008/09 for Single Tier and County Councils.

Conclusion on Use of Resources

We were also required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 30 September 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Treasury Management

As part of our work on Use of Resources we carried out a programme of work on Treasury Management. This piece of work was mandated by the Audit Commission.

We did not identify any issues.

Members' Allowances

As part of our work on Use of Resources we reviewed the authority's scheme for members' allowances. We reviewed whether the Authority is complying with the regulations applying to Members' Allowances schemes, and whether they have made the required disclosures in respect of the scheme.

We did not identify any issues.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The authority will need to have values for assets and transactions as they should be recognised under IFRS from this date.

The Authority will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

Appendix A: Summary of Recommendations

The following are high priority recommendations arising from the audit of the 2008/09 accounts.

Control issue and associated risk	Recommendation	Management response
March 2009 Interim Report		
<p>Reconciliations</p> <p>From our review of monthly bank and debtor reconciliations, we noted that they are not always signed and dated as prepared and reviewed.</p> <p>The risk exists that reconciliations may not be completed correctly or on a timely basis and that reconciling items are not investigated or resolved.</p>	<p>Reconciliations on key accounts should be performed and reviewed on a timely basis each month.</p> <p>The Council should nominate a de minimis level over which the preparer of the debtor reconciliations should seek further review.</p>	<p>Management are aware of this issue and are in the process of agreeing a revised procedure.</p>
<p>Debtor accounts</p> <p>There are no procedural notes in place regarding the process for creating debtor accounts and processing invoices.</p> <p>Our review of debtor procedures identified that new debtor accounts are created automatically and without formal authorisation. This could lead to accounts being created inappropriately which may lead to inefficient debt recovery. Supplies may be made to service users who are unable to pay due to inadequate credit checks.</p>	<p>A set of standardised system notes should be put in place and maintained for staff training and reference purposes</p> <p>The Council should have a formalised authorisation procedure for new debtor accounts. Staff should only create new accounts when an authorised member of staff raises an invoice request.</p>	<p>Management are aware of this issue and are in the process of agreeing a revised procedure.</p>

Control issue and associated risk	Recommendation	Management response
June 2009 Interim Report		
<p>Revenues and benefits reconciliations</p> <p>The monthly reconciliation between Pericles and Oracle for Council Tax and NNDR payments and refunds is not reviewed.</p>	<p>Reconciliations should identify and explain all differences between Pericles system and Oracle. Reconciliations between the Pericles system and the general ledger Oracle system should be signed and dated as prepared and reviewed.</p>	<p>Reconciliations are usually undertaken on a timely basis. However, due to staffing difficulties this has not always been possible.</p>
<p>Human resources processes</p> <p>The salary for new starters is not included on the starter form. Recruitment checks the individual's previous salary from the application form and if the bottom of the new scale is higher the individual is placed on the bottom of the new scale. Where the individual's previous salary was higher than the bottom of the scale for the job the individual is placed on the next highest point.</p> <p>Staff could be placed on incorrect salaries. Salaries may not be authorised appropriately.</p> <p>No authorised signatory listings are in place for checking signatures on starter forms within recruitment, meaning starters may not be authorised correctly.</p>	<p>Salary scale and point should always be included on the appointment form which is authorised by the line manager. Where salary scale and point are not included the form should be returned to the line manager for them to input the information to ensure that the salary is correct and has been authorised prior to input onto the payroll system.</p> <p>Authorised signatory listings should be in place for checking signatures on paper copy forms.</p>	<p>The recommendation is agreed. As Arvato now process new starters on behalf of the Council, they will be issued with an instruction as to this recommendation.</p> <p>A panel is being established to authorise recruitment to all Council posts and managers will only be allowed to recruit once agreed by the panel.</p>

Control issue and associated risk	Recommendation	Management response
<p>Accounts payable</p> <p>The Council do not have up to date Purchasing Procedures. These were last updated in 1995 therefore each individual Service Line Director agrees the procedures for their department.</p> <p>Departments have different procedures in place and there is a risk of the procedure not being communicated to staff, and therefore purchase orders may not be appropriately authorised.</p> <p>The Council do not review BACS and cheque reports before the payments are processed. Only cheques over £25k are reviewed as they have to be countersigned. Once the Oracle team have run the report for authorised invoices due for payment these are then sent to the Operations team who then process the BACS / cheque payments without reviewing.</p> <p>The Council do not review Creditor Reconciliations. In addition, the reconciliations produced are not signed or dated to state when they were prepared.</p> <p>Creditor costs per the general ledger may be incorrect as they are not reviewed and may not be completed on a timely basis.</p>	<p>The Corporate Procedures are updated and rolled out across the Council.</p> <p>BACS and cheque payments should be reviewed to ensure sufficient funds are available and payments appear reasonable.</p> <p>The reconciliation should be signed and dated when prepared and reviewed, and completed on a timely basis.</p>	<p>The Accounting Instructions document is in the process of being updated by Internal Audit. This document governs 'payment' procedures as opposed to 'procurement' procedures. However, 'procurement' procedures are encompassed within the constitution/Standing Orders which has been reviewed recently.</p> <p>Forecast BACS and cheque payments are included in the Authority's cash flow system to ensure that sufficient funds are available. The cash flow system is then updated when actual payment values are known. BACS for creditors are under review.</p> <p>The monthly reconciliation is now completed on a timely basis and sent to a senior officer for review. The year-end reconciliation for 2008/09 has been reviewed as in previous years.</p>
ISA 260 Report Recommendations		
<p>Bank reconciliations</p> <p>We noted that bank reconciliations are not performed for each individual school. We also noted that reconciliations were not performed for balances held in relation to Children Centres.</p>	<p>We recommend that the Council prepare bank reconciliations for each school on a monthly basis for inclusion within the Council's cash balance.</p>	<p>The Council will implement improved bank reconciliation procedures which will include bank reconciliations for each school.</p>

Control issue and associated risk	Recommendation	Management response
<p>Expired cheques</p> <p>Review of the bank reconciliation noted that a number of cheques older than six months were included as un-presented cheques.</p>	<p>We recommend that the Council write back the amounts to cash and take procedures to re-issue the cheques.</p>	<p>Cheques older than six months are normally written back at the end of the financial year. However, due to an error in the Council's financial system this couldn't be undertaken at the end of 2008/2009. The supplier has now corrected this error.</p> <p>The Council will also review its policy on re-issuing out of date cheques.</p>
<p>Banking procedures</p> <p>We noted during our audit work that the Council does not have a procedure in place for the authorisation to open or close a bank account in the Council's name.</p>	<p>The procedures for opening and closing bank accounts should be reviewed and improved as necessary</p>	<p>The Council's Financial regulations include a requirement for all arrangements with banks to be made solely by the Finance and Information Services Director. The current procedures to open or close a bank account will be reviewed and improvements made were necessary.</p>

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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