

## **PKF ANNUAL GOVERNANCE REPORT 2009/10 UPDATE OF RECOMMENDATIONS**

### **1 SUMMARY**

- 1.1 Recommendations from the Audit Commission, External Auditors, and Inspectors are monitored by Internal Audit and their review falls within the discretion of this Committee.

### **2 INTRODUCTION**

- 2.1 This Report draws Members' attention to the recommendations from the "Annual Governance Report, 2009/10".
- 2.2 The Council's External Auditors, PKF, presented this report to the Audit Committee on 29 September 2010.

### **3 EXTERNAL AUDIT RECOMMENDATIONS**

- 3.1 The recommendations and management responses arising from the report have been included as appendix 1, together with progress to date.

### **4 RECOMMENDATION**

- 4.1 It is proposed that the Committee **RESOLVES**

That the monitoring sheets for the External Audit recommendations be agreed

Yvonne Woodward

Head of Finance

---

#### **Background Papers:-**

None.

For further information please contact Jim Kevany on:-

Tel:- 01702 546366 Ext 3213

E-Mail:- [james.kevany@rochford.gov.uk](mailto:james.kevany@rochford.gov.uk)

If you would like this report in large print, Braille or another language please contact 01702 318111.

**MONITORING PROGRESS OF RECOMMENDATIONS RAISED IN ANNUAL GOVERNANCE REPORT, 2009/10**

**APPENDIX 1**

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>ACCOUNTING PRACTICES AND FINANCIAL REPORTING</b>					
<p>The Council has had Dimensions (its financial ledger system) in place since 2006/07. However, its full capability is not currently being utilised. Instead the Council is using a number of Microsoft Excel spreadsheets to manually amend the output from Dimensions at year end, increasing the risk of material misstatement due to human error.</p>	<p>1. Utilise the full potential of Dimensions by including all transactions required for the preparation of the financial statements within it, or consider replacing the financial ledger system.</p>	<p>High</p>	<p>Progress on this had been held up because of staffing issues. It will continue to be developed for 2010/11 accounts.</p> <p><b>Update March 2011</b> Work is progressing and will be in place within the Final Accounts</p>	<p>Financial Services Manager</p>	<p>July 2011</p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p>Testing carried out on the Cash and Bank balance identified that the Council held an Alliance and Leicester Account with a balance of £170.09 which was not disclosed as a cash and bank balance, but rather as a creditor. Although trivial, this practice is not compliant with financial reporting standards and could result in a nontrivial error in future years.</p>	<p>2. Disclose all amounts in current bank accounts as bank and cash balances, ensuring that all are reconciled to the financial ledger at year end.</p>	<p>Medium</p>	<p>Accepted.</p> <p>This account is a holding account for Giro-bank payments and the balance is paid over to Rochford District Council's bank account on receipt of the bank statement. Only about 16 council tax payers use the account during the whole year and the balances at the end of the last 3 years have been below £2,000; and bearing in mind the figures in the accounts are quoted to the nearest £1,000, we consider there is a low risk of a non-trivial error.</p>	<p>Financial Services Manager</p>	<p>July 2011</p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p>The valuation instructions given by the Council to Savills, its external Valuer, did not request a review of the reasonableness of estimated residual useful economic lives. This increases the risk of inappropriate useful economic lives being used in accounting for fixed assets which could lead to material misstatement of the financial statements.</p>	<p><b>3.</b> Instruct the Valuer to give a view on the reasonableness of the useful economic lives of assets being subject to revaluation.</p>	<p>Medium</p>	<p>Accepted</p>	<p>Financial Services Manager</p>	<p>May 2011</p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p>The recharge of Rayleigh Accommodation Expenditure has been completed using an historic percentage basis.</p> <p>The Council was unable to provide supporting evidence to substantiate the split of this recharge to the various service areas. Without an accurate allocation of costs for all recharges the financial statements could be materially misstated and not comply with the regulations of the BVACOP.</p>	<p>4. Review and record the basis of apportionment for this recharge.</p>	<p>Medium</p>	<p>Accepted. Recharges are reviewed annually on a risk based approach. It is already appreciated that recharges affect the cost of individual services. The direct costs for Rayleigh accommodation totalled £93,000 in 2009/10, 2% of the £4.3m total Apportioned overheads. Rayleigh Accommodation is recharged to only 4 cost centres and is considered a low risk recharge. It will be reviewed this year.</p> <p><b>Update February 2011</b></p> <p>We have detailed floor plans for Rayleigh. These will be used to calculate a more accurate recharge for the accommodation.</p>	<p>Senior Accountant</p>	<p>February 2011</p> <p><b>Complete</b></p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>ACCOUNTING AND INTERNAL CONTROL SYSTEMS</b>					
<b>RECOMMENDATION 5 WAS RECORDED AS “IMPLEMENTED “ WHEN REPORT WAS PRESENTED TO MEMBERS ON 29/9/2010</b>					
<p>Circulation to Heads of Service of an Establishment List was not undertaken due to ongoing work around the corporate restructure process. The absence of this control increases the risk of incorrect or inappropriate payroll payments being made.</p>	<p><b>6.</b> Circulate an Establishment List to Heads of Service at least every six months.</p> <p><b>7.</b> Require Heads of Service to evidence their review of the accuracy of the circulated Establishment List by signing it and returning it to the Human Resources department.</p> <p><b>8.</b> Retain the evidenced Establishment Lists for audit.</p>	<p>Medium</p>	<p>Accepted in principle but not using the old Excel based Establishment List. The Council has invested in its integrated HR and payroll system (Team Spirit) to modernise processes and information available so that Heads of Service (HoS) receive timely and useful data. Once fully functional HoS will be required to review establishment using an audit trail report from Team Spirit, replacing the old Establishment List. This is expected to be in place by November 2010 and will operate alongside current controls over starters, leavers and amendments.</p> <p><b>Update March 2011</b> First circulation completed. Regular review will be carried out</p>	<p>Heads of Service</p>	<p>November 2010</p> <p><b>In Place</b></p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>RECOMMENDATION 9 WAS RECORDED AS “IMPLEMENTED “ WHEN REPORT WAS PRESENTED TO MEMBERS ON 29/9/2010</b>					
<p>IT access is not restricted for those officers with super user permissions. When this type of access is permitted there is a non-rebuttable risk of management override of that system.</p>	<p><b>10.</b> Introduce a process for independent sample checking of the accuracy and appropriateness of changes made by super-users, when the user performs a function that is not ordinarily within their remit to perform and results in proper segregation of duties not being observed.</p>	<p>Medium</p>	<p>A monthly audit report will be produced to list when the admin log-in is used and what was carried out. This will be reviewed by the Head of Finance.</p> <p><b>Update February 2011</b> An Access Log is produced monthly and reviewed by Head of Finance</p>	<p>Payments &amp; Income Manager</p>	<p>Sept 2010</p> <p><b>In Place</b></p>