

Core Process Review

Buckinghamshire and Milton Keynes Fire Authority

Audit 2004-2005

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

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Introduction

- 1 The Audit Commission Code of Audit Practice requires that annually we give an opinion on the Authority's financial statements including whether:
 - they present fairly the financial position of the Authority and its expenditure and income for the year; and
 - they have been properly prepared in accordance with relevant legislation and applicable accounting standards.

Background

- 2 A new accounting system (SAP) was implemented during the year. LAFIS was used from April to June but SAP didn't go live until September 2004 and manual records were maintained in the intervening period. These were subsequently posted to SAP.

Audit approach

- 3 In order to define the appropriate level of testing needed to give an opinion on the financial statements, we carry out reviews of those processes which are fundamental to the production of the financial statements:
 - budgetary control;
 - main accounting system; and
 - final accounts closedown procedures.
- 4 These are referred to as the 'core processes' and our overall approach is determined following an initial assessment of risk as outlined in our Audit Plan.
- 5 Implementation of the new accounting system increased the risk considerably and additional testing was carried out on roll over from LAFIS to SAP and the manual records and their input into SAP.
- 6 We liaised with Internal Audit in planning our audit work. Where appropriate we have placed reliance on the work they have done, subject to reviewing the adequacy of such work first. Where points have already been raised by Internal Audit they have not been repeated unless they refer to a fundamental issue, or we have also raised the issue at earlier audits.

Main conclusions

- 7 Our review and assessment of the Authority's core processes found that there were significant weaknesses connected with the implementation of SAP. As a result we will need to carry out additional audit work in order to gain adequate assurance for opinion purposes. Our findings are summarised in Table 1.

Table 1 Summary of audit findings relating to core processes

We conclude that core processes are not adequate for opinion purposes.

Core process	Adequate for opinion purposes?	Key findings
Main accounting system	No	Control account reconciliations have not been completed during 2004/05. Suspense accounts have not been reconciled and cleared. Bank reconciliations have not been prepared.
Budgetary control	No	As the postings to the general ledger were incomplete for most of the year budget monitoring reports were not produced and discussed with budget holders on a regular basis. Reports were submitted to the Fire Authority and Finance and General Purposes Committee but they were compiled from the general ledger and manual records and as control and suspense account reconciliations were incomplete they could not be considered to be robust.
Closedown procedures	No	Critical path analysis was particularly appropriate this year but was not prepared. Slippage in completion of reconciliations was not addressed.

- 8 The detailed findings from our review of the arrangements for producing the Authority's statement of accounts are set out in the attached action plan.

Appendix 1 – Action plan

File ref	Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Response	Target date	Responsible officer
Main accounting system						
EX.3 B.2.PS	We understand that the accounts cannot be produced in BVACoP format directly from the SAP system as it stands.	R1 Efforts should be made to ensure that the accounts are produced in BVACoP format.	3	The fire authority was an afterthought of SAP being input and no attention was paid to their particular needs.		Jacki Watkinson
EX.5/ EX.9 B.2.PS	Control account reconciliations have not been undertaken in 2004/05 due to the issues about data migration from LAFIS to SAP and all the other work that had to be done to pay creditors on time etc.	R2 Control accounts should be reconciled on a regular basis wherever possible.	2	Migration problems coupled with staff shortages (three full-time positions currently covered by three temporary staff) have contributed to control accounts not being reconciled.	Ongoing	Jacki Watkinson

File ref	Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Response	Target date	Responsible officer
EX.6 B.2.PS	In terms of cash receipting the cash is received; receipted; posted onto the system; and banked by the same person. This lack of separation of duties needs to be addressed as soon as possible. We are aware that this situation has occurred due to staff shortages.	R3 The basic control given by segregation of duties, in relation to cash receipting, needs to be addressed as soon as possible.	3	This situation will be rectified soon.	2005/06	Jacki Watkinson
EX.10 B.2.PS	Bank reconciliations for the three main accounts: payroll, income and creditors - have not been prepared. The bank statement amounts have been input onto SAP but the actual reconciliations have not been undertaken.	R4 Bank reconciliations should be undertaken as soon as possible in order that a correct balance can be input onto the accounts.	3	Fully aware of the importance of preparing bank reconciliations but difficulties with SAP system interfacing with the online banking system have contributed to the reconciliations not being undertaken.	2005/06	Jacki Watkinson/ Sue Watson.

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File ref	Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Response	Target date	Responsible officer
EX.11 B.2.PS	The Authority set up a suspense account 'Credit Card Income' to post all income received when it became a precepting Authority. The Authority has not yet been able to clear this account in terms of matching the income to invoices raised and posting to various income codes within SAP. A balance of some £90,000 remained on this account in early July 2005.	R5 Every effort should be made to clear this account and post the income to the correct income account before the closedown of the accounts.	3	Jacki/Ann are working on this account and the balance has been reduced dramatically since the start of the year. Hoping to clear the account by 8 July 2005 or very soon thereafter.	2005/06	Jacki Watkinson
EX.13 B.2.PS	Instances were found (mainly within Fleet Management) where a journal is prepared and authorised by the same person. This is against good practice to ensure that there should be appropriate separation of duties.	R6 Every effort should be made to ensure that the preparation and authorisation of journals is done by different people.	3	Agreed. Posting onto SAP has always been done independently.	Ongoing	Jacki Watkinson

File ref	Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Response	Target date	Responsible officer
Budgetary control						
EX.12 B.3.PS	The System Procedure Notes and Financial Instructions are currently being written/reviewed.	These need to be completed to ensure systems and processes are clear and understood.	3	68 procedure notes have been compiled along with 13 user guides. Work is still ongoing.	2005/06	Raff Stuart
EX.14 B.3.PS	Due to problems experienced with implementing SAP and the associated problems of having to record income and expenditure manually, the monitoring for 2004/05 was not undertaken effectively.	Every effort should be made to monitor the budget position regularly and accurately.	3	Acknowledged that this is a weakness. The final report will have full variance explanations as the manual income and expenditure accounts have been cleared.	2005/06	Jacki Watkinson

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File ref	Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Response	Target date	Responsible officer
Closedown processes						
EX.15 B.4.PS	A critical path analysis is not carried out by the Authority. A set of accounts were produced by the publication deadline but there were a significant number of issues within the general ledger that were unresolved and will result in material amendments to the accounts.	Although the exercise undertaken may not be called a critical path analysis, the informal discussions between team members should be more formal, eg identifying the issues on the closedown plan, and the actions taken to resolve the issues noted.	3	Although the Authority does not carry out a critical path analysis as such, the team is experienced and discuss issues at an early stage to avoid bottlenecks.	N/A	Finance Team