

Our approach to the audit of financial systems

The Chief Executive has asked us to provide the Governance Committee with a briefing note around our approach to the audit of the Council's key financial systems and how this links with the work of Internal Audit. The following note does this and will be presented by Fiona Blatcher at the next meeting of the Governance Committee.

Our audit plan presented to the previous Governance Committee gives an overall description of our approach to the audit of the financial statements and specifically highlights those areas we have identified as having a medium or high risk and the work we will perform to address those audit risks.

Links with the work of Internal Audit

Internal Audit is a key source of assurance for the Council in relation to the design and operation of controls across the Council's financial systems.

We briefly review the Internal Audit function annually at a high level to gain assurance around their independence, team qualifications and skills, quality control procedures and the development of a risk based plan in line with the Internal Audit Standards.

We also review the findings of Internal Audit's work across the financial systems to inform our overall risk assessment for the external audit.

International auditing standard 610 deals with "using the work of external audit". This places very specific requirements on external auditors should they wish to rely upon the work of internal audit and these have been made more onerous from 14/15 onwards. In general terms we need to ensure that IA's approach matches our own but it specifically prevents us from directing the work of internal audit and we would also have to re-perform internal audits work. The restrictions are such that we have not tried to do this at Chorley.

Work around key financial systems

For all material amounts in the accounts, we identify the financial systems which are relevant. Where we have identified a medium/high risk we will complete work to update our understanding of how the related financial systems/processes and controls work and complete a 'walk through' to confirm that understanding. For Chorley this applies to:

- Payroll
- Operating expenses
- Housing benefits.

We then test the output from all significant financial systems in a variety of ways. Samples sizes, (where applicable), are linked to the level of risk relevant to each financial system and assurance from other testing being performed. The following table shows how this works for Chorley.

Financial system	Testing planned	Sample testing detail
Payroll	<p>Sample testing of payroll calculations and contracts of employment.</p> <p>Testing of senior officer remuneration disclosures back to payroll records.</p> <p>Directional analytical review.</p> <p>Reconciliation of monthly payroll totals to ledger.</p>	<p>Sample taken as 1 payroll record from each month since is a centrally controlled system and assurance gained from other testing.</p>
Operating expenses	<p>Sample testing of non-pay expenditure.</p> <p>Testing of manual accruals and year end creditors.</p> <p>Testing of expenditure in April 2015 to ensure correct accrual in 14/15 where appropriate.</p> <p>Review of control account reconciliations.</p>	<p>Major contracts agreed in total – for waste and leisure services.</p> <p>Random sample of a further 10 items.</p> <p>All creditors tested until untested balance is below approximately £800k.</p> <p>Sample calculator to be used – typically between 10 and 20.</p>
Housing benefits	<p>Sample testing of housing benefits under the housing benefit certification regime.</p> <p>Reconciliation of housing benefits system to ledger.</p>	<p>Minimum sample size of 20 prescribed by the certification regime. Any errors will result in additional testing of a minimum of 40.</p>
Council Tax	<p>Reconciliation of the council tax system to the general ledger.</p> <p>Substantive analytical review.</p> <p>Agreement of precept demands to expenditure.</p> <p>Determine the basis of distribution of the surplus or deficit in the Collection Fund</p>	

	<p>between billing and precepting authorities and agree to supporting working papers.</p> <p>Ensure that all appropriate entries have been recorded to the Collection Fund Adjustment Account.</p>	
NNDR	<p>Reconciliation of the Council's NNDR system to the general ledger.</p> <p>Substantive analytical review.</p> <p>Confirm the allocation of NNDR revenues between the authority, precepting authorities and central government.</p> <p>Review and test allocation of collection fund surplus (if above approximately £800k).</p> <p>Review of management's process to calculate the provision for non-domestic (business) rates appeals, including appeals received and appeals not yet lodged.</p>	
PPE	<p>Reconciliation of PPE notes to fixed asset register.</p> <p>Sample test additions (if above approximately £800k).</p> <p>Review the reasonableness of valuations and test a sample of in year valuations including revaluation adjustments from the valuer's report to the Fixed Asset Register / ledger to ensure correct accounting treatment.</p> <p>Sample test any impairments (if above approximately £800k).</p> <p>Consider sample testing of</p>	<p>Statistical sample or suitable sampling methodology.</p>

	<p>depreciation or a proof in total review.</p> <p>Triennial sample test of deeds with regard to land and property assets.</p> <p>Agree lease disclosures to supporting documents and working papers.</p> <p>Valuation testing of Investment properties (if value above approximately £800k).</p> <p>Valuation testing of Heritage Assets (if value above approximately £800k).</p>	
Investments	<p>Substantive testing of investments.</p> <p>Reconcile investments to treasury management systems/transaction listing or treasury management report.</p> <p>For investments held at fair value review the fair value calculation.</p>	Statistical sample or suitable sampling methodology.
Borrowing	<p>Agree schedule of debt to treasury management systems / supporting breakdowns.</p> <p>Obtain third party confirmations to support borrowing figures including PWLB debt.</p>	
Grants	Substantive testing of any additional grant income and expenditure (excluding housing benefits).	Statistical sample or suitable sampling methodology.
Other income	<p>Substantive testing of other income to receipt of income (including investment income).</p> <p>Substantive testing of debtor</p>	Statistical sample or suitable sampling methodology.

	<p>balances (including Council Tax, NNDR and HB) using an appropriate sampling methodology.</p> <p>Testing of the bad debt provision for reasonableness.</p>	
Cash	<p>Review of bank reconciliation at 31/3 and testing of any significant reconciling items.</p>	