



Accountants &  
business advisers

**Rochford District Council**

**Interim Audit Memorandum**

September 2006

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# 1 Introduction

## Our work to date

- 1.1 Within our Outline Audit and Inspection Plan 2005/06, we have outlined the work that we would be carrying out in order to meet our Code of Audit Practice responsibilities.
- 1.2 We have now undertaken the interim phase of our work on the 2005/06 accounts, and this report sets out the results of the work completed to date. Our work has focused on an assessment of the Authority's arrangements in the following areas:
- Our audit opinion on the Authority's Statement of Accounts, at this stage considering the robustness of core financial systems as a source of financial information for the preparation of those Accounts and the scope of Internal Audit work undertaken on those systems; and
  - The Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.3 The following section details our key findings in respect of the Accounts opinion. The Use of Resources findings will be reported separately.
- 1.4 We have also followed up the Authority's progress with implementing recommendations from previous years' reports, the results of which are reported in the Appendix.
- 1.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses which may exist in the accounting and control systems, but only those matters which have come to our attention as a result of audit procedures performed. We have only restated recommendations previously raised by Internal Audit if, because of their significance, we consider they warrant reinforcement.

## Status of our report

- 1.6 This report has been prepared for Members and Officers information only and is not intended to include every matter that may have come to our attention. We accept no responsibility for any reliance that might be placed on it for any purpose by third parties, to whom it should not be shown without our prior written consent.

## Acknowledgement

- 1.7 We would like to thank the staff of authority for their co-operation and assistance provided during the audit.

## 2 Accounts

2.1 The Code of Audit Practice requires us to express an opinion on whether your Statement of Accounts presents fairly the Authority's financial position and income and expenditure for the financial year in question, and whether they have been prepared properly in accordance with accounting policies directed by CIPFA's Statement of Recommended Practice (SORP).

2.2 In carrying out this work we consider:

- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the Accounts; and
- the robustness of your Accounts preparation processes.

2.3 In advance of the detailed testing of the completed financial statements scheduled for August 2006, we have reviewed the key financial systems in place across the Authority, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them in this context for our opinion work.

### Scope of our review

2.4 Our approach to the audit of the financial systems has involved considering key control areas for each system and satisfying ourselves that they are operating as intended and are sufficient to prevent material misstatements within the Accounts. In assessing the reliability of systems as a basis for providing financial information, systems notes have been prepared for each financial system and the controls within those systems evaluated, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended.

2.5 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort on the systems work relevant to our audit opinion. To ensure this approach was valid, we have undertaken the following:

- Reviewed Internal Audit's working papers and reports;
- Considered the robustness of the financial systems on the evidence of this work; and
- Re-performed Internal Audit's evaluation of controls and a sample of their testing of the effectiveness of controls, to ensure that Internal Audit's conclusions are soundly based and that we do not disagree with them.

### Our findings – review of key financial systems

#### Conclusion on adequacy of financial systems

2.6 **Overall we have concluded that the key financial systems are adequate as a basis for preparing the financial statements, although some control weaknesses have been noted which may require additional external audit effort at our final visit,** including:

- reconciliation of Housing Rents to the Housing Benefits system;
- reconciliation of Council Tax to the Council Tax Benefits system;

2.7 As part of the final audit, we will need to obtain completed and reviewed copies of the year end reconciliations or suitable alternatives. Should these not be available, we will need to extend our work to include sample-based substantive testing. This could have resource implications, which we would need to discuss with you before commencing additional work.

2.8 Recommendations in respect of all of the reconciliation issues referred to above have previously been made in Internal Audit reports, and so are not repeated in this report. The issues are referred to here because we regard these issues as critical.

## Work of Internal Audit

- 2.9 This is the first year of implementation of new auditing requirements introduced by International Standards on Auditing ("ISAs"). **Good progress has been made by Internal Audit in implementing changes to their approach to enable us to place maximum reliance under these new ISA requirements.** Suggestions have been made to Internal Audit to further enhance the extent of reliance and we continue to work together to ensure maximum reliance is achieved.
- 2.10 All the systems that we consider material to our opinion have been reviewed and reported upon by Internal Audit and we have completed our review of Internal Audit's working papers and reports. **We have been able to place reliance on Internal Audit's work for the majority of the key controls that we identified as being material to our opinion on the accounts.**

## Our findings – fraud risk assessment

- 2.11 Under ISA240 we have a responsibility to give specific consideration to the potential risk of material misstatement of your Statement of Accounts due to fraud and error, including the risk of fraudulent financial reporting.
- 2.12 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and 'those charged with governance'.
- 2.13 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers, and 'those charged with governance';
  - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the Accounts arising through fraud; and
  - made inquiries regarding instances of actual fraud you have identified.
- 2.14 **As a result of the above work, we have not identified any fraud risks that will affect our audit programme for the Statement of Accounts.**

## Progress in preparing the Statement on Internal Control

- 2.15 The Authority has a responsibility to publish a Statement on Internal Control, including the outcome of a review of its effectiveness, with its 2005/06 accounts. At the time of our review in May 2006, we were satisfied that the Authority was working through a process to produce the SIC for inclusion in the Statement of Accounts. We will review the SIC and the effectiveness review supporting the Statement at our final audit visit during August.

## Appendix: Follow up of previous recommendations

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
<b>Previous recommendation</b>						
Our review of implementation of previous recommendations identified the following progress.						
<b>Payroll - reconciliations</b> Ensure that reconciliations are performed between payroll and the general ledger and appropriate supporting evidence is retained.	High	Payments & Income Manager	June 2005	The Authority now completes monthly reconciliations of all payroll codes with the information produced from the payroll system. In addition the total payroll costs are agreed to the monthly posting journal on entry to the system.	Yes	N/A
<b>Council tax – refunds</b> Ensure evidence of the request from the account holder is stored on the house file.	Medium	Revenues & Benefits Manager	Ongoing	Revised procedure implemented post audit that has been risk tested. Procedures drafted and authorisation is independent of initiation. Full audit trail on system.	Yes	N/A
<b>Housing rents – reconciliation</b> Ensure that the issues relating to this reconciliation are rectified as a matter of priority to enable the reconciliation to be completed at regular intervals to ensure that the Housing Rents system is accurate.	High	Housing Manager	December 05	New post of Housing Finance Officer has been created and an appointment made,. This post will be responsible for reconciliations.  End of year reconciliation of rent cash income, other than Supporting People, was completed	Yes	N/A

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
<p><b>Housing Rents – reconciliations</b></p> <p>It should be ensured that there are procedures in place on how the relevant reconciliations are to be carried out, i.e. which reports are used, so that in staff absences, reconciliations can still be carried out with ease and old reconciliations can be followed up.</p>	High	Head of Revenues and Housing Management	March 2005	This issue had already been raised by Internal Audit and action is being taken to ensure comprehensive audit trails are in place for reconciliation procedures.	Yes	N/A
<p><b>Housing Rents – arrears chasing</b></p> <p>It should be ensured that this is carried out on an ongoing basis to maximise recovery.</p>	High	Housing Manager	-	Implementation of this recommendation is dependent upon staffing. Debts for current tenants are being managed, with former tenants now being dealt with.	Ongoing	
<p><b>Debtors – invoice dating</b></p> <p>Invoices should be raised promptly after the service is provided and appropriately dates to that amounts are reflected in the correct period.</p>	Medium	Payments and Income Manager	December 2004	The year end accruals process will identify material invoices. As PKF say, the invoice date is automatically generated, so we cannot change that. Officers will be reminded that the date the service is provided should be included in the narrative of the invoice.	Yes	N/A

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
<p><b>Benefits – promptness of processing</b></p> <p>The schedule should be used to review all cases, noting the current position with the application review process. This may result in cases not being dealt with promptly and possible loss of benefit subsidy.</p>	Medium	Revenue and Benefits Manager	-	We are continuing to consider options to improve the speed of processing of new claims and changes of circumstances, including achieving the Authority's targets and top quartile targets. We will include this recommendation within these considerations.	Yes	N/A
<p><b>NNDR – discounts and exemptions</b></p> <p>A more senior member of staff within the department should authorise the property officer's work, and evidence that this has been done should be retained.</p>	High	Revenue and Benefits Manager	May 2005	This is currently being reviewed as part of the contract with Chelmsford.	Yes	N/A