

Government and Public Sector

Sefton Metropolitan Borough Council

2009/10 Annual Audit Letter

November 2010

The Members
Sefton Council
Bootle Town Hall
Oriell Road
Bootle
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L20 7AE

28 November 2010

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2009/10 audit. We look forward to presenting it to Members on 15 December 2010.

Yours faithfully

PricewaterhouseCoopers LLP

Peter Chambers
Government and Public Sector
PricewaterhouseCoopers LLP

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

The 'Statement of responsibilities of auditors and of audited bodies' issued by the Audit Commission in April 2008 applies to our 2009/10 audit of Sefton Metropolitan Borough Council under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in July 2008. A copy of the statement is available from the Chief Executive of Sefton Metropolitan Borough Council. 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 expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement and the Code of Audit Practice. 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.

Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2009/10 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:

- External audit progress report
- Audit opinion for 2009/10 financial statements, incorporating the conclusion on value for money
- 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 key 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 2009/10 audit work has been undertaken in accordance with the Audit Plan that we issued on 1 December 2009.

Audit findings

Accounts

We audited the Authority's accounts in line with International Standards on Auditing (UK & Ireland) and issued an unqualified audit report on 26 October 2010.

We identified the following key issues from our audit of accounts:

Accounting matters:

a) Delayed financial statements signing - One Vision Housing VAT Shelter Income

Upon the transfer of the Council's housing stock to One Vision Housing (OVH) a VAT shelter agreement was signed between the parties. The agreement entitles the Council to a share of the VAT reclaimed by OVH on housing capital expenditure post transfer. Included within the 2009/10 financial statements is accrued income of £5,671,000 (£2,300,000 in 2008/09). The Council has not received any monies, nor provided against this debtor totalling £7,971,000. As at 31 March 2010 £4,157,000 was past the payment date as per the agreed payment schedule.

At 30 September 2010 the Council had not received any of the monies outstanding and were unable to provide the required evidence to support the recoverability of the debtor balance. As a result of this the signing of the financial statements was delayed. The matter has since been resolved, and an unqualified audit report was issued on 26 October 2010.

b) Asset re-classification from Investment Properties to Other Land and Buildings

During the course of the audit it was identified by officers that an asset included within non-operational assets (investment properties) had a valuation incorrectly applied to it. The Council had capitalised expenditure on the asset against the building and revalued the land within its fixed asset register. The resulting adjustment required the land revaluation to be reversed for £5,300,000. Management have adjusted the accounts to transfer the land valued at £350,000 from Investment Properties to Other Land and Buildings.

The property valuation was then applied to the total asset (i.e. the land and the capital expenditure on the building) with a resulting impairment charge of £1,209,000 being charged to the Income and Expenditure Account.

c) Unrecorded impairment in the draft financial statements

Review of the revaluations of assets performed by the Council identified that the draft financial statements incorrectly excluded the impairment of Ainsdale High School. The result of correcting the error was a charge to the Income and Expenditure Account and a reduction in the carrying value of Other Land & Buildings of £5,815,000.

d) Investment to cash re-classification

Audit of the financial statements identified that the Council had included within investments £16,434,000 (£9,095,000 in 2008/09) of amounts held in overnight lodgements. As the

balance is in overnight accounts this should be included as cash within the financial statements. The Council amended its financial statements to reflect this.

Systems of internal control

a) Payments to private residential care homes

The Council is liable for the provision of care for persons within residential care homes. The Council incurs expenditure based on its known cases of care within a care home, with the care home being required to confirm post payment that the individuals concerned continue to be residents in the home. Review of these payments identified that the Council does not always receive confirmation back from the care home and instances have arisen where overpayments had been made due to changes to the care provided, or the people within the care homes. We have recommended that the Council reviews its procedures surrounding payments to residential care homes and will reflect this area in our 2010/11 audit plan.

- b) The Council has an electronic procurement system (I-Proc) that directly interfaces with the general ledger system. This system has a catalogue of approved suppliers and controls over creating new suppliers, automated controls that ensure order requisitions receive approval from appropriate manager before the order is placed, inbuilt authorisation limits and online recording of goods being received accompanied by automatic matching of invoices to purchase orders. Management estimate that the I-Proc system is currently used for only approximately 5 to 10% of purchases, with the majority of remaining procurement relying on paper based procurement and authorisation controls. Control weaknesses were also identified within the current accounts payable process. These are addressed through the implementation of the I-Proc system.

We have recommended the Council should drive forward the use of the I-proc system, with the aim of processing the vast majority of procurement through this system, as this would address the risks identified. Increased use of the system will also assist the Council in achieving savings through the use of preferred suppliers and tendering procedures. Specific targets and timeframes for usage should be put in place, with senior management involvement to ensure that these milestones are met.

Information Technology General Controls

- a) The Council has its own IT internal audit function and approximately 150 days of IM&T reviews were planned for 2009/10, based on a risk based plan. However Internal Audit has not completed the planned work during the year, resulting in a risk that recognised risks and control failures may go undiscovered.
- b) There is only one data centre location which represents a single point of failure should a major incident occur affecting the Council's significant systems and applications. The loss of access to the data centre and core applications would significantly impact on the Council's ability to provide the necessary services. Disaster recovery arrangements for the data centre should be taken into consideration as part of the Council's business continuity planning arrangements to ensure that services can continue to be provided in the event of any incident affecting access to core applications.

Objection to the Accounts

We have received a formal objection to the accounts under sections 8 and 17 of the Audit Commission Act 1998. The objection relates to entries in the housing market renewal account. We have conducted some preliminary work, and as a result concluded that the sums involved were not material to the financial statements. However we have not yet reached a view about the objection, and until we have done so we will not be able formally to complete our audit for the year.

Conclusion on Use of Resources

We were 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 26 October 2010.

Comprehensive Area Assessment

Following the government announcement to abolish comprehensive area assessment (CAA), all work on Use of Resources for Comprehensive Area Assessment ceased at the end of May 2010. We reported detailed findings from the work undertaken to that date within the Report to those charged with Governance (ISA (UK&I) 260) presented to the Audit Committee on 29 September 2010.

Approach to local value for money audit work from 2010/11

Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

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.

Audit Plan

We presented our 2009/10 Audit Plan to Members on 1 December 2009. Other than curtailment of CAA Use of Resources work in May 2010, the plan has not been changed in any significant respect. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Audit fees update for 2009/10

We reported our audit fee proposals in the fee letter issued on 2 March 2009. Our fees charged were:

	2009/10 Outturn	2009/10 Fee proposal
Financial Statements and Whole of Government Accounts	£179,246	£175,746
Use of Resources / VFM conclusion	£77,491	£77,491
Data Quality	£30,808	£30,808
Total audit fee	£287,545	£284,045

We reported within our Report to those charged with Governance (ISA (UK&I) 260) that there would be a variation to our fee of £3,500 in relation to the audit of the financial statements due to the amount of additional work we had been required to do on the accounting treatment for the PFI project.

Matters for future accounting periods

Transition to International Financial Reporting Standards (IFRS)

The Code of Practice on Local Authority Accounting in the United Kingdom 2010. will apply to the 2010/11 financial statements. The new Code is the first to be prepared under IFRS.

The Authority needs to ensure that it has a good grasp of the changes to accounting requirements under the new Code. The Authority should now have systems in place to collect and process the information needed to prepare IFRS based accounts and should at this stage be well progressed with preparation of comparative information as at 1 April 2010 for next year's financial statements.

We have discussed with management the Council's progress with IFRS transition is and agreed that we will provide support to the Council throughout the transition. We will seek to carry out an early review of the restated comparatives and draft financial statements. Whilst management are continuing to review changes that arise under adoption of IFRS, the Council are behind against the initial project plan.

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.

Clarity International Standards on Auditing (UK & Ireland)

We will be required to apply Clarity International Standards on Auditing (ISAs) for UK and Ireland to next year's accounts audit for the first time.

The Clarity ISAs overhaul existing auditing standards, both improving clarity of existing standards and introducing new requirements designed to improve audit quality and financial reporting.

A number of standards have been completely revised. There will be approximately one-third more explicit requirements applying to the Authority audit next year as well as other new requirements that apply to the authority group audit.

The actual impact on cost of the audit will depend on a variety of factors, including how effectively we can work with you to obtain additional information needed to enable us to perform the required procedures.

Summary of recommendations

Risk	Recommendation	Management Response	Target Implementation Date
High	We recommend the Council reviews its procedures surrounding payments to residential care homes. We are likely to include this as a specific risk in our 2010/11 Audit Plan.	Senior Officers have already met with Internal Audit to agree on the topics to be covered in a Community Care Audit. This matter had already been identified as a weakness and will be corrected with constructive assistance from Audit Officers following the publication of the Internal Audit findings.	November 2010 Jointly between Colin Speight (Principal Manager, Adult Social Care) and Janice Bamber (Chief Internal Auditor)
High	The Council should take action to drive forward the use of the I-proc system, with the aim of processing the vast majority of procurement through this system. The risks identified are addressed through the use of I-Proc for the Council's purchasing requirements.	Agreed. Plans are in place to expand the roll-out of I-procurement across the Council; this project is being managed by the Central Procurement Unit.	During 2010/11 Tommy Crawford
High	Control weaknesses identified within the current accounts payable process are addressed through the implementation of the I-Proc system noted above.	Agreed. Control weaknesses will be addressed through the roll-out of I-procurement across the Council; this project is being managed by the Central Procurement Unit.	During 2010/11 Tommy Crawford
High	The Council should monitor the delivery of the IM&T internal audit plan to ensure that information risks are being appropriately managed and addressed.	A number of IT reviews were undertaken in 2009/10, these included reviews that were part of the Audit Plan for 2009/10. However, there was not as much planned work undertaken as originally envisaged, the reasons for this are twofold:- i) Arvato government services are responsible for the delivery of IT Services as part of the Contract in place. As part of that contract they are required to provide certain assurances to the Council that they meet requirements within that contract. The Council's Internal Audit Section have included an item in the 2010/11 Audit Plan to review the IS Client Function and the assurance that is provided to them as part of the contract requirements. With regard to the actual review of IT systems operated by arvato, an exercise is currently being undertaken to identify how this task will be performed. The Internal Audit Section has also included in the Audit Plan for 2010/11 a number of reviews of compliance within the Council and also continues to undertake ad hoc work were required to provide advice on control areas and risk in relation to areas related to IT.	March 2011 Janice Bamber (Chief Internal Auditor)

Risk	Recommendation	Management Response	Target Implementation Date
		<p>ii) The IT Audit Manager was acting up into a support / audit advice role for the then Acting Chief Internal Auditor as he had minimal experience in the area of Audit, this impacted on the provision of IT audit as this was not planned for at the beginning of the year.</p>	
High	<p>Disaster recovery arrangements for the data centre should be taken into consideration as part of the Council's business continuity planning arrangements to ensure that services can continue to be provided in the event of any incident affecting access to core applications.</p>	<p>The new data centre has been built to a high standard and has all the appropriate protection and security facilities. Data is backed up to tape which are taken off site. Arvato are looking at an alternative to Bootle Town Hall as the storage centre for the DR tapes. Arvato have submitted costs to SMBC for the construction of a secondary data centre facility to provide hot standby for the 20 critical applications. Sefton's Strategic Leadership Team is due to discuss proposals in the week commencing 20 September 2010.</p>	<p>To be agreed. Linda Price (ICT and Contract Monitoring Client Manager)</p>

The matters reported here are those that we consider are most significant for the authority. We provide an annual summary of recommendations to the Director of Finance and his team. This is also a requirement of the Audit Commission's Standing Guidance for Auditors. Our 2009/10 annual summary of recommendations included 27 recommendations.

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