Peter Sloman
Chief Executive

Civic Offices, Bridge Street
Reading RG1 2LU
☎ 0118 937 3787

To: Councillors Stevens (Chairman), Brock, Davies, Gittings, McKenna, Terry and Warman

Our Ref:
Your Ref:

Direct: ☎ 0118 937 2153
e-mail: michael.popham@reading.gov.uk

21 January 2019

Your contact is: Michael Popham - Committee Services

AUDIT AND GOVERNANCE COMMITTEE – 24 JANUARY 2019 – ADDITIONAL PAPER

A meeting of the Audit & Governance Committee will be held on Thursday 24 January 2019 at **6.30pm** in the Council Chamber, Civic Offices, Reading.

Further to the agenda for the above meeting, please find attached:

Reading Borough Council
Audit Update Report

Year ended 31st March 2017

17h January 2019

Building a better working world

17th January 2019

Audit and Governance Committee
Reading Borough Council

Dear Committee Members

Audit Update Report

Please find attached key extracts from our our Audit Results Report which we will issue in its fuller form once the audit of the 2016/17 financial statements is complete. In the meantime we wanted to bring to Members attention the aspects of our report covering the completed work to date.

This report includes:

- Section 1 - A table of outstanding matters for completion; a commentary on scope changes since planning and our key messages to date;
- Section 2 – Audit differences identified to date;
- Section 3 – Control observations.

This report is intended solely for the information and use of the Audit and Governance Committee and Senior Management and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Maria Grindley

For and on behalf of Ernst & Young LLP

Enc

01 Current position and messages

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Receipt of final signed financial statements and review of the final version to ensure all agreed amendments have been made	Incorporation of EY review comments on disclosure notes	Management & EY on receipt
Review of Cashflow, Financial Instruments, Reserves & Group Accounts	As a result of the nature of the ongoing work on the audit EY will need to review a number of key accounts which will be impacted by work being completed elsewhere on the audit and also liaise with component auditors as necessary for relevant assurance	Management & EY on receipt
Final entries and adjustments arising from Property, Plant & Equipment (PPE) revaluation exercise	Review of key assumptions and judgements arising from the full revaluation exercise of material assets. Review of all associated postings and confirmation that adjustments are correct EY Property Valuations to sample test a number of assets to ensure that the valuation assumptions and key principles are consistent with recognised professional guidance EY to review HRA assets and impairment exercise	Management & EY on receipt
Final EY internal review process	EY Audit Partner to present final proposed conclusions on the 2016/17 audit to EY internal panel seeking confirmation of proposed audit report conclusions	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit & Governance Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report including full minute reviews up to date of sign off	Management & EY on receipt
S 24.7.2 Recommendations Follow Up	EY to review and consider the Council's S24.7.2 responses to EY's recommendations arising from the 2015/16 audit	Management (responses sent for all bar one item which will follow) & EY on receipt

A4

Scope update

Scope update

- Changes in audit strategy

As our risk assessment increases, we require more persuasive audit evidence from substantive procedures to reduce our audit risk to an acceptably low level and draw reasonable conclusions on which to base our opinion. We have considered our risk levels throughout the process from initial planning to the current position. As part of this process we re-assessed our materiality levels on receipt of version 2 of the financial statements in June 2017. At this point materiality levels were reduced to take account of the fact that we were finding a significant number of errors in our testing and a number of areas where supporting documentation could not be found. Also as our work progressed we continued to identify a significant number of errors in the draft accounts as a result, in August 2018 we increased our risk assessment across all areas of the accounts.

- Changes in the audit team

Due to the significant issues identified on the audit the Audit Partner introduced an Engagement Quality & Compliance Reviewer (EQCR) onto the engagement. The EQCR was used to challenge the audit team on key judgements and to further support the quality of the conclusions reached on the audit. Adrian Balmer also replaced Alan Witty as the manager with responsibility for the audit.

- Additional Significant Risk – Administration and Maintenance of Property, Plant and Equipment Fixed Asset Register

The review of the accounts from our technical expert highlighted significant issues with the Fixed Asset Register and how the council were accounting for their Property, Plant and Equipment. Consequently, we identified this area as a significant risk due to the complexity of the work to be carried out and also given the material nature of the PPE balances within the financial statements.

- Group scoping

Reading Transport Limited (RTL) and Reading – Hampshire Property Partnership (RHPP) were reviewed and given the values involved, or the nature of the disclosures made within the financial statements, were both subsequently revised to be within scope for the 16/17 audit based on either qualitative and/or quantitative grounds.

- Audit Fee

The changes identified here to our initial audit plan and the ongoing delay in being unable to certify the financial statements have entailed additional unexpected costs. A detailed analysis of fees can be found on slide 57.

Initial messages

Key messages to date

Significant difficulties encountered during the audit & discussed with management:

The audit team experienced a number of significant difficulties during the 2016/17 audit. In summary a large number of these difficulties arose as a result of a number of control failures.

The control failures made the audit very difficult to execute and resulted in significant additional input from the EY audit team and also staff at the Council at all levels. We have included below messages so far regarding as significant difficulties. Our final Audit Results Report will include a fuller picture but we thought it was helpful to share these at this stage:

1) Journals:

Journal controls were not in effect for the period 2016/17 and as a result numerous errors arose from the fact that inexperienced staff were able to prepare and post journals with incorrect debit and credit entries. This not only resulted in incorrect postings and therefore inaccurate financial reporting but often when the errors were being unwound further errors were then identified which exacerbated the initial error and resulted in significant additional time to correct. In addition numerous journals were found to have no supporting documentation supporting the journal entry as this was one of the controls that had been removed during 2016/17.

2) Control Account Reconciliations:

It was also noted that key control account reconciliations were not being completed during 2016/17. This included key monthly control account reconciliations on key accounts such as Cash, Debtors and Creditors. Regular reconciliations are a fundamental aspect of financial management and the non-completion of these key reconciliations increased the risk to the Council not only in respect of error but also potentially fraud.

3) Key accounts and inability to provide fully reconciled supporting breakdowns:

As part of our testing of key material balances within the financial statements we request breakdowns supporting the balances as per the financial statements. For a number of key accounts the Council were unable to supply the audit team with a supporting listing for them to select samples for further testing. This was particularly relevant to Debtors and Creditors testing. This caused significant delays in the completion of testing in these areas and also further questions around the validity of the balances as per the financial statements.

4) Quality Control and Oversight:

Our initial review of the various versions that we were originally presented with is that there were significant quality control deficiencies. It was clear that the accounts as presented for audit had not been appropriately quality controlled. In addition working papers as initially presented were not of the standard expected and often did not tie through to the financial statements. Again this resulted in numerous errors which could have been prevented. It was also apparent that key aspects of the CIPFA Code and Guidance Notes which are used to support an ISA compliant set of financial statements had not been followed. Again this resulted in further errors and additional work across a number of key areas. This lack of quality control added significant additional time and expense to the approval of the financial statements. It also increased the risk profile of the audit given the fundamental nature of the errors being identified.

Initial messages

Key messages to date (continued)

5) Inability to provide appropriate audit evidence:

Across a number of significant areas of the accounts the Council were unable to supply appropriate audit evidence supporting the balances sampled. This was particularly an issue in journals where controls in respect of supporting documentation had slipped. However we also identified issues in this respect in other key areas most notably Debtors and Creditors. As a result the Council were unable to verify the existence of a number of balances selected for testing. As existence of a balance is a key audit assertion failure to confirm existence results in a fail and as such we have seen large extrapolated errors in accounts such Debtors and Creditors as a result.

6) Staffing of the Finance Team:

As part of the initial stages of the audit we identified instances of inexperienced staff or staff without the appropriate qualifications in the finance team being involved in key positions within the closedown of the financial statements. This resulted in numerous errors within the financial statements. The nature of the errors identified reflected a basic lack of understanding of key accounting principles with debit and credit entries often used incorrectly. Similarly, the lack of an in-house capital accountant exacerbated issues with the closedown of the Property, Plant and Equipment entries within the financial statements. We should note that, following a review of the finance function, since the start of our audit a number of key contacts in finance have changed. We have seen increased traction over recent months and a commitment from the current team to move this situation forward.

7) Inadequate Accounting Software – Property, Plant & Equipment Fixed Asset Register:

Property, Plant & Equipment (PPE) balances within the financial statements are usually, with the IAS 19 pension entries, the most significant by value in the financial statements. The accounting for PPE can also be challenging and pervasive impacting many different accounts and disclosures within the financial statements. The Council closed down their 2016/17 financial statements using an Excel based Fixed Asset Register (FAR). The administration and maintenance of the FAR was overly burdensome and prone to a higher likelihood of human error given the lack of automation. The majority of other councils we audit use recognised FAR software which automates to a large extent the entries required for the financial statements. The use of a recognised FAR facilitates easier auditing of the outputs and gives greater confidence in the material correctness of the entries impacting on the financial statements due to the inherent controls and functions within the software. We should note that the Council have since purchased an off the shelf local government specific FAR and so going forward we would expect to see less issues arising from the administration and maintenance of the FAR and greater efficiencies from the automation in effect.

Areas of Audit Focus

Other matters

- Written representations that we are seeking

Given the nature of the findings and the significant delay in certifying the 2016/17 financial statements we will seek a number of specific representations from management. The letter of representations, including the specific representations, will require approval from the Audit & Governance Committee and Senior Management. The letter of representations will come at the end of the end of the audit when the items noted in the 'Outstanding Matters' section have been completed.

- Expected modifications to the audit report:

As a result of the nature and pervasiveness of some of the errors across key significant accounts we anticipate that we will be modifying the audit report i.e. issuing a qualified audit report. The modified audit report will be subject to EY's internal review processes and will be finalised when the work still to be completed and noted in the 'Outstanding Matters' section has been completed.

02 Audit Differences to date

Audit Differences to date

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted known differences above £2,346,235

As reported in our Audit Planning Report; we highlight here the following known misstatements greater than 0.5% of gross expenditure (£2,346,245) which have been corrected by management that were identified during the course of our audit. As the audit is still ongoing it is possible that further adjustments will be required.

CASH:

- £12.15M Re-classification error between Short Term Investments and Cash.

RECEIVABLES & PAYABLES:

- £3.2M Overstatement of debtors. Debtor incorrectly raised in relation to overspend incurred by schools.
- £4.2M Overstatement of debtors (understatement of cash). Cash received 31st March 2017 but not matched against debtor.
- £2.6M Understatement of debtors & overstatement of creditors due to prepayments being incorrectly included with creditors.

FIXED ASSETS:

- £9.9M incorrectly classified as Assets Held for Sale as they do not meet the required criteria.
- £26.4M incorrectly classified as Investment Property as assets are not held for this purpose.
- £14.1M Understatement of PPE, incorrect Social housing factor applied to council dwellings
- £3.2M Understatement of PPE due to incorrect application of impairments
- £7.2M Overstatement of infrastructure assets as a result of incorrect depreciation calculation
- £13.4M Re-classification of assets from Infrastructure to Vehicles, plant and equipment

BORROWINGS:

- £4M overstatement of Short Term Borrowings (& overstatement of cash) since this amount was re-paid on 31st March 2017.

INCOME & EXPENDITURE:

- £3.4M Overstatement of income and expenditure as a result of incorrect journaling of Public Health Grant
- £9.9M Overstatement of income as a result of a collection fund adjustments
- £8M Overstatement of expenditure and reserves as a result of a prior period collection fund adjustment
- £16.7M Overstatement of income & expenditure as a result of PFI adjustment
- £18.5M Overstatement of expenditure – incorrect accounting of impairment reversals HRA
- £5.4M Overstatement of expenditure due to incorrect accounting entries on disposals of assets

Audit Differences to date

Considering the nature & complexity of the 16/17 audit we would also like to bring to your attention the corrected known adjustments above £234,624 (5% of materiality).

Summary of adjusted known differences above £234,624

CASH:

- £1.1M understatement of cash balance and creditor balance due to creditor codes being mapped to cash

RECEIVABLES & PAYABLES:

- £607k Overstatement of debtors balance due to an error in OHMS balance being incorrectly reflected in the General Ledger.
- £966k Reclassification error, long term debtors incorrectly classified as short term
- £1.4M Reclassification error, short term debtors incorrectly classified as long term
- £668k Overstatement of creditors due to an error in OHMS balance being incorrectly reflected in the General Ledger.
- £476k Overstatement of creditors due to incorrect balance shown owed to Berkshire Pension Fund.
- £489k Overstatement of creditors – not a creditor at year end
- £650k Reclassification error of backdated care cost – should be classified as a provision
- £1.6M Overstatement of creditors (and cash) as paid on 31st March 2017 but not recorded.
- £2.2M Understatement of creditors (RIA) as a result of incorrect treatment of revenue grants
- £710k Reclassification error between creditors and debtors in relation to commuted sums.

FIXED ASSETS:

- £440k Omission of asset meeting 'Asset Held For Sale' criteria.

INCOME & EXPENDITURE:

- £1.1M Overstatement of income & Expenditure as a result of incorrect journaling of grants
- £849k Understatement of income & expenditure as a result of incorrect journaling of schools transferring to academies
- £1.6M Understatement of expenditure due to incorrect reversing of impairments in relation to two schools
- £1.0M Overstatement of expenditure. Impact on NDR levy as a result of the NDR provision adjustment.
- £243k Overstatement of expenditure. Prepayment in relation to Northgate Contract not appropriately recorded
- £850k Understatement of expenditure. Correction of movement of school cash and bank for 16/17 conversions of two schools
- £773k Understatement of expenditure due to incorrect reversals of impairments.
- £332k Understatement of grant income as quarter 4 payment not accrued

Audit Differences to date

Continued:

PROVISIONS:

- £1.7M Understatement due to omission of Local Authority insurance provision
- £787k Overstatement of provisions – provision could not be supported
- £1.8M Reclassification error – Accumulated absences accrual should be included within creditors

GROUP ACCOUNTS:

- £1.4M Overstatement of Current Fixed assets and £969k understatement of Non- current assets as figures provided were up until 13th March 2017 only.
- £1.1M Overstatement of Current Liabilities and £839k understatement of Non current liabilities as figures provided were up until 13th March 2017 only.

PFI:

- £592k Waste PFI adjustment
- £845k Waste PFI adjustment – release of deferred income

Audit Differences to date

Summary of adjusted disclosure differences

We highlight the following material disclosure errors which have been corrected by management that were identified during the course of our audit:

Movement In Reserves Statement (MIRS):

- Statement did not meet the minimum disclosure requirement of the code.
- The reserve balances were shown as debit rather than credit balances.
- Misunderstanding of statutory movements and those between earmarked reserves

Expenditure and Funding Analysis Statement (EFA):

- Incorrectly disclosed as a primary statement & did not reconcile to the accounts & narrative forward
- Where column 1 of the EFA includes material items of income and/or expenditure that are named in Para 3.4.2.99 of the Code these required to be analysed in the disclosure note over the named segments. No such note had been included in the statement of accounts.

Balance Sheet:

- The Capital Grants Unapplied and the Capital Receipts Reserve were shown as General Reserves. These are usable reserves but are statutory reserves and are not part of the wider GF reserves.
- The signage in the reserves part of the statement was incorrect.
- Available for sale FIs and ST investments are quantitatively material but are not referenced to relevant notes in the disclosures.

Comprehensive Income and Expenditure Statement:

- The comparatives for the previous year merely show the net expenditure rather than full restatement which would be gross expenditure and income.
- The Council has not separately identified those material items of “Other Comprehensive I&E” between those that will be reclassified to the (surplus) or deficit on the provision of services and those that will not.
- NDR is shown net of the levy which is a material amount and therefore would expect to see separate disclosure of this amount.
- Para 3.4.2.43 of the Code requires an expenditure and income analysed by nature note of the CIES. This note must as a minimum show employee benefit expenses and depreciation, amortisation and impairment which it did not
- HRA income & Expenditure incorrectly recorded with Environmental income which is not in line with management reporting.

Group Accounts:

- Omission of Reading Hampshire property LTD within group accounts as the company is qualitatively material.
- The balance sheet shows a positive General Fund and a negative P&L on consolidation these should be merged showing a negative overall Group General Fund balance, which is the true position.

Housing Revenue Account (HRA):

- Incorrect Social Housing Factor had been used in the valuation of the HRA stock. This had a material impact on the valuation given the size of the HRA asset base.

Audit Differences to date

Continued:

Note 1 – Statement of accounting policies:

- Many policies were not code compliant / not reflective of processes actually followed by the council.

Note 3 – Assumptions Made About the Future & Other Major Sources of Estimation Uncertainty:

- The Council had not included any sensitivity analysis within the original version of the financial statements presented for audit

Note 7 – DACHS Pooled Budget Information:

- We noted inconsistency within the accounting approach presented within this note.

Note 11 – Related Parties:

- The Council had excluded the Reading-Hampshire Property Partnership on the grounds of quantitative materiality. However, for Group accounts it is qualitative materiality that is the initial consideration and a key component of that is the assessment of whether the organisation is delivering a key service, therefore should be consolidated.

Note 15 – Amounts included in the MIRS:

- Signage incorrect

Note 16 – Exit Packages:

- Errors identified within allocation of remuneration bandings

Note 18 – Non-Current Assets:

- The Code sets out a requirement for separate disclosure notes on PPE, investment properties and Assets held for sale but this had not been done.
- The table stated that impairment reversals are credit balances to gross book value when they are increases to the valuation and therefore debits.
- The policy stated that where there is expenditure on enhance of non-current assets if the in-year expenditure is less than 10% of the value of the assets then the expenditure is impaired and shown as an historic impairment. The impact of this treatment was such that the value of any single asset could potentially be understated by 10% which cumulatively could be material.
- There was no deminimis applied to capital expenditure as per the original accounting policy on non-current assets. It is commonly accepted that there should be a deminimis applied to capital expenditure .
- The valuation date of non-current assets was 1st April. The council could not evidence that a year end assessment had taken place to understand if the valuation date of 1st April was still materially correct for the effective valuation balance sheet date of 31st March.
- Surplus assets are covered by IFRS 13 and it is expected that the carrying value should be 'best use' value. The council could not demonstrate that this had been considered as part of the valuation programme.

Audit Differences to date

Continued:

Note 20 – Reconciliation of the movement in fixed assets to the capital expenditure of the council:

- We noted incorrect classification & treatment of Assets Held for Sale in the original versions presented for audit

Note 27 – Capital Commitments:

- Omission of one capital commitment over £1M
- Council were unable to provide a 16/17 figure for the Transport Consultancy Support commitment.

Note 31 – Post employment benefits:

- The current service costs shown in Note (a) does not agree to the current service costs shown in Note (b)

Note 32 – Contingent liabilities:

- Omission of contingent liability

Collection Fund:

- Income is shown as a debit rather than a credit balance meaning that as shown the statement does not cast
- The prior year comparatives do not separately identify council tax and NDR movements as required by the Code.
- The income total in the comparators has double counted the business rates receivable and been overstated by £109.335M with associated errors in the in-year movement and the closing balance amount.

Audit Differences to date

Summary of unadjusted judgemental differences

In addition we highlight the following judgemental misstatements to the financial statements and/or disclosures which were not corrected by management above £234,624. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation. As the audit is still ongoing it is still possible that further differences may be identified.

The Council were unable to provide sufficient support for the followings amounts (journal description included for reference):

RECEIVABLES:

- DR [£278,765] 'CSS 16-17 TRANSFER OF BALANCE FROM 16-17 TO 17-18 cc2406'.
- DR [£446,979] 'Academy system Debtors/HB transfers - journal required'
- CR [£280,592] 'Academy - Internal differences in system per reconciliation (system balance is £13,625,882.88'
- CR [£466,722] 'Civica Cash journal required to R9826'
- CR [£918,167] 'Civica Cash correction required to R9826'

PAYABLES:

- [£325,975] *no journal description*
- [£264,087] '17-18 SEN provision'
- [£236,345] *no journal description*
- [£200,378] 'Transfer from AP control code (R-9886-9841-000000-00) - Recode AC DACHS AM Civica Bank Suspense 001Standard'
- DR [£506,682] 'Journals on 9886-9841 to be investigated (See reconciliation)'
- DR [£489,732] 'DCEEHS AJ 1617 ADJ 20ASundry Creditor/Debtor'
- DR [£466,054] 'Faster Payments/CHAPS correction (See reconciliation)'

ASSET DISPOSALS:

- [£985,188] 'Electronic Government (IEG) (2013-2014)'
- [£475,235] 'ESCR'
- [£79,772] 'Energy Management'
- [£227,283] 'Capitalisation (2011-2012)

ASSET ADDITIONS:

The council were able to provide support for the following additions but these errors have been classified as judgemental as they are pervasive across the cost centre.

- [£230,247] over accrued at year end and therefore incorrectly capitalised
- [£1,550] Legionella works on properties inappropriately capitalised as this constitutes maintenance. Search for the word 'Legionella' within cost centre journal descriptions gives £117,000 of incorrect capitalisation.
- [£1,239] fire risk assessments inappropriately capitalised as this also constitutes maintenance. Search for the word 'fire risk' within cost centre journal descriptions gives £130,000 of incorrect capitalisation.

Audit Differences to date

Summary of unadjusted judgemental differences

Extrapolation of errors identified within our sampling of Receivables and Payables.

PAYABLES

- £8.5M extrapolation error

Total population of transactions under threshold of £115,000 = £17,034,181.
Total balance tested by EY was £19,811.07.
Total error within this amount £9,922.18
Error % = 50%.

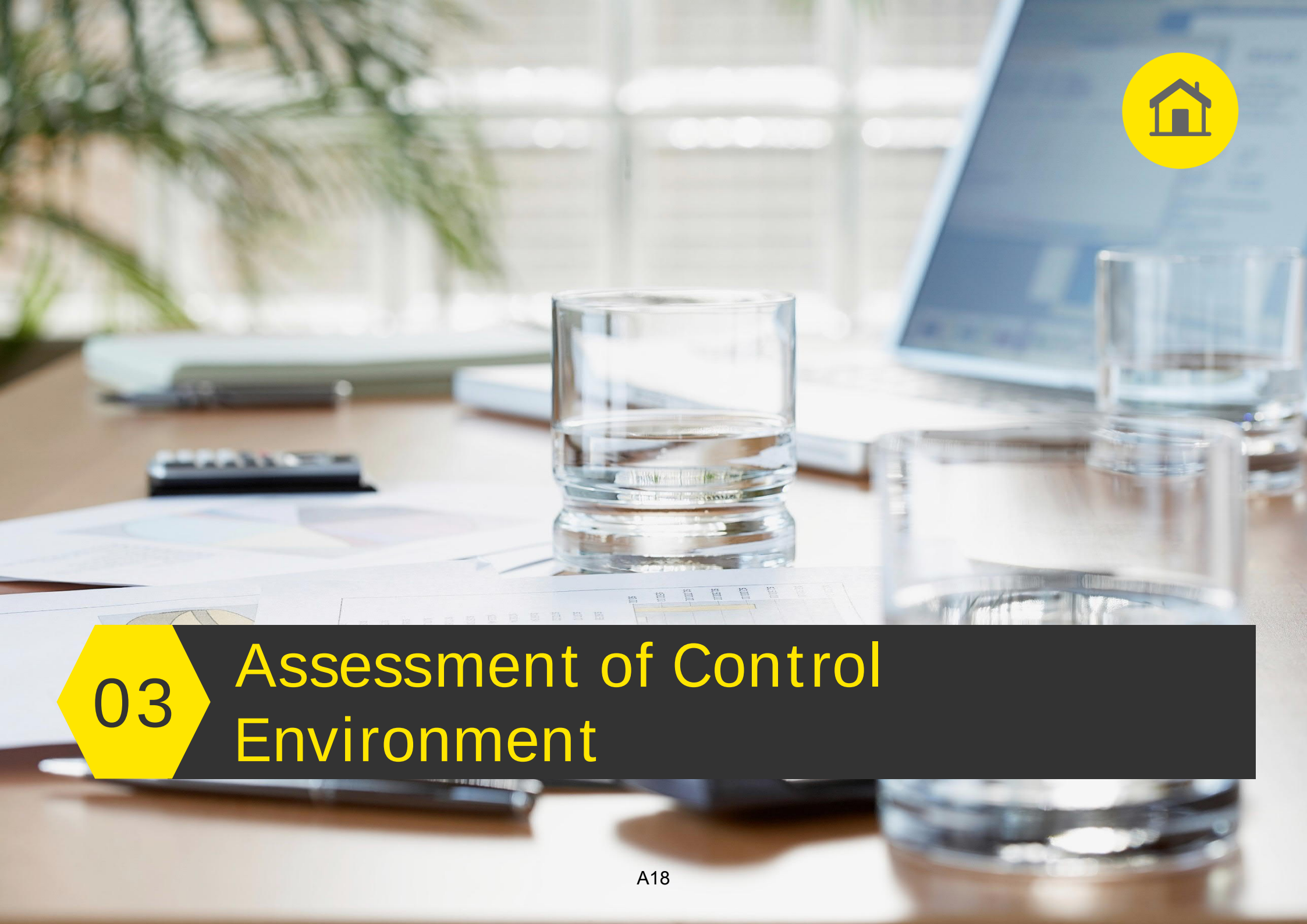
RECEIVABLES

- £5.5M extrapolation error

Total population of transactions under threshold of £234,000 (absolute value) = £13,753,820
Total balance tested by EY was £2,162,577
Total error within this amount £871,361
Error % = 40%.

Summary of unadjusted known differences

- £695k total of unrecorded liabilities at 31st March 2017 identified in bank statement post year end
- £546k Omission of Housing benefit accrual
- £3.1 m difference on IAS 19 asset valuations when compared with the IAS 19 asset valuation estimates



03 Assessment of Control Environment

Assessment of Control Environment

Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies identified during the course of the audit. Please find more detail on these and other deficiencies identified on the following slides.

We would ask that management provide a response to each of the findings once the audit is completed.

Significant Deficiencies identified:

- System Reconciliations
- Journal & authorisation controls

Other Deficiencies identified:

- Receivables
  - Untimely raising of invoices
  - Sundry debt managed outside of the finance department
  - Lack of controls over raising of credit notes

- Payables:
  - No formal accreditation process

- I&E:
  - Internal re-charging
  - Accruals

- HRA:
  - Business Plan

- Committees & Lack of regular KPI monitoring:
  - KPI's

The matters reported on the following slides are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Area	Across numerous areas	Rating	High

Observation

- Regular reconciliations between core financial systems was not carried out on a timely basis during 2016/17 financial year.
- Year End cash reconciliation for 31st March 2017 was finally completed and provided to EY during March 2018.

Impact

- Increased risk of fraud and errors remaining undetected
- Increased risk of inaccuracy of the council's financial statements / financial records. This has been evident throughout the audit. I.e. Debtors balances on the OHMS rents system did not match those recorded on the General Ledger - the system that feeds the Statement of Accounts.

Management comment

Assessment of Control Environment

Area	Across numerous areas	Rating	High

Observation

- No authorisation controls around posting of journals
- Supporting documentation not required when posting journals onto the system

Impact

- Increased risk of fraud.
- Increased risk of errors. Throughout the audit we evidenced staff posting journals the wrong way round and/ or incorrect double entries into accounts. 2,522 journals lines contain the word 'correction' within the journal description.
- Council unable to provide supporting rationale to audit for numerous journal postings.
- Lack of control over the General Ledger since any member of staff with access to the ledger can post a journal / set up new ledger codes. During the audit we found many instances of journal postings that could not be traced back to the originator. We identified 13,596 unused ledger codes in 16/17.
- Inefficiencies – staff individually posting journals of very low value

Management comment

Assessment of Control Environment

Area	Receivables	Rating	Moderate

Observation

- Sales invoices are not being raised in a timely manner
- Through our disposals testing we identified that the Council had not raised invoices to the buyer of a fleet of 11 trucks. As a result of our prompt, an invoice was raised (April 2018) and cash was receipted in August 2018 for £33,000 + VAT

Observation

Impact

- Increased risk of sales invoice never being raised
- Increased risk of non payment due to time lag
- Increased risk of fraud
- Inaccurate picture of debtors position at any point in time

Management comment

Assessment of Control Environment

Area	Receivables	Rating	Moderate

Observation

- Sundry debt is being managed outside of the finance department

Impact

- Leads to lack of ownership/review with no clear process for debt recovery increasing the risk of non payment
- Increased risk of errors. We came across an error where cash had been incorrectly matched against HB debtors instead of sundry.

Management comment

A23

Assessment of Control Environment

Area	Receivables	Rating	Moderate

Observation

- No controls over raising credit notes. We did not identify any fraudulent usage during the audit but did identify evidence of a large number of credit notes being used for incorrect purposes.

Impact

- Increased risk of fraud through mis-use.

Management comment

A24

Assessment of Control Environment

Area	Payables	Rating	Moderate

Observation

- There is no formal accreditation process for the majority of suppliers - no management of supplier database.

Impact

- Increased risk of fraudulent payments being made
- Increased risk of duplicate payments being made
- Supplier chosen may not be in the best interest of the Council

Management comment

A25

Assessment of Control Environment

Area	Income and Expenditure	Rating	Moderate

Observation

- Many instances identified where the council are charging income and expenditure based on an historic cost and the figure being rolled forward for many years without further consideration whether it is still appropriate. Particularly an observation for internal fee recharging.

For example, we identified instances of capitalisation of internal fees for property service staff at 10% of the project predicted or actual cost. The council were unable to provide rationale behind this percentage other than this figure has always been used.

Impact

- Inaccurate records of actual income and expenditure incurred by the Council potentially impacting management budgets / decisions.
- Inappropriate capitalisation

Management comment

Management comment

Assessment of Control Environment

Area	Income, Expenditure, receivables and payables	Rating	Moderate

Observation

- Many instances of over and under accruing when sufficient data is available to provide a more accurate measurement

For example, a community service accrual has been raised for £250k for a number of years despite actual expenditure increasing year on year. Prior year accrual was understated by £410k.

Impact

- Income and expenditure being recorded in the incorrect financial year
- Over or understatement of creditors
- Incorrect reflection of financial position impacting management budgets /decisions

Management comment

Management comment

Assessment of Control Environment

Area	Housing Revenue Account Business Plan	Rating	Moderate

Observation

- As part of the audit we reviewed the HRA Business Plan. From the evidence presented to us it was clear that this was not a fully developed business plan which had been fully approved by the Council.

Impact

- If the Council are to fully realise their strategic objectives then it is vital that business plans are fully developed and have the buy in from all relevant stakeholders.

Management comment

Assessment of Control Environment

Area	Key Performance Indicator's (KPI's)	Rating	High

Observation

As part of our wider VFM considerations it quickly became apparent that there was a lack of KPI's which were being regular monitored at a senior committee level.

Impact

- A lack of KPIs leads to a lack of accountability and an inability to monitor performance against key strategic objectives.

Management comment

A29

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com