



National Audit Office

2008-09

MANAGEMENT LETTER

HELPING THE NATION SPEND WISELY

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Local Better Regulation Office

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Introduction

1. We have completed our audit of the Local Better Regulation Office (LBRO) for 2008-09. The accounts received an unqualified audit opinion from the Comptroller and Auditor General on 11 July 2009 in advance of the summer Parliamentary recess.
2. We would like to thank LBRO staff for their co-operation and assistance during the audit process.
3. The attached memorandum provides details of the more significant matters arising during our audit, along with an indication of their relative importance.
4. The major items in this letter have already been raised with those charged with Governance in the Communication of Audit Matters to Those Charged with Governance document which we presented at the Audit Committee meeting in June 2009. However, this Management Letter incorporates our recommendations, where appropriate, and includes a response from management.
5. To assist analysis of the matters raised in this letter, we have given priority ratings to each of our observations. Definitions of these are as follows:

- Priority 1** Major issues for the attention of senior management
- Priority 2** Important issues to be addressed by management in their areas of responsibility
- Priority 3** Problems of a more minor nature which provide scope for improvement

6. The issues set out in this letter have been discussed with the Head of Resources and Corporate Services and reflect management's responses which will be discussed at the Audit Committee meeting in September. Subsequently, the letter will be formally issued to the Local Better Regulation Office.

Scope of Audit

7. The matters detailed in this letter arose from our 2008-09 statutory audit of the six month account covering the period 1 October 2008 - 31 March 2009 and which were conducted to International Standards on Auditing (UK and

Ireland) issued by the UK Auditing Practices Board. This letter also covers our audit of the Net Expenditure Account, Balance Sheet and Cash Flow Statement for the period 1 April 2008 - 30 September 2008.

8. Our procedures are designed primarily for the purpose of providing an opinion on the accounts. They include a review of the accounting systems and procedures only to the extent considered necessary for the effective performance of the audit and may not bring to light all the weaknesses which exist. The recommendations in this letter will therefore not necessarily be comprehensive and should be read in conjunction with the findings of internal audit.
9. Whilst our recommendations are made in a constructive spirit, we would note that the responsibility for deciding whether to implement them, and the effects of implementation, rests with management.
10. This letter is to be regarded as confidential and is intended for use by LBRO. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. In the event that a third party asks to see this document, please ask for our consent before releasing it.

Overview of the Audit

11. Our audit was conducted in accordance with the agreed timetable which allowed for laying of the financial statements before the summer Parliamentary recess.
12. A number of disclosure and financial adjustments were required to the draft accounts to ensure that it complied with the FReM. All errors identified during the course of the audit have been adjusted for and as a result of this, there are no unadjusted errors in the final set of certified accounts.
13. During the audit we identified two 'Priority 1' and eight 'Priority 2' matters which we consider should be included in our management letter. These matters have been outlined in pages 4-8 of this report.

Looking Ahead

14. 2008-09 was LBRO's first full period of operation; it was also the first time that LBRO has produced its accounts in an NDPB format.

LBRO have worked hard to meet the challenging recess deadline and to provide us with a draft set of accounts and financial statements as well as a separate Net Expenditure, Balance Sheet and Cash Flow Statement on the agreed date.

15. We are aware that LBRO is currently implementing controls and policies to cover key financial areas. During our audit the financial control environment was still embedding. While these financial controls are being implemented, the NAO has taken a wholly substantive approach to the testing of the transactions which underline the financial statements. It is hoped that going forward, controls will be implemented and strengthened sufficiently to enable us to take assurance from them.
16. LBRO have begun to consider the impact of the implementation of the International Financial Reporting Standards (IFRS) on its financial statements. LBRO will need to produce dry run 2008-09 account under IFRS for the inclusion of comparatives in the 2009-10 accounts which will be prepared on an IFRS basis. We will continue to liaise with LBRO to support the IFRS process.

AUDIT FINDINGS

1 General Ledger

PRIORITY 1

Observation

In 2008-09, LBRO's extended Trial Balance, invoice processing, and cash and fixed asset reconciliations were performed by AMEY Services. During our audit we observed that there was no formal agreement between LBRO and AMEY to hold and update the General Ledger on their behalf.

Implication

This resulted in difficulties in obtaining an audit trail to support the financial statements; it also increased the risk of having incomplete accounting records.

Whilst we are confident that the accounts are adequately supported, this has been due to a time consuming exercise undertaken by LBRO to create a Trial Balance suitable for auditing.

Recommendation

LBRO will not be using AMEY for any services during 2009-10, as the General Ledger and Accounting Systems have now been brought in house. We recommend that staff using the new Accounting system receive suitable training and support, to enable them to produce meaningful reports and provide an appropriate audit trail. We note the proactive approach that LBRO have taken in requesting that internal audit carry out some work in this area during early 2009-10.

Management response

LBRO accepts the recommendation and staff will work with the software suppliers to ensure that the necessary reports and audit trail are available for the 2009-10 year end audit.

Recommendations made by internal audit will be implemented wherever possible.

Ownership

Richard Wilson

Timescale

During 2009-10

AUDIT FINDINGS

2 Welsh Assembly Income

PRIORITY 1

Observation

LBRO did not have a formal contract or agreement with the Welsh Assembly Government to formalise the work carried out by LBRO in Wales. This meant that there was a great deal of uncertainty surrounding the amount of income to be recognised in the 2008-09 accounts. Ultimately, no income was forthcoming for this work and the work that LBRO have carried out in Wales has effectively been funded by grant-in-aid.

Implication

Without formal agreements for the provision of goods and services, there is a risk that LBRO will not receive payment for services provided, or will be drawn into long negotiations to try and recover costs.

Recommendation

We recommend that LBRO has a contract or formal written agreement in place with the Welsh Assembly Government for the provision of future services.

Management response

Agreed. A Welsh business plan has been produced and LBRO is expecting the Welsh minister to formally write with approval of funding during September 2009.

Ownership

Dr Jane Martin

Timescale

September 2009

AUDIT FINDINGS

3 Travel and Subsistence Claims

PRIORITY 2

Observation

We have found instances during our audit where travel claims have not been supported by detailed receipts or other supporting evidence.

We have also noted an instance where an individual did not submit travel claims for a year.

Implication

There is a risk that without the provision of receipts, LBRO will not be able to provide a clear audit trail to support the regularity of their expenditure.

There is also a risk that this may lead to disputes with HMRC over whether LBRO have made any taxable benefits in kind to staff.

Where staff do not claim for travel and subsistence on a timely basis, expenses may be included in the wrong financial period, or may affect monthly budgets.

Recommendation

We recommend that LBRO ensure that all travel and subsistence claims are receipted and submitted on a timely basis. This will help to ensure that travel claims are correctly authorised and are regular in nature.

Management response

Agreed. Email clarification has been sent to all staff and NEDs.

Ownership

Richard Wilson

Timescale

Immediate

AUDIT FINDINGS

4 Purchase Order System

PRIORITY 2

Observation

Purchase Orders have not always been used for the ordering of goods and services by LBRO. This means that there is no evidence of segregation of duties between those people authorising the procurement of goods and services and those receipting them.

Implication

There is an increased risk of fraud or error within the organisation as one person could order and authorise the expenditure.

Recommendation

We recommend that LBRO sets up controls over the ordering of goods and services to ensure adequate segregation of duties.

Management response

Agreed. The process of authorisation of requisitions prior to production of purchase orders is being embedded to achieve adequate segregation of duties.

Ownership

Richard Wilson

Timescale

Immediate

AUDIT FINDINGS

5 Expenditure Controls

PRIORITY 2

Observation

During the audit we found instances of control failures around expenditure:

- firstly we found instances of invoices received not having been date stamped or evidence of authorisation retained; and
- secondly four duplicate payments which had been made by AMEY were identified by LBRO during the year and subsequently recovered.

Implication

Amey Services are not being used by LBRO in 2009-10 and therefore the control failings that led to the duplicate payments is unlikely to be repeated. However, it is important that a clear audit trail is available of when and who authorised expenditure.

Recommendation

We recommend that LBRO ensures that all invoices are date stamped and that evidence of authorisation is retained.

With the new Accounting system, LBRO needs to retain controls which prevent and detect duplicate payments.

Management response

Agreed. All invoices and credit notes are being date stamped, and are paid against the purchase order where applicable. A check is made to ensure the goods or service has been received before payment.

Ownership

Richard Wilson

Timescale

Immediate

AUDIT FINDINGS

6 Pension Disclosure

PRIORITY 2

Observation

During the audit of the Remuneration Report, a number of issues were encountered:

- LBRO had difficulty in obtaining pension CETV figures for senior staff members and there were concerns that these figures would not be received in time to meet the Parliamentary deadline; and
- The Remuneration Report included in the draft Annual Report and Account was not in the format prescribed under the FReM and contained a number of minor errors.

Implication

There is a risk that the accounts production may be delayed and that the Remuneration Report will not comply with the FReM, or will contain errors which are material by nature.

Recommendation

We recommended that CETV calculations are requested prior to the commencement of the final audit, to ensure that they arrive in a timely fashion.

We also recommend that the draft Remuneration Report is checked to the FReM to ensure that the disclosure in the draft account is correct.

Management response

Agreed. The CETV information will be requested from the pensions administrators (PPPA) as soon after the March payroll as possible, to ensure it is available in time to disclose correctly.

Ownership

Richard Wilson

Timescale

March 2010

AUDIT FINDINGS

7 Cut-Off Errors

PRIORITY 2

Observation

AMEY did not have a system in place for recording prepayments or accruals. This meant that prepayments and accruals have been identified manually by LBRO. A few minor financial errors were detected relating to cut-off. These have all been adjusted for in the final set of certified accounts.

Implication

There is a risk that expenditure will be included in the incorrect financial period and that the accounts will be misstated. There is also a risk that in year management accounts provide misleading information if not prepared on a full accruals basis.

Recommendation

We recommend that now the new Accounting system is in place, LBRO tightens controls over year end expenditure to ensure that items are included in the correct financial period. It is also recommended that LBRO carefully review any expenditure during the year which may potentially span across two financial periods, to ensure that the expenditure is correctly split between the two periods.

Management response

Agreed. The Finance, Procurement & Compliance Officer carefully reviews accruals and prepayments each month, with particular attention paid at year end.

Ownership

Richard Wilson

Timescale

Immediate

AUDIT FINDINGS

8 Cash Balances

PRIORITY 2

Observation

LBRO's financial memorandum with the Better Regulation Executive states that LBRO should not keep a cash balance of more than £50k. The year end cash balance was £466k which was needed to part cover outstanding year end current liabilities of over £800k.

Implication

There is a risk that if LBRO adheres to the financial memorandum figure of £50k, it will not have enough cash in the bank to pay its short term creditors. There is also a risk that if LBRO does not comply with their financial memorandum then the regularity conditions of grant-in-aid payments from BRE could be breached.

Recommendation

Whilst we do not believe that LBRO is holding cash in excess of their requirement (due to the high value of trade creditors at the year end), we would suggest that LBRO revisit the wording of the Memorandum with BRE to avoid any future disputes over compliance with this document.

Management response

A new Framework Document is being developed in conjunction with the sponsor, which will incorporate the financial memorandum. The opportunity is being taken to review the original £50k limit, which has proved impractical.

The new higher limit will need to acknowledge the difference between cash and resource accounting bases, so that the balance is sufficient to pay net accruals at any given point, and provide adequate working balances over the quarterly grant in aid cycle.

Ownership

Richard Wilson and Rachel Holloway (BRE)

Timescale

September/October 2009

AUDIT FINDINGS

9 Disclosures in the Annual Report and Accounts

PRIORITY 2

Observation

A number of minor disclosure errors were found in the draft Annual Report and Accounts. A number of different draft versions of the Annual Report and Accounts were required, to ensure that the wording and disclosures in the account matched the FReM and was consistent with our knowledge of the business.

Implication

There is a risk that requiring a number of versions of the Annual Report and Accounts will slow down the completion of the audit process.

Recommendation

We are aware that 2008-09 was the first year that LBRO have had to produce accounts in an NDPB format and they were also required to produce two separate sets of accounts which meant that extra disclosure was needed to the Accounts and Annual report. It is advised that in future the draft Accounts and Annual Report are checked against the disclosure checklist provided and the new IFRS NDPB Green to ensure that the format and disclosures in the accounts are correct.

Management response

Agreed. The draft 2009-10 accounts will be set up earlier and cross referenced to the appropriate guidance.

Ownership

Richard Wilson

Timescale

January to April 2009

AUDIT FINDINGS

10 Guidance for Corporate Credit Card holders

PRIORITY 2

Observation

During the audit of expenditure incurred via the corporate credit card (Barclaycard) we observed that:

- there was not always documentation attached to support the individual transactions on the Barclaycard Statement; and
- there was not always a clear description of the transaction or an explanation of the split between multiple accounting codes.

Implication

There is a risk that transactions made on the Corporate Credit Card will not be regular in nature or that there will not be a suitable audit trail to support the expenditure.

Recommendation

We understand that LBRO have tried to ensure that expenditure is receipted, however to further support this we recommend that formal guidance and procedures should be provided for Corporate Credit Card holders. Guidance should include details on the expected level of documentation to be provided, narrative explanations for expenditure and the procedures to be followed should receipts not be available.

Management response

Guidance will be included in the Finance Manual, which is being drafted.

Ownership

Richard Wilson

Timescale

September/October 2009