



Accountants &  
business advisers

## **Rochford District Council**

### **SAS610 report**

October 2005

## **Contents**

1	Introduction.....	4
2	Statement of Accounts.....	5
3	Financial Aspects of Corporate Governance .....	10

## **Appendices**

- A Recommendations arising from 2004/05 audit
- B Schedule of non-trifling unadjusted misstatements
- C Follow up of external audit recommendations arising from prior years

## **1 Introduction**

### **Our work to date**

- 1.1 Within our Outline Audit and Inspection Plan 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 final phase of our work on the 2004/05 statement of accounts and this report gives the result of that work. This report is presented to Members in accordance with the provisions of Statement of Auditing Standard 610 (revised) which requires us to report to “those charged with governance”, prior to issuing our opinion on the Statement of Accounts.
- 1.3 Our work has focused on an assessment of the Authority’s arrangements in two specific areas of our Code of Audit Practice responsibilities:
- Our audit opinion on the Authority’s financial accounts; and
  - Any outstanding issues with regard to our work on the financial aspects of corporate governance, specifically
    - Final elements of work on systems of financial control; and
    - Work on the Authority’s Financial Standing.
- 1.4 The following sections detail our key findings in respect of the above areas.
- 1.5 Detailed recommendations in response to the key findings identified by our review are provided in the attached Action Plan. These recommendations have been discussed with appropriate Officers.
- 1.6 In this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed.

### **Status of our report to the Authority**

- 1.7 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**

- 1.8 We would like to thank the staff of the Authority’s Finance department for their co-operation and assistance provided to us during the audit.

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## **2 Statement of Accounts**

- 2.1 The Authority is required to publish an audited statement of accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice ("The SORP"). The Corporate Director (Finance and External Services) is responsible for the preparation of the accounts and supporting statements in accordance with the SORP.
- 2.2 As the Authority's appointed auditors, our main objective is to form an independent opinion on the statement of accounts.

### **Scope of our work**

- 2.3 The audit covers all the financial statements in the statement of accounts and the relevant notes. In accordance with the Code of Audit Practice, we must assess whether the statements:
- Present fairly the financial position of the Authority and its income and expenditure for the year in question; and
  - Have been properly prepared in accordance with appropriate legislation.
- 2.4 We are also required to consider whether the Statement on Internal Control complies with proper practices specified by CIPFA or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements, and to read the other information published with the Statement of Accounts (particularly the Foreword) and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Accounts.
- 2.5 In completing these assessments we consider a number of aspects which may have an impact on our ability to issue an unqualified opinion. These include:
- Assessing systems reliance;
  - Reviewing the accounts preparation process; and
  - Completing analytical review, testing balances and considering the adequacy of disclosures.

### **SAS 610 responsibilities**

- 2.6 As noted within our Outline Audit Plan, Statement of Auditing Standard 610 ("SAS 610") requires auditors to communicate relevant matters relating to the audit with "those charged with governance". The content of this report, and our interim report, forms part of our reporting on the results of our Opinion audit to those charged with governance, and will be supplemented by the preparation of our forthcoming interim Annual Audit and Inspection Letter.
- 2.7 In particular, we are required to report:
- Expected modifications to the audit report;
  - Unadjusted misstatements;
  - Material weaknesses in accounting and internal control systems identified during our work;
  - Qualitative aspects of accounting practices and financial reporting; and
  - Any other relevant matters.
- 2.8 Our comments in these areas are set out below:

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***Audit Report***

- 2.9 Subject to receiving an updated copy of the accounts which reflect our suggested changes and the clearance of a number of outstanding matters on the audit, there are no matters arising from our work to date that are likely to prevent us issuing an unqualified audit report. At the date of drafting this report, the two key matters still outstanding are:
- We are currently completing our work on the Housing Revenue Account in order to fully assess the impact of the issue identified in paragraph 2.18 and enable us to quantify the potential differences as a result of the reconciliation between the final accounts and general ledger.
  - We have recently received a letter of assurance from the pension fund auditors which notes that there are no issues that have been identified to date with the audit of the scheme. However, their audit has yet to be concluded and reported to those charged with governance.
- 2.10 We will provide a verbal update to the Council on the status of the audit when we meet to discuss this report.

***Unadjusted misstatements***

- 2.11 During the course of our audit we identified a number of non-trifling misstatements for which no amendments were made to the statement of accounts. In accordance with the requirements of SAS 610.5(b) these are detailed within Appendix B. As these misstatements were not considered by management to be material, and we concur with this view, subject to completing our outstanding audit work we propose signing an unqualified audit opinion on the accounts.
- 2.12 However, in accordance with SAS 610.6, we will require formal, written representation of the reasons for not making the amendments. Whilst, as mentioned above, the impact of the misstatements is below the materiality level which we set for the audit, these are amounts which should ideally be reflected in the accounts.

***Accounting and Control systems***

***Interim systems work***

- 2.13 In our interim report issued in early August 2005, we noted a number of matters arising from our audit work to that date, and we are still in the process of agreeing a response to the recommendations made in that report.
- 2.14 We concluded that the core financial systems were adequate as a basis for preparing the accounts, although some control weaknesses existed that would require additional audit effort. In particular, our interim report highlighted that the following reconciliations had not been completed on a regular basis:
- Housing Rents;
  - Cumulative Payroll totals to the General Ledger
- 2.15 Having reviewed these areas within our work on the final accounts, we are satisfied that the accounts have not been materially affected by these issues.

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**Final systems work**

- 2.16 In addition to the control weaknesses referred to above, the following notable issues have arisen from our audit work since our interim report was prepared:
- We noted that, as in prior years, the Authority did not reflect the receipts recorded by the bank on 31 March 2005 within the Statement of Accounts. The total value of receipts on the day was £243k, and we have recorded this as an unadjusted error in appendix B.
  - Issues with regard to the recording and identification of funding and costs in relation to the Authority's expenditure on Supporting People. See further notes at 2.18 below.
- 2.17 Full details of the issues arising are documented in Appendix A to this report, with appropriate recommendations.

**Housing Revenue Account**

- 2.18 Our review of both a number of the detailed entries and of documentation supporting the costs and income for the Supporting People activity within the Housing Revenue Account has identified a number of inconsistencies. Discussions with client staff have indicated that this is a result of problems with the systems used for the recording of information in relation to the Supporting People activity that the Authority undertakes, this being funded by Essex County Council.
- 2.19 We are aware from our discussions that the principal reason for these problems is the way in which the funding is received from Essex County Council, as insufficient information appears to have been provided to allow reconciliation of funding and costs. Members have previously been advised that the Authority has performed an analysis of the likely impact of this problem on its Housing Revenue Account and that the income for the year may be understated by £86k. We have included this as an unadjusted error within Appendix B.
- 2.20 Whilst we commend the Authority for identifying the issue, it is a significant matter that we must review in detail as it may adversely affect our opinion on the fair presentation of the Authority's accounts. We are still in the process of completing our review of information to support the detail within the Statement of Accounts, and will provide a verbal update of the position at the Members' meeting to discuss this report.

**Accounting Practices and Financial Reporting**

**SORP requirements**

- 2.21 There have been a number of changes made to the disclosures required within the statement of Accounts, as set out with the SORP. We have noted that the Authority has completed the majority of these amendments, including changes as a result of the introduction of the Prudential regime, but that some have not yet been fully amended. These include:
- Required disclosures in respect of the Pooling of Housing Capital receipts. Whilst the income and costs have been properly reflected within the figures, they are not separately disclosed within the Statement of the Total Movement on Reserves.
  - Verification that there are no disclosures required in respect of the assets that the Authority owns and acts as the lessor to other bodies, although we expect this to be completed within the final draft.

**Adequacy of disclosures**

2.22 A number of presentational changes have been suggested to improve the clarity of certain notes to the accounts and we are awaiting a copy of the updated accounts reflecting all the suggested changes. The main changes required to the accounts approved by Members include:

- The inclusion of information on leased assets, which is a new requirement of the SORP.
- Disclosure of the impact of the new Office of the Deputy Prime Minister (ODPM) social housing valuation guidelines on the valuation of housing stock included within the balance sheet.

2.23 It is a requirement of the SORP that authorities disclose any related party transactions. As part of the process of identifying whether there are any relevant related party transactions that require disclosure, Members and Officers were requested to complete documentation outlining any potentially relevant transactions. The final two returns were only received during the course of drafting this report.

2.24 Although no matters requiring disclosure were identified, the lateness of completion held up the accounts closure and audit processes. Steps need to be taken to ensure timely completion of returns when requested by the Finance team.

**Bad debt provisions**

2.25 We have reviewed the Authority's bad debt provisions across all areas and the current and prior year balances are shown in the tables below:

	Sundry Debtors £'000		Rent arrears £'000	
	2004/05	2003/04	2004/05	2003/04
Arrears	242	204	111	137
Provision	117	94	60	95
Provision as a % of arrears	48.60%	46.45%	54.19%	69.11%

	Council Tax £'000		NNDR £'000	
	2004/05	2003/04	2004/05	2003/04
Arrears	731	547	437	357
Provision	549	317	328	235
Provision as a % of arrears	75.14%	57.95%	75.06%	65.83%

2.26 We have noted that the debt provisions for Council Tax and NNDR have both been reviewed and some amendments made following our recommendation from last year. As can be seen from the above, this review has led to an increase in provision in both areas, although on review we have noted that the calculation of the provisions has been based on one year's data rather than several. Therefore, if the prior year's data is not representative of standard arrears and collection, there is a possible skewing in the results.

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**Amendments to accounts**

- 2.27 During the course of our work we have identified a number of points for which amendments have been suggested as being needed to be made to the accounts. Following discussion with the Authority a number of these amendments have been made, and we note below the key amendments for the information of Members:
- The downwards revision of the value of fixed asset additions by £11k, as a result of the inclusion of an estimate within the accounts.
  - The increase in the value of fixed assets of £585k as a result of identifying two assets not restated to reflect the re-valuation results.
  - Re-analysis of the detailed creditor split disclosed within the annual accounts. This reflects the change in disclosure for £232k of balances as relating to Government Departments rather than general sundry creditors
  - The re-statement of the Asset Management Revenue Account (AMRA) to ensure information in respect of Intangible Asset Amortisation is separately disclosed.

**Other Matters**

**The accounts preparation process**

- 2.28 In response to the need to address the shortened timetable for closure of the accounts and as a result the preparation of supporting working papers, the Authority has made improvements to its arrangements for completion of the 2004/05 accounts. The preparation of the draft accounts was completed earlier than in 2004 and in line with the original timetable set. The accounts and the majority of the supporting working papers were available to us in line with the timetable agreed.
- 2.29 As there will be a further shortening of the timetable in 2005/06, as well as significant change in the senior finance staff of the Authority, it is important that further steps are taken to improve the closedown process to allow for the approval of the accounts prior to the 30 June 2006 deadline.
- 2.30 There are no other matters that we wish to bring to the attention of Members at this stage.

### **3 Financial Aspects of Corporate Governance**

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.

3.2 We noted in our interim report that our work in this area was structured around four key elements, namely:

- 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 a significant financial consequence.

3.3 We note below our conclusions in respect of our work in these areas:

#### **Financial Standing**

3.4 Authorities should have robust arrangements in place to meet financial obligations and to ensure their 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.

3.5 We are currently in the process of completing our work in this area and will report on the full findings within our Interim Annual Audit Letter, which will be issued shortly. This work has focused on the revenue and capital budget monitoring processes in place at the Authority, together with some continued review of the Authority's financial position. We have not identified any matters arising from this review which we wish to bring to your attention at this time.

3.6 We are aware that the Authority continues to have financial pressures, with the restrictions on council tax increases requiring close financial management of the budget in the short to medium term. Specific proposals, such as the LSVT process, will continue to put further pressure on the Authority's finances and the need for good budgetary monitoring.

#### **Systems of Internal Financial Control**

3.7 In our interim report we provided conclusions on the Systems of Internal Financial Control work that had been completed prior to its issue. We note below the remaining issue which we had to review:

##### ***Statement on Internal Control***

3.8 We have reviewed the Authority's Statement on Internal Control ("SIC") and we are satisfied that, through limited enquiry, the procedures and controls described do not appear misleading. Some gaps have been identified in the Authority's control framework, but these are set out in the SIC and there are action plans in place to address them. These gaps include reference to the need to ensure that risk assessments are complete and that risks arising are being managed and the need to strengthen monitoring arrangements over the capital programme.

3.9 During our review of the SIC, we noted that the explanation of the review of the effectiveness of the internal control systems only referred to the assurances that are gained from internal and external audit. Whilst these are indeed sources of assurance, they are not the only sources, and we have therefore recommended that other sources of assurance are set out in future statements, such as those from your internal management processes.

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## **Standards of Financial Conduct, and the Prevention and Detection of Fraud and Corruption**

- 3.10 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.
- 3.11 We discharge our obligations by:
- Reviewing the Authority's overall arrangements that we would expect it to have in place;
  - Discussing the scope of work performed during the year with Internal Audit, to ascertain their level of coverage;
  - 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.
- 3.12 Over a number of years the Authority has developed and implemented a number of policies and strategies to prevent and detect fraud. We have previously reported that the arrangements could be further enhanced, and the recommendations are repeated within Appendix C. There are no other matters arising from our review to report.

## **Legality of Transactions**

- 3.13 The Authority has the responsibility for putting in place adequate arrangements to ensure that its financial affairs are conducted within the law and regulations.
- 3.14 We discharge our responsibility by reviewing the Authority's Statement of Accounts and appropriate Council / Committee agenda papers and minutes, discussing matters with Officers, considering Audit Commission advice and reviewing the applicability of national issues.
- 3.15 We have reviewed the Authority's overall arrangements for ensuring the legality of transactions with specific focus on new national issues, as well as having reviewed the Statement of Accounts. Our review of the arrangements around legality has not highlighted any issues that we wish to report at this stage.

## **Complaints**

- 3.16 During the course of the year we have dealt with two complaints/objections from members of the public, neither of which have resulted in valid objections to the Authority's accounts. The issues arising were:
- A complaint over the process followed by the Authority in reaching conclusions on planning matters.
  - A concern over the approach taken, and expense incurred, by the Authority in seeking to address a long standing vacant property within the District.

**Appendix A – Recommendations arising from 2004/05 audit**

	Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<b>Accounts audit</b>						
1	<p><b>Supporting People</b></p> <p>Our review of a number of the detailed entries supporting the costs and income for the Supporting People activity within the Housing Revenue Account, identified a number of inconsistencies. Discussions with client staff have indicated that this is a result of problems with the systems used for the recording of information in this area.</p>	<p>The Authority should review all available information in relation to Supporting People and ensure accounting records are updated accordingly.</p>	High			
2	<p><b>Bad debt provision</b></p> <p>Bad debt provisions for Council Tax and NNDR have both been reviewed and amendments made in line with past recommendations. Our review has shown that the level of arrears has risen and that the calculation of the bad debt provisions has been based on one year's data rather than several, which may result in a possible skewing in the results.</p>	<p>The Authority should ensure its bad debt provision calculations are updated to consider longer periods of collection data.</p>	Medium			
3	<p><b>Accounts preparation</b></p> <p>During the course of our work we have identified a number of areas where amendments have been suggested to be made in the accounts. Following discussion with the Authority a number of these amendments have been made including:</p> <ul style="list-style-type: none"> <li>• Revision of the value of fixed assets.</li> <li>• Re-analysis of the detailed creditor split disclosed within the annual accounts.</li> <li>• The restatement of the Asset Management Revenue Account.</li> </ul>	<p>The Authority should ensure its makes all possible efforts, particularly given the shortened timetable in 2006, to produce accounts to ensure complete accounts are available for audit at the earliest opportunity.</p>	Medium			

## Appendix B - Schedule of non-trifling unadjusted misstatements

The table below details the errors recorded during the audit that have not been adjusted for within the statement of accounts.

	<b>Income</b> £'000	<b>Expenses</b> £'000	<b>Assets</b> £'000	<b>Liabilities</b> £'000	<b>Reserves</b> £'000
<b>Unadjusted differences</b>					
Amounts in the bank reconciliation that have been removed from the bank balance as they were not included in the general ledger until the 1 April.			243 (243)		0
<b>Total unadjusted differences</b>	0	0	0	0	0
<b>Potential differences</b>					
Income considered to be due to the Authority in respect of costs of its Supporting People activity.	(86)		86		(86)
<b>Total potential differences</b>	(86)	0	86	0	(86)

## Appendix C – Follow up of external audit recommendations from prior years

Recommendations	Priority	Responsibility	Timing	Action to date	Resolved	Revised implementation date
<b>Final Accounts</b>						
The following recommendations arose from our review of the Authority's financial statements:						
<b>Bad Debt Provision</b> The Authority should perform a detailed review of the percentages used in calculating the bad debt provisions, basing any revised percentages on past collection rates for the age and type of debt.	High	Yvonne Woodward, Dave Deeks	June 2005	The Authority has revised its processes for calculating the year end provision with rates now being based on past collection information. See also recommendation in Appendix A.	Yes	N/A
<b>Bank Reconciliation</b> There is a need to ensure the reconciliations are accurate and that reconciling items are investigated and adjusted for as soon as possible	High	Dave Deeks	On-going	At the year end there continued to be a reconciling item within the reconciliation. However, we understand that this difference has now been resolved.	Yes	N/A
<b>Earmarked Reserves</b> All earmarked reserves should be subject to a detailed review and only retained where there is a long-term commitment to a project, such as the Park development.	High	Yvonne Woodward	Budget - Dec 2004 Accts - June 2005	The Authority has reduced the number of reserves disclosed within the final accounts, we note that there continue to be a large number of reserves that are maintained within the general ledger.	Partial	March 2006
<b>Long Term Debtors</b> The Authority should review all long term debtors at each year end to ensure amounts are correctly disclosed within the financial statements.	Medium	Yvonne Woodward, Andrew Brown	May 2005	All long term debtors have been reviewed at the year end and are now appropriately disclosed within the year end accounts.	Yes	N/A

Recommendations	Priority	Responsibility	Timing	Action to date	Resolved	Revised implementation date
<b>STANDARDS OF FINANCIAL CONDUCT, AND THE PREVENTION AND DETECTION OF FRAUD AND CORRUPTION</b>						
The following recommendations arose from our review of the Authority's Standards of Financial Conduct, and arrangements for the Prevention and Detection of Fraud and Corruption.						
Staff should be required to sign a document stating that they have read and understood the code of conduct.	Medium	-	-	This will be implemented when guidance is received giving further direction of this requirement.	No	-
A central contact should be instated to act as a co-ordinator for all reported fraud and to advise as necessary.	Medium	-	-	The Internal Audit department is the main resource to which any suspected frauds are reported and are therefore considered to be the central contact.	Yes	N/A
A protocol should be set up detailing what details should be recorded, who to contact and a set format for reporting developed.	Medium	-	-	Internal Audit, the s.151 Officer and the Monitoring Officer report on fraud, therefore should the need to report arise, this can easily be discussed to ensure that reporting is consistent and complete.	Yes	N/A