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Interim Audit Report 2013/14

Doncaster Metropolitan Borough Council

June 2014

Contents

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External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2013/14 financial statements and the 2013/14 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Doncaster MBC (the Authority) in relation to the 2013/14 financial statements; and

- our work to support our 2013/14 value for money (VFM) conclusion up to June 2014.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in January 2014, set out the four stages of our financial statements audit process.

During February to April 2014 we completed our planning and control evaluation work. This covered:

- review of the Authority's general control environment, including the Authority's IT systems and implementation of the ERP system;

- testing of certain controls over the Authority's key financial systems; and

- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission and detailed our initial risk assessment.

We have completed some initial work in response to the risks identified during our interim visit.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.

- Section 3 sets out our key findings from our interim audit work in relation to the 2013/14 financial statements.

- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Organisational and IT control environment	We identified evidence to support the existence of the majority of steps that should be taken as part of the ERP project, although we have noted six areas as potential improvements for future projects. We have also gained an understanding of the IT environment within the Authority. We have made five recommendations for improvement.
Controls over key financial systems	Our work on controls over key financial systems will be finalised during our final accounts visit in August as some of the key controls are only operated by the Council at year end. Some issues have been identified during our initial work and recommendations are contained at Appendix 1.
Accounts production and specific risk areas	We recognise the challenges faced by the Council in implementing the new ERP system and the Authority has incorporated a number of measures to manage the key risks in the closedown process. It is crucial that the volume of un-reconciled items on the bank reconciliation is reduced and bespoke reports which are essential to the closedown process are tested as a matter of urgency to ensure risks to the closedown process are managed.
VFM risks	To date, plans have been identified for £92m of the required savings which includes the £38m that needs to be achieved in full in the first year of the budget period. Only savings that can be permanently delivered have been built into the budget to address the (£109m) budget gap. Although considerable proposals have been identified for future years, a gap remains in 2015/16 of £12.0m and 2016/17 £4.1m. Further budget work will need to take place during spring and summer 2014 in order to identify these further savings/cuts. We will continue to monitor progress in Children's Services and the formation of the Children's Trust.

Organisational and IT control environment

We have reviewed the impact of the recent ERP project and have been able to obtain assurance that the majority of the steps required of such a project were established. However, a number of improvements for future projects have been identified.

We have also gained an understanding of the IT environment within the Authority. This was particularly important because of the ERP project and the resulting outsourcing of the IT hosting arrangements for the new system.

Work completed

We have performed an assessment to evidence the existence of the controls as part of the ERP upgrade project and obtain an understanding of the Authority's overall control environment to gain a high level understanding of the IT controls in place. The main purposes of these reviews are to enable us to assess whether or not we can place a reliance on the IT controls.

Our assessment on the existence of controls as part of the ERP project is restricted to evidencing the "steps taken" as had been agreed in the planning stage of the audit. We do not provide an opinion on their adequacy or effectiveness.

In order to assess the Authority's overall control environment, we performed a review to gain an understanding of the IT controls in place. We have not carried out a detailed assessment nor do we provide an opinion on the operating effectiveness of the controls.

Key findings

The ERP project had established controls supporting the existence of the majority of the steps with the exception of the points summarised below:

- There was a lack of detailed assessment of the time commitments required from Doncaster MBC's users and stakeholders within the Project Plan. This has caused difficulties for the required people to allocate time for the project in addition to their day-to-day tasks.

- There was a lack of defined acceptance and success criteria within the Project Plan other than the milestone achievements. Consequently, it would be difficult to determine whether the deliverables of the project have been achieved.

- Issues logs used by each workstream varied. This caused some challenges for the Project Manager to compile the consolidated logs for regular updates.

- There was a lack of documentation of completion of tests by end-users in each work stream as part of user acceptance testing.

- Not all the tests planned were successfully passed prior to the planned start of cutover. However, a decision was made to go ahead with "go-live" by transferring the outstanding tasks to the issues log to be prioritised post "go-live".

- The training system was not stable and the data quality in the training environment was poor which hampered the quality of training to the end users.

Our review of the IT environment noted the following issues:

- Passwords have been set as an authentication mechanism to the accounts, but there is no definitive standard setting out the minimum password requirement.

- There is a lack of formalised documented procedures for leavers and movers processes.

- One generic account is being used by the Financial System team. All access using this account should be supported by email approval from the Financial System Manager. However, there is no detective control mechanism in place to ensure that all access and changes made by this account had been properly accounted for.

- There have not been any periodic user account reviews performed during this period despite the fact that the Technical Security Policy requires the review every 6 months.

- There is no segregation of duties between the ICT team members who are responsible for developing changes and those who are responsible for implementing the changes to the live environment.

Recommendations are included in Appendix 1.

Controls over key financial systems

As many of the key controls over financial systems which we have identified as significant accounts are operated during the closedown process, our work will be finalised during our final accounts visit in August.

However, there are some issues in respect of the testing already undertaken.

Work completed

We have review the controls over those systems we deem significant accounts. We use the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

At the time of our interim audit, we noted some issues in respect of individual financial systems that will impact on our audit:

- Issue 1: Our review of the bank reconciliation found high volumes and values of un-reconciled items. We recognise that additional resources have been allocated to clearing the un-reconciled items so that items are followed up in readiness for the year end accounts closure.

- Issue 2: During our audit, we noted that consultants are designing a number of bespoke reports which are essential to the closedown process and to our audit. Once these reports are developed the finance team had plans in place to test the reports and undertake a hard close to ensure readiness for closedown of the accounts. As the timescale to produce the reports slipped, the planned hard close did not take place. The finance team will need to manage the risks to ensure that the closedown timetable is still achievable.

- Issue 3: Journal authorisation controls have been introduced during the year but there is still a need to formally document the procedures

Recommendations are included in Appendix 1.

We have not assessed the controls over all financial systems as our work is focussed on significant accounts which are shown in the table below. Many of the key controls in respect of these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

We will also finalise our review of data migration once internal audit work on this is complete.

Accounts production process and financial statements risk assessment

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has made progress in implementing the recommendation made in our *ISA 260 Report 2012/13.*

Accounts production process

We issued our Accounts Audit Protocol to the Finance Team in February 2014. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. We discussed our requirements in detail in a meeting on 11th February 2014.

We continued to meet with officers on a regular basis to support them during the financial year end closedown and accounts preparation.

As part of our interim work we specifically reviewed the Authority's progress in addressing the recommendations in our *ISA 260 Report 2012/13*.

Key findings

The Authority has incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This includes a peer review of all working papers.

We consider that the overall process for the preparation of your financial statements is adequate. The areas which you need to pay particular attention to are: clearing un-reconciled items on the bank reconciliation and testing of bespoke reports which are essential to the close-down process.

The Authority has made progress in implementing the recommendation in our *ISA 260 Report 2012/13* relating to the financial statements in line with the timescales of the action plan. The table below sets out the Authority's progress against the recommendation.

Issue	Progress
Ensure that quality assurance procedures linked to the production of the financial statements are sufficiently resourced to enable timely delivery.	The year-end planning process and timetable have been reviewed to ensure that sufficient resources in place. All working papers are scheduled to be peer reviewed by 18th June which should enable proof reading and overall QA checks on the draft Statement of Accounts by 20th June with any subsequent amendments to be progressed by 24th June.

Specific audit risk areas

The Authority has a good understanding of the key audit risk areas we identified and is making progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our *External Audit Plan 2013/14*, presented to you in January 2014, we identified the key audit risks affecting the Authority's 2013/14 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with officers as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The Authority has a clear understanding of the risks and making progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit..

The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
New ERP System	The Authority introduced a new ERP system during 2013/14. Phase one was implemented in September 2013 and includes new general ledger, accounts payable and accounts receivable modules. As the general ledger is fundamental to the production of the financial statements, issues with the transition to and operation of the new system could fundamentally undermine the reliability of the information in the financial statements. We need to understand the operation of the new system and assess the success of the implementation in order to evaluate this risk and the impact on the financial statements.	KPMG IT specialists have undertaken a review of the implementation of the new ERP system including project management, system configuration and interfaces, data migration and access controls. Details of this work are at page 4 of this report. Given some bespoke reports were not yet developed at the time of our interim visit, we were unable to fully complete our review of the new system. The Finance team are developing contingency arrangements should reports not all be available. We will revisit these areas during our final accounts visit.

VFM audit approach

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Our *External Audit Plan 2013/14* describes in more detail how the VFM audit approach operates.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

■ securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and

■ challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.
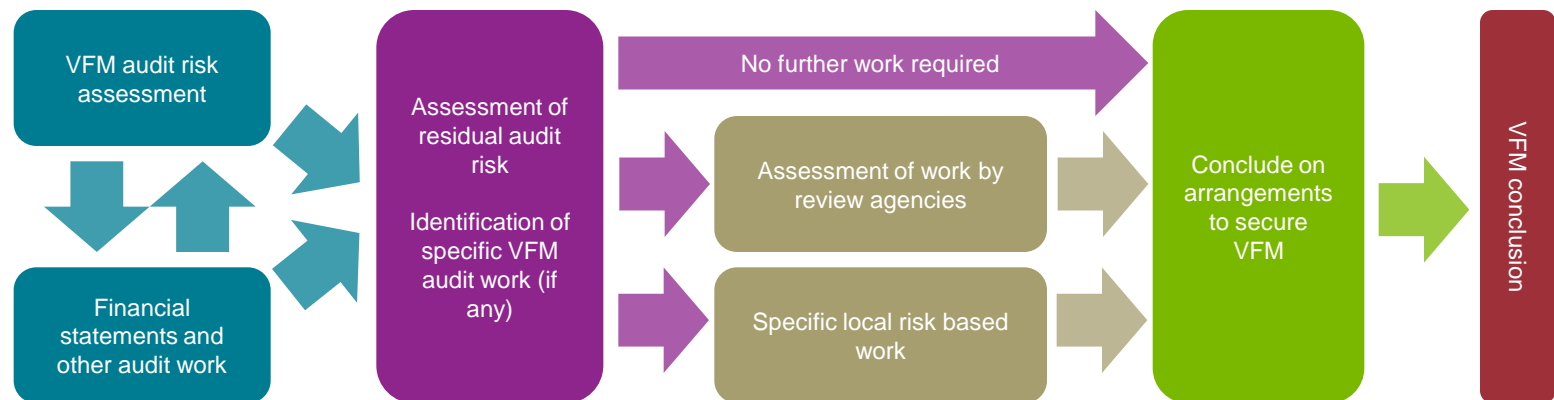
We identified a number of specific VFM risks at planning.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have undertaken some work to date in response these risks

Work completed

We identified a number of risks to our VFM conclusion at the planning stage and have undertaken some work to date to assess the Authority's approach to managing these risks.

Key findings

Below we set out our interim assessment of the response to these risks.

We will report our final conclusions in our *ISA 260 Report 2013/14*.

Key VFM risk	Risk description and link to VFM conclusion	Work undertaken to date and interim assessment
Savings Plan	In response to the cuts in funding from central government, the Authority has plans to reduce its spending by £109 million between 2014/15 and 2016/17. These levels of savings will be harder to deliver than earlier years as the Authority has already developed and delivered the more straightforward savings opportunities. A balanced budget has been agreed for 2014/15 but there remains a savings gap of £17 million in 2015/16 and 2016/17. As part of our VFM work we will critically assess the plans the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	The Authority has identified that it needs to make significant savings over the 3-year budget period from 2014/15 of £109m; £38.0m in 2014/15, £39.2m in 2015/16 and £31.3m in 2016/17. To date, plans have been identified for £92m of the required savings which includes the £38m that needs to be achieved in full in the first year of the budget period. Only savings that can be permanently delivered have been built into the budget to address the (£109m) budget gap. Although considerable proposals have been identified for future years, a gap remains in 2015/16 of £12.0m and 2016/17 £4.1m. Further budget work will need to take place during spring and summer 2014 in order to identify these further savings/cuts. We have reviewed savings plans identified for 2014/15 and will carry our further work once the Quarter 1 monitoring report is available to ascertain achievability of savings identified. We will continue to review progress in this area prior to finalising our VfM Opinion in September 2014.

Key VFM risk	Risk description and link to VFM conclusion	Work undertaken to date and interim assessment
Digital Region Limited	In light of the ongoing cost of supporting Digital Region Ltd, the Authority, in conjunction with the other shareholders, took the decision to wind up the company in August 2013. This decision will limit the Authority's exposure to future losses connected with Digital Region Ltd. It is also likely to lead to the overall cost being equal to or less than the provision of £6.4m included in the 2012/13 financial statements. We understand that the process of winding up the company will not be concluded during 2013/14. The Authority is currently carrying out a review of the Digital Region Project to identify the lessons that should be learned from the initial decision to invest up to the final decision to close the company. This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.	KPMG have carried out an independent review of the Digital Region Project on behalf of the four councils involved in the Digital Region Project. A number of lessons learnt have been reported to Barnsley Metropolitan Borough Council who engaged KPMG to carry our the review on behalf of the authorities involved. We will consider the authority's review of the lessons learnt prior to issuing our VfM conclusion.

Key VFM risk	Risk description and link to VFM conclusion	Work undertaken to date and interim assessment
Children's Services	Following a visit by OFSTED in November 2012, the Secretary of State for Education issued a statutory direction in March 2013 that required the Authority to bring in external management support for the Children's and Young People's Service, particularly in respect of child protection. In August 2013, the Secretary of State for Education appointed Alan Wood as Commissioner for Children's Social Care in Doncaster and issued a statutory direction requiring Doncaster Council to work with the commissioner to enable transfer of services to a trust and secure improvements to children's social care. The 2012/13 VFM Conclusion included a report by exception highlighting the action taken by the Secretary of State. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	We continue to monitor progress in Children's Services via our attendance at the Recovery Board. At the time of our interim audit the Children's Trust Board was not yet operational. We will review the progress made in forming a Children's Trust against the project plan before issuing our VFM conclusion.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up the high priority recommendations as part of our final accounts audit. Other recommendations will be followed up next year.

Priority rating for recommendations		
❶ *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ *Priority two:* issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	❶	*Our review of the bank reconciliation found high volumes and value of un-reconciled items. We recognise that additional resources have been allocated to clearing the un-reconciled items so that items are followed up in readiness for the year end accounts closure.* **Ensure that all un-reconciled items on all bank reconciliations are cleared prior to the year end closure .**	
2	❶	*During our audit, we noted that consultants are designing a number of bespoke reports which are essential to the closedown process and to our audit. Once these reports are developed the finance team have plans in place to test the reports and undertake a hard close to ensure readiness for closedown of the accounts. As the timescale to produce the reports has slipped, the timing of the hard close has had to be re-scheduled. The finance team will need to manage the risks to ensure that the closedown timetable is still achievable.* **Ensure that all bespoke reports which are essential to the closedown process are tested during the hard close process.**	

Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
❶ *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ *Priority two:* issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
3	❸	*Journal authorisation controls have been introduced during the year but there is still a need to formally document the procedures* **A formal documented procedure should be put in place for journal authorisation controls.**	
IT Control Environment Recommendations			
4	❷	*Passwords for the ERP system have been set as an authentication mechanism to the accounts, but there is no definitive standard as to the minimum password requirement.* **A defined password requirement should be put in place to ensure that the password setting is set in accordance with DMBC's requirements.**	
5	❷	Lack of formalised documented procedures for leavers and movers processes supporting the ERP system. **A formalised procedure for leavers and movers should be put in place to ensure that their accounts are removed/modified in a timely manner.**	

Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
❶ *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ *Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
6	❸	One generic account is being used by the Financial System team on the new ERP system. All access using this account should be supported by email approval from the Financial System Manager. However, there is no detective control mechanism in place to ensure that all access and changes made by this account has been properly accounted for. *There should be a detective mechanism in place to ensure that all access made by the generic accounts are accounted for (e.g. periodic review).*	
7	❷	There have not been any periodic user account reviews performed for the ERP system during this period despite the fact that the Technical Security Policy document requires the review every 6 months. *There should be a periodic user account review to ensure only appropriate users have access.*	

Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
❶ **Priority one**: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ **Priority three**: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
8	❷	There is no segregation of duties between the ICT team members who are responsible for developing changes and those who are responsible for implementing the changes to the live environment. *There should be a segregation of duties between developers and those responsible for implementing the change to the live environment. Alternatively, there should be a peer-review mechanism in place to ensure that all changes have been properly approved and tested before being implemented.*	

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