



Accountants &  
business advisers

# Southend-on-Sea Borough Council

## Interim Audit progress report

2011/12

March 2012



Local public services

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

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They 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.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

# 1 Executive summary

- 1.1 The purpose of this Interim Audit progress report is to:
- provide an update to those charged with governance on our work to address the “significant audit risk” of implementing the new financial system during the year
  - set out the progress that we have been able to make to date in respect of obtaining assurance over the controls operating within and around the financial systems
  - explain issues encountered and addressed to date with those systems that we have been able to assess
  - explain why we are encountering delays in undertaking certain elements of our planned work, and the potential outcome
- 1.2 Our primary focus to date has been to assess the main accounting system. In 2011/12, the Council implemented a new system, replacing the previous CEDAR system with Agresso. It has been necessary to assess both the pre-conversion and post conversion periods, because whilst the control objectives are very similar, the specific system design and surrounding controls are different, and so require separate testing to obtain the necessary assurance over their effective operation.
- 1.3 In reading this report, it is important to recognise that the scope and focus of External Audit testing does not exactly match the scope and focus of Internal Audit testing because, whilst there is overlap and reliance placed by External Audit wherever possible, the particular objectives of External Audit and Internal Audit are not the same.

## Pre-Agresso period

- 1.4 The Council has continued to operate the previous control regime up until the implementation of Agresso.
- 1.5 Internal Audit has highlighted weaknesses in respect of the controls over the authorised signatories list that could reduce its effectiveness. The primary concern relates to the infrequency of formal reviews of the accuracy of the authorised signatory list and the risk that it could therefore become out of date and less effective as a control. We support Internal Audit’s view that the list should be reviewed for accuracy on a regular basis, and their concern that their recommendation for a review following the previous year’s review had not been implemented.
- 1.6 With specific focus on testing from the particular needs of the external audit of the financial statements, and in the absence of assurances from Internal Audit testing, we have undertaken work that has provided us with sufficient assurance that, whilst errors were identified, the rate of those errors was within tolerable variance levels.
- 1.7 We understand from discussions with finance officers that in implementing the Agresso system the opportunity has been taken to rationalise the authorisation levels in accordance with the constitution, with these authorisations embedded electronically within the system, providing a stronger control environment.

## Conclusion

- 1.8 Our testing has enabled us to conclude that we can rely upon the authorisation controls operating in the pre-Agresso period.

## Agresso period

- 1.9 Whilst the computer system has been operating since the start of November 2011, the surrounding arrangements and controls have been, and continue to be, developing. This means that there has not yet been a “static” position that can be assessed without the risk of arrangements and controls continuing to evolve, which might in turn make redundant any assessment work undertaken.
- 1.10 We understand from discussion with finance officers that control arrangements have been implemented in stages, with transactions held back until these were in place (for example, debt recovery was put on hold until those control arrangements were designed and implemented). This means that transactions were temporarily suspended, but when recommenced should have been subject to appropriate controls.
- 1.11 The delay in the firming up of arrangements and controls surrounding the Agresso system have been the basis of Internal Audit’s decision to defer undertaking the full extent of their work auditing the systems at the time that was originally envisaged, as the systems were not sufficiently established and embedded to enable the audit of a stable implemented system to be performed. Walkthrough testing, for example, tends to be undertaken following transactions through the whole process, which would not have been possible whilst separable elements were designed and put in place. Given resourcing issues, there has been concern over potentially wasted time if systems and control environments assessed continued to evolve and findings were superseded.
- 1.12 As a direct consequence, we have not yet been able to use their work to obtain assurance over the effectiveness of the controls operating over the system for this period of the year.
- 1.13 We recognise both the concerns of Internal Audit referred to above and also the need for those responsible for, and operating, the Agresso system to obtain feedback on the current operation of the controls. We understand that agreement has been reached for Internal Audit to undertake testing during late March / early April.

## Conclusion

- 1.14 At this stage we are unable to provide conclusions as to the operational effectiveness of the controls in place around, or within, the systems as we have yet to be provided with evidence of what is in place, or how it is operating.

## Recommendations

- 1.15 We have not made any recommendations as the period we have been able to assess to date covers the pre-Agresso arrangements, which have been superseded by the implementation of Agresso, and we have not yet been able to assess the Agresso period arrangements.

## Acknowledgement

- 1.16 We would like to thank officers for their assistance to date in undertaking this phase of our work.

## 2 Introduction

- 2.1 We are required to communicate to you the findings identified during the course of our audit in accordance with International Standards on Auditing 260 and 265.
- 2.2 The purpose of our audit is for us to express an opinion on the financial statements. Our audit includes consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters that we have reported to you are limited to those matters that we have identified during the audit and our work is not designed to provide a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.
- 2.3 We are currently in the process of undertaking our audit of the Council's key financial systems and related internal controls. The purpose of this report is to provide you with an update on the progress that we have been able to make to date.
- 2.4 As highlighted in our Annual Audit Plan, the Council has implemented a new financial ledger and reporting package, known as Agresso, during the financial year. There are risks associated with both the transfer of data from the old system to the new system, and the use of the new system to prepare the financial statements. These risks are to be mitigated by the Council using controls to check the information being processed onto the system to ensure that this is valid and accurate. We will seek to place reliance on those controls to provide assurance that the information contained within the financial system is appropriate as a basis from which to prepare the financial statements.
- 2.5 As a result of the implementation of the Agresso system part way through the financial year, it has been necessary to split the financial year into two separate periods for which different financial systems, and supporting controls, have operated and through which financial transactions have been processed that will form part of the financial statements.
- 2.6 We require assurance that controls have operated effectively throughout the whole of the year and therefore need to obtain assurance over the effectiveness of the operation of the controls for both of the separable periods. In order to obtain this assurance, we seek to place reliance on the work of Internal Audit in the first instance.
- 2.7 The remainder of this report covers:
- Pre Agresso period
  - Agresso period

### 3 Pre – Agresso period

- 3.1 In the pre-Agresso period of the year the Council's intention was for the controls that were already in place to continue to operate in the same manner as they had done previously. Internal Audit has undertaken work on some of the systems and have previously highlighted to the Committee that there were some problems with a number of the controls.
- 3.2 Of particular concern to us were problems raised in respect of the controls over the authorised signatories list and how effectively this was being kept up to date. Internal Audit concluded that, as the recommendations that they had previously made in respect of the controls over the authorised signatory list had not been implemented, there were weaknesses over the authorised signatory list that meant that the authorisation controls would not be operating effectively. If the ultimate conclusion to be drawn from this is that there is no control over authorisation of expenditure undertaken by the Council, there is a clear and significant consequence to the external audit of the accounts, with the worst case scenario being a qualified audit opinion, and the best still requiring extensive substantive testing to provide necessary assurances.
- 3.3 Therefore, in order to promptly determine whether such a risk of qualification was likely to materialise, we undertook direct testing of the authorisation of expenditure by testing a sample of 60 invoices to ensure that they had been appropriately authorised. The results of this testing demonstrated that for 58 of the 60 cases tested the expenditure had been appropriately authorised.
- 3.4 This level of deviation is within our "tolerable" levels – i.e. within the range of results where we may still conclude that the exceptions do not require us to conclude that the control has failed overall, and therefore can be relied upon for our audit opinion.
- 3.5 In the two cases where the appropriate authorisation could not be demonstrated, further investigation was undertaken. This identified that:
- In one of the cases expenditure with a value of £1,440 had been authorised by an officer with an authorised limit of £1,000, and therefore not appropriately delegated to authorise that level of expenditure. Discussions with the officer's line manager confirmed that this was the correct authorising limit for the officer concerned and therefore they had acted beyond their delegated authority in authorising this level of expenditure.
  - In the other case where the authorising signature could not be identified, and therefore also not verified as appropriate, the payments section is continuing to investigate further in order to identify who had authorised the invoice, for a value of £705, and to establish their credentials for doing so.
- 3.6 As a result we have been able to conclude that, whilst there were weaknesses over the controls to maintain the authorised signatory list, the list remained sufficiently up to date to provide an appropriate control over the expenditure undertaken by the Council. However, the level of testing necessary exceeds our planned resource input.
- 3.7 We understand from discussions with finance officers that in implementing the Agresso system the opportunity has been taken to rationalise the authorisation levels. This will ensure that authorisations are in accordance with the constitution, with these authorisations embedded electronically within the system, providing a stronger control environment. However the Council will need to ensure that the electronic based authorisation levels are regularly reviewed.

#### **Conclusion**

- 3.8 Our testing has enabled us to conclude that we can rely upon the authorisation controls operating in the pre-Agresso period.

## 4 Agresso period

- 4.1 The implementation of the Agresso system has not been undertaken as smoothly as was hoped for. The Council originally intended to implement the new system from 1 April 2011, installing modules comprising:
- General Ledger
  - Accounts Payable
  - Accounts Receivable
  - Payroll
- 4.2 However, various delays and issues have hindered the implementation of the system, with eventual go-live dates of:
- General Ledger: 1 November 2011
  - Accounts Payable: 1 November 2011
  - Accounts Receivable: 1 November 2011
  - Payroll: 1 February 2012
- 4.3 Further to the delays in implementation, there have also been delays in firming up the arrangements and controls surrounding the Agresso system, which have continued to evolve whilst the system has been in place.
- 4.4 We understand from discussion with finance officers that control arrangements have been implemented in stages, with transactions held back until these were in place (for example, debt recovery was put on hold until those control arrangements were designed and implemented). This means that transactions were temporarily suspended, but when recommenced should have been subject to appropriate controls.
- 4.5 This has meant that Internal Audit were not able to commence their work auditing the systems at the time that was originally envisaged, and have yet to be able to complete this work. Walkthrough testing, for example, tends to be undertaken following transactions through the whole process, which would not have been possible whilst separable elements were designed and put in place.
- 4.6 Internal Audit have carried out some work, to document the design of the accounts payable and accounts receivable system. However, this work was stopped because the systems were not sufficiently established and embedded to enable the audit of a stable implemented system to be performed. Given the constraints on Internal Audit's resources there was concern that there would be wasted time if the systems continued to develop and the arrangements around them changed and therefore the findings of the Internal Audit work became out of date.
- 4.7 Following the initial work, feedback and brief memos on both accounts payable and accounts receivable were provided to highlight the gaps in controls, so that such controls could be developed before Internal Audit continued their work.
- 4.8 Given that Internal Audit have not yet been able to complete their work, we have not yet been able to use their work to obtain assurance over the design and effectiveness of the controls operating over the system for the periods of the year since the implementation of the system modules.
- 4.9 As the above systems are now in place and being used by the Council to process transactions, there should be sufficient business process controls in place, around the system itself, to ensure that the correct information is being processed and recorded by the system.

- 4.10 We recognise both the concerns of Internal Audit referred to above and also the need for those responsible for, and operating, the Agresso system to obtain feedback on the current operation of the controls. We understand that agreement has been reached for Internal Audit to undertake testing during late March/early April.

### ***Conclusion***

- 4.11 At this stage we are unable to provide conclusions as to the operational effectiveness of the controls in place around, or within, the systems as we have yet to be provided with evidence of what is in place, or how it is operating.