



Accountants &
business advisers

Rochford District Council

Interim Report

July 2005



Rochford District Council

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1 Introduction

Our work to date

- 1.1 Within our Audit Plan for 2004-05, we outlined the work that we would be carrying out in order to meet our Code of Audit Practice responsibilities.
- 1.2 We have now completed the interim phase of our work for 2004/05, and this report sets out the results of this work. Our work has focused on an assessment of the Authority's arrangements covered by two specific areas of our audit responsibilities:
- Our audit opinion on the Authority's Statement of Accounts, at this stage considering the robustness of core financial systems as a base source of financial information for the preparation of those Accounts; and
 - Financial Aspects of Corporate Governance.
- 1.3 Detailed recommendations to address the key findings identified by our review are set out in the attached Action Plan. These recommendations have been discussed with appropriate officers and their responses are included in the Plan.
- 1.4 We emphasise 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 to the Authority

- 1.5 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 prior written consent.

Acknowledgement

- 1.6 We would like to thank the staff of the various departments approached for their co-operation and assistance provided during the interim phase of our audit.

2 Interim Opinion audit work

Responsibilities

- 2.1 Our responsibility is to provide an audit opinion on the Authority's Statement of Accounts. In advance of the detailed testing of the completed financial statements scheduled for August 2005, we have reviewed the core financial systems in place across the Authority, which contribute to the preparation of accurate financial statements, to assess the extent to which we can place reliance on them for this purpose.

Scope of our review

- 2.2 Our approach to the review of the core systems involved considering key objectives for each system and satisfying ourselves that there are adequate controls for these and that they are operating as intended and are sufficient to prevent material misstatements with in the accounts. In assessing the reliability of systems as a basis for providing financial information, we have prepared systems notes for each financial system and planned to perform walkthrough tests of key controls.
- 2.3 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 exercises:
- Considered the robustness of the core financial systems on the evidence of this work;
 - Reviewed Internal Audit's working papers and reports; and
 - Re-performed a sample of Internal Audit's testing of key controls, to establish that their conclusions are soundly based and that we do not disagree with them.

Our findings

Core financial systems

- 2.4 The review of core financial systems performed as part of the 2003/04 audit highlighted that a number of key control reconciliations were not being performed. The work completed in 2004/05 has indicated that, in a number of cases, these reconciliations are now being regularly completed and are effective controls.
- 2.5 However, we have noted that there are still some areas where problems are being experienced with completing the reconciliations. We have noted that the following reconciliations are incomplete:
- Housing Rents
 - Cumulative Payroll costs to the General Ledger
- 2.6 As part of the final audit, we will need to obtain completed and reviewed copies of the year end versions of either the above-mentioned reconciliations or suitable alternatives. Should these not be available, we will need to extend our work to include sample-based substantive testing. This would have notable resource implications, which we would discuss with you before we commence the additional work. Any failure to complete these reconciliations would need to be reported in the Authority's Statement of Internal Control.
- 2.7 Overall, with the exception of the impact of the issues noted in Appendix A, we found that the core financial systems were generally adequate as a basis for preparing accounts free from material misstatements.

Extent of reliance on Internal Audit

- 2.8 We have planned our systems work on the assumption that Internal Audit will carry out testing on all of the key controls identified on our “Key Control Evaluation” assessments, and our budgeted fee reflects this. Where Internal Audit carry out less testing than anticipated, we perform additional work to obtain the necessary assurance over the operation of the core financial systems to support our opinion work.
- 2.9 Following our review of Internal Audit's work during our interim audit for 2003/04 and our reporting of findings in our Interim Report, we met with the Head of Internal Audit in September 2004 to discuss ways in which issues we had raised could be addressed with a view to improving the extent to which we would be able to place reliance on Internal Audit's work in 2004/05.
- 2.10 Our discussions identified a number of issues to focus on, and we offered to undertake an early review of the first files completed by Internal Audit using the revised methodology to identify any residual issues. This review was undertaken in January 2005 and noted an improvement in the level of documentation retained and focus. Residual issues were discussed with the Internal Auditor responsible for the files reviewed and also reported to the Head of Internal Audit.
- 2.11 Our review during our interim visit of the full range of systems work performed by Internal Audit confirmed that there has been an improvement in the level of reliance we can place on their work for our opinion on the accounts, and we would like to take this opportunity to thank Internal Audit for the efforts that have been made in this area this year.
- 2.12 However, we have identified some areas where there is potential for further improvement, all of which were raised in our 2003/04 Report. These are:
- In some instances, because of the timing of the review, the testing performed on specific controls did not cover a notable portion the financial year, meaning that assurance on the operation of the controls during the period not covered has not been obtained;
 - In some instances, Internal Audit have not performed compliance testing of the operation of a control, having instead either discussed or observed the operation with officers, or undertaken substantive testing of related financial information. In neither case can we take any assurance because they do not provide test-based *evidence* of the operation of the control; and
 - Although we have been informed that Internal Audit complete re-performance testing of the controls, there were some instances where no evidence was retained and therefore we could not place reliance without repeating the re-performance of work.

3 Financial Aspects of Corporate Governance

Responsibilities

- 3.1 It is the Authority's responsibility to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. It is our responsibility to review those arrangements.

Scope of our work

- 3.2 Our work has addressed the four key sub-elements of our Code of Audit Practice responsibilities:
- Financial Standing of the Authority;
 - Systems of Internal Financial Control;
 - Standards of Financial Conduct, and the Prevention and Detection of Fraud and Corruption; and
 - Legality of transactions that might have significant financial consequences.

Financial Standing

- 3.3 Authorities should have robust arrangements in place to meet financial obligations and to ensure financial standing is soundly based. The consequences of poor financial standing are significant, with the risk of reductions in service provision, and threats to the achievement of priority objectives.
- 3.4 The work on financial standing will be completed in conjunction with our work on the financial statements in August/September 2005 and our findings will be reported in due course.

Systems of Internal Financial Control

- 3.5 It is the Authority's responsibility to put in place adequate arrangements to satisfy itself that its systems of internal financial control are both adequate and effective in practice. It is our responsibility to review those arrangements.

Scope of our work

- 3.6 We will discharge our obligations by considering:
- The Authority's Internal Audit arrangements, including the quality of their work;
 - The Authority's progress in implementing the Statement of Internal Control (SIC); and
 - The wider control environment.

Internal Audit

- 3.7 We have reviewed the work carried out by Internal Audit and have re-performed a sample of their testing. Overall, where compliance testing of controls has been undertaken, we are satisfied that the conclusions they have reached are valid based on the results of their testing.
- 3.8 As discussed in Section 2, our review of the work of Internal Audit has shown there to have been an improvement in the work of Internal Audit this year that has allowed us to rely on more of their work and consequently carry out a more efficient audit. It should be noted that this improvement in Internal Audit's work has been achieved despite an unavoidable reduction in the size of the Internal Audit department for some of the year.
- 3.9 Residual areas for improvement are detailed further in the attached Action Plan.

Statement on Internal Control (SIC)

- 3.10 As part of our work we have considered the progress made by the Authority in preparing the SIC and the underlying effectiveness review that is necessary to support it. From our discussions, we understand that the SIC will be supported by a number of departmental self assessments which will be collated and supplemented by Internal Audit's overall review.
- 3.11 We noted that, at the time of our review, there had been limited progress with the production of the SIC, although arrangements are still being finalised to collate the necessary information and complete the required effectiveness review.
- 3.12 Our detailed review of SIC disclosures will be carried out with our final accounts work. We will seek to ensure that the key control problems highlighted within this report are properly included in the final SIC. We will also consider steps necessary to improve the self assessment information base going forward.

Wider control environment

- 3.13 In assessing the wider control environment we have considered:
- Whether the staff have appropriate skills and expertise to match their responsibilities;
 - Whether processes and procedures are adequately documented and followed in practice; and
 - The extent and use of exception reports.
- 3.14 We have noted that procedure notes are not in place in some areas, which could lead to agreed practices not being followed in the event of a staff change. These instances have previously been reported by both Internal Audit and PKF and are repeated in Appendix B.

Financial Conduct, Fraud and Corruption

- 3.15 The Authority should ensure that its affairs are managed in accordance with proper standards of financial conduct and put in place appropriate arrangements to prevent and detect fraud and corruption.

Scope of our work

- 3.16 We will discharge our obligations by:
- Reviewing the Authority's overall arrangements that we would expect it to have in place;
 - Reviewing relevant Codes of Practice to ensure that appropriate arrangements are in place; and
 - Reporting to the Audit Commission all reported frauds over £1,000.
- 3.17 At the time of drafting this report we have only recently commenced our review of the Authority's arrangements to prevent and detect fraud and corruption and as a result we have not yet reached any conclusions. The work on this area will be completed in conjunction with our work on the financial statements in August/September 2005 and will be reported in due course.

Legality

- 3.18 The Authority has the responsibility of putting in place adequate arrangements to ensure that its financial affairs are conducted within the law and regulations.

Scope of our work

- 3.19 We discharge our responsibility by reviewing the Authority's Statement of Accounts and appropriate Council and Committee agenda papers and minutes, discussing matters with officers, considering Audit Commission advice and reviewing the applicability of national issues.
- 3.20 Our review of the arrangements around legality has not highlighted any issues that we wish to report at this stage.

Appendix A – Recommendations arising from 2004/05 audit work

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
REVIEW OF CORE FINANCIAL SYSTEMS					
<i>The following recommendations arose from our review of the Authority's systems of internal financial control</i>					
Payroll – reconciliation There is currently no reconciliation between the payroll system and the general ledger. There is an expectation that as a minimum there would be agreement of totals from payroll reports to the journal entries in the general ledger, although this is not performed. There is therefore a risk that payroll costs are not accurately stated in the accounts.	Ensure that reconciliations are performed between payroll and the general ledger and appropriate supporting evidence is retained.	High	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.	Payments & Income Manager	June 2005
NNDR – exception reports Although the Authority produces exception reports from the NNDR system there is no evidence available to verify that issues within them have been actioned. There is therefore a risk that errors are not being properly addressed.	The Authority should develop and implement an audit trail for the use and verification of the errors identified.	Medium	Accepted	Revenues & Benefits Manager	<i>Will be tied in with review of contract with Chelmsford</i>

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Council tax – refunds <p>Internal Audit's work highlighted that Council Tax refund requests received from account holders, which is the initial authorisation, are not always kept on file. It is important that evidence of the account holders request is kept on file as without it there is a risk that inappropriate refunds will be made for which the Authority will be liable.</p>	<p>Ensure evidence of the request from the account holder is stored on the house file.</p>	<p>Medium</p>	<p>Revised procedure implemented post audit that has been risk tested. Procedures drafted and authorisation is independent of initiation. Full audit trail on system.</p>	<p>Revenues & Benefits Manager</p>	<p><i>Ongoing</i></p>
Housing rents – reconciliation <p>Internal Audit's work highlighted from discussions with officers that the reconciliation between the Rents system and the general ledger is still not being produced due to a lack of knowledge of its preparation following staff departures in the prior year. There is therefore a risk that the Authority is not recording the related income correctly.</p>	<p>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.</p>	<p>High</p>	<p>Accepted. New post of Housing Finance Officer has been created and an appointment made, with a start date of end of October. This post will be responsible for reconciliations.</p> <p>End of year reconciliation of rent cash income, other than Supporting People, was completed</p>	<p>Housing Manager</p>	<p><i>December 05</i></p>

Appendix B – Follow up of recommendations arising from previous years

Conclusions from work	Priority	Responsibility	Timing	Action to date	Resolved	Revised timing
OPINION WORK ON THE FINANCIAL SYSTEMS						
<i>The following recommendations arose from our review of the Trust's financial systems.</i>						
Payroll – reconciliations Reconciliation between the two systems should be carried out and retained together with all supporting documentation.	High	Payments and Income Manager	-	Payroll reconciliations are now carried out monthly and evidence is kept by the Payments and Income Manager	Yes	N/A
Payroll – establishment lists All line managers should be reminded to review and return this document as soon as possible, and a follow-up procedure should be introduced to ensure that records are complete.	High	Human Resources Manager	-	Establishment lists are circulated to heads of Service for confirmation that they are still correct or require amendment. Non-respondents are chased up.	Yes	N/A
Cash and bank – bank reconciliation Monthly reconciliations should be carried out between the General Ledger and bank statements, with reviews carried out by senior staff and appropriate evidence retained.	High	Head of Financial Services	February 2005	Monthly reconciliations are carried out. Although an adjustment had to be made for 2004/05, all bank reconciliations in 2005/06 have balanced.	Yes	Ongoing
Cash and bank – cash reconciliation Relevant papers should be evidenced to show that the check has occurred and retained to provide and audit trail.	Medium	Cashiers	Ongoing	The bank statement is reconciled on a daily basis – redesigned spreadsheets show balancing.	Yes	N/A
Debtors – ledger reconciliations Reconciliations should be subject to a review by a more senior officer to ensure that they are correctly performed, that comments relating to differences are documented on the reconciliation and that evidence is retained to demonstrate that this review has been completed.	High	Payments and Income Manager	-	Accepted.	Yes	N/A

Conclusions from work	Priority	Responsibility	Timing	Action to date	Resolved	Revised timing
Debtors – checking of invoices Ensure that all invoices are checked for completeness and initialled to provide evidence that this has been completed	Medium	Payments and Income Manager	March 2005	We do not keep hard copies of invoices. This issue will be considered as part of the review of the debtors processes to be carried out before the end of 2004/05.	No	<i>We have, as agreed, reviewed the position. We have concluded, after taking account of the risk exposure and the likely cost of implementation not to implement this recommendation.</i>
Debtors – invoice dating Invoices should be raised promptly after the service is provided and appropriately dates to that amounts are reflected in the correct period.	Medium	Payments and Income Manager	December 2004	The year end accruals process will identify material invoices, As PKF say, invoice date is automatically generated, so cannot change that. Officers will be reminded that the date the service is provided should be included in the narrative of the invoice.	No	Ongoing
Debtors – completeness of income Controls should be implemented to ensure that all sources of sundry income are identified and invoiced.	Medium	Payments and Income Manager	-	With the small volume of sundry income received by the Authority, we consider that the controls in place are adequate. These include: <ul style="list-style-type: none"> – Use of rechargeable works codes and recharge sheets. – Payment at point of delivery or booking. – Records kept by Payments & Income Officer for annual sundry charges 	Partial	<i>We have, as agreed, reviewed the position. We have concluded, after taking account of the risk exposure and the likely cost of implementation not to implement this recommendation.</i>

Conclusions from work	Priority	Responsibility	Timing	Action to date	Resolved	Revised timing
Creditors – completeness of expenses With the current search for a new system, the facility to track invoices even if received by an alternate department should be considered.	Medium	Payments and Income Manager	March 2005	Not accepted. The Authority pays over 98% of its invoices within 30 days. Invoices requiring departmental authorisation are sent direct to departments; sending them to Financial Services to then forward to departments would delay the Authorisation process. An invoice register facility will be considered in any new system. With e-procurement new arrangements for payments of invoices are being introduced. There will be fewer amounts sent for departmental approval.	No	N/A
Housing Rents – reconciliations 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.	High	Head of Revenues and Housing Management	March 2005	Accepted. 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.	No	March 2006
Housing Rents – arrears chasing It should be ensured that this is carried out on an ongoing basis to maximise recovery.	High	Housing Manager	-	Implementation of this recommendation is dependent upon staffing. Current tenants being managed. Former tenants now being dealt with	Partial	Ongoing

Conclusions from work	Priority	Responsibility	Timing	Action to date	Resolved	Revised timing
Benefits – reconciliations This reconciliation should be carried out regularly to ensure that all benefit has been correctly recorded in the general ledger.	High	Business Support Manager	December 2004	A reconciliation was carried out for the 2003/04 year end and a monthly reconciliation developed. Reconciliations now being undertaken, process to be verified	Partial	March 2006
Benefits – registering claims Ensure all applications are registered onto the system on the day they are received.	Medium	Revenue and Benefits Manager	-	Cases are now registered on the day of receipt or the following day depending on the volume of post.	Yes	N/A
Benefits – promptness of processing 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.	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.	No	Ongoing
Benefits – segregation of duties Ensure all overpayments raised are notified to, and treatment agreed by, an appropriate member of staff.	Medium	Revenue and Benefits Manager	-	All overpayment cases once identified are passed to the Recovery team for checking and collection. Also a Senior Officer carries out a random 10% check, with a 100% check for new staff for the first six months.	Yes	N/A
Council tax – reconciliations Ensure reconciliation between the Council Tax System and the General Ledger is completed regularly and is reviewed by a more senior member of staff.	High	Business Support Manager	-	Accepted and now being completed.	Yes	N/A

Conclusions from work	Priority	Responsibility	Timing	Action to date	Resolved	Revised timing
NNDR – discounts and exemptions 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.	High	Revenue and Benefits Manager	May 2005	This is currently being reviewed as part of the contract with Chelmsford.	No	April 2006

Conclusions from work	Priority	Responsibility	Timing	Action to date	Resolved	Revised timing
REVIEW OF SYSTEMS OF INTERNAL FINANCIAL CONTROL						
<i>The following recommendations arose from our review of the Authority's Systems of Internal Financial Control</i>						
Statement of Internal Control The Authority should consider and finalise arrangements for the preparation of this mandatory Statement for inclusion in the Statement of Accounts (for which the statutory deadline for preparation is 31 August). Arrangements should include ensuring that sufficient evidence is available to support the position being outlined and to which the Leader and the Chief Executive must approve.	High	CD (FES)	March 2005	A review of the council's approach to producing this Statement needs to be undertaken.	No	March 2006
Internal Audit – evidence of reliance The Authority should consider the best use of audit resources and, should an increase in the reliance be sought, ensure that Internal Audit plan to walkthrough and compliance test all the PKF key controls.	High	APRM	March 2005	Will hold discussions with PKF to identify what they regard as best practice within a cost effective and risk based environment.	Partial	March 2006 as part of revised approach for completion of systems work.
Internal Audit – audit trail Evidence of re-performance should be retained, e.g. narrative to explain exactly what testing has been carried out, retention of example papers to clearly demonstrate what has been looked at and specific items reviewed highlighted. To maximise the reliance that can be place, sample sizes should be selected to cover as much of the year under audit as possible. As far as possible, all inter-related documents should be cross-referenced to allow for information to be traced easily.	High	APRM	On-going	We are working with External Audit to develop our procedures on completing the KCEs. New control evaluation summaries have been introduced.	Partial	Ongoing communication.

Conclusions from work	Priority	Responsibility	Timing	Action to date	Resolved	Revised timing
Exception reports Where possible, exception reports should be generated and the results cleared, and evidenced as such, on a regular basis.	Medium	Head of Financial Services Head of Revenues and Housing Management		Where IT systems are capable of running exception reports, they are produced, for example: Finance – month end budget monitoring reports with highlighted overspends Payroll – variety of reports comparing month on month Housing benefits - >£5,000 Discounts/exemptions due to expire	Yes	N/A
Housing Rents – procedure notes Procedure notes should be promptly reviewed, updated and communicated to relevant staff.	High	Housing Manager	Following new housing rents software	Accepted. This will be developed following the implementation of the new rents system.	No	March 2006
Council Tax – procedure notes The current review should be finalised and updated procedure notes made available for reference at the earliest opportunity.	High	Revenue and Benefits Manager	May 2005	Accepted.	No	Feb 2006
NNDR – procedure notes All staff should be made aware of the procedure notes and be trained to use them where necessary.	Medium	Revenue and Benefits Manager		Procedure manual to be updated in conjunction with Chelmsford. Staff will be made aware of the location of the procedure notes.	No	April 2006
System access Either the system parameters should be amended to force staff to change passwords regularly, or emails should be followed up to ensure passwords have actually been changed.	Medium	Accountancy Manager Housing Manager	-	The primary password control is to the network and users are forced to change it every 90 days. The email reminders will be chased up for response.	Yes for Finance System. New system July 2005 auto prompt Housing now have automatic updating of passwords	N/A N/A

Conclusions from work	Priority	Responsibility	Timing	Action to date	Resolved	Revised timing
Action plans arising from recommendations Outstanding action points should be revisited and realistic timescales agreed for implementation. Repeatedly deferred actions should be highlighted and explanations sought and minuted.	High	APRM and CMB/OMT	-	Accepted. Action Plans are monitored with changes to dates highlighted. Internal Audit Recommendations are also monitored through Committee.	Yes	N/A