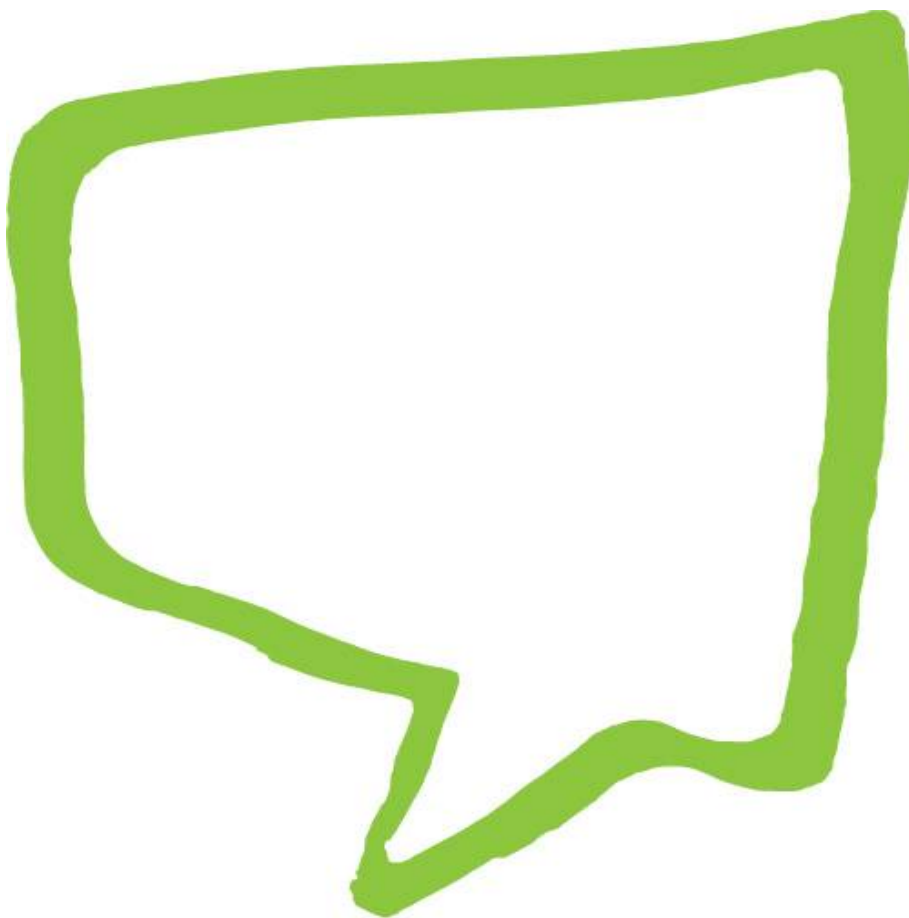


Interim Audit Report

Essex County Council

Audit 2008-2009

July 2009



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Status of our Reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary report

Introduction

- 1 The Audit Commission's Code of Audit Practice requires that we give an opinion on the Council's annual financial statements. In order to give this opinion we need to understand the Council and determine the audit risks and what effect these may have on the financial statements. We are required to plan and perform our work in accordance with International Standards on Auditing (UK and Ireland) (ISA (UK&I)s) and to help us meet this requirement we have undertaken a pre-statement audit at the Council.
- 2 Our pre-statement audit work was undertaken in order to comply with ISA(UK&I) 315 which requires that:

The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures.
- 3 We also undertook a programme of testing of certain controls, within the key material financial systems at the Council, with a view to determining whether we could place reliance on these controls for the audit opinion. As part of our work we reviewed Internal Audit reports. Where Internal Audit concluded effective controls were in place we sought to place reliance on their work.

Background

- 4 This is our second year as the appointed auditor of the Council. We were therefore able to bring forward our work from 2007/08 and follow up recommendations made.
- 5 The Council has made significant progress in some areas but a number of control weaknesses highlighted in 2007/08 remain. In some instances this is due to the need to introduce new IT systems, such as fixed assets. In other cases agreed actions have not yet been implemented. The summary of recommendations outstanding from last year is at Appendix 1.

Audit approach

- 6 Our interim audit was structured as follows:
 - Identifying the risk of material error in the financial statements. This included an assessment of external and internal factors, business risks, financial performance, internal control, IT controls and regulatory factors. This work was performed based on existing knowledge and recent Audit Commission work carried out at the Council such as Use of Resources.

- Identifying the risks of material error in the financial statements at the systems level. We have sought to understand and document all the significant financial systems relevant to financial reporting. This consists of the procedures to initiate, record, process and report the transactions and to maintain accountability for the related assets and liabilities.
- Determining a testing strategy. Our testing strategy is the way in which we seek to obtain sufficient assurance on the entries in the financial statements to enable us to form our opinion and can consist of reliance on controls or on substantive testing of figures in the financial statements or a combination of both.
- Pre-statement testing. Where our understanding of the system identified that we could obtain assurance on the financial statements from controls, these controls were tested on a sample basis. If we concluded that substantive testing would be required early testing was completed wherever possible.
- Assessment of the risk of material fraud. Under ISA(UK&I) 240 we are also required to consider and identify throughout our work if there is any risk of material fraud. Fraud encompasses both misappropriation of assets and intentional misstatements within the financial statements (i.e. deliberate error).

7 The systems that we identified as having a significant input into the financial statements are:

- General Ledger
- Payroll
- Accounts Receivable
- Accounts Payable (including procurement)
- Bank and Cash
- Asset Management, including Infrastructure assets and Vehicles, Plant and Equipment
- Highways (CONFIRM)
- Insurance (LACHS)
- Treasury Management
- Adult Social Care (A4W)

Main conclusions

- 8** We were able to gain assurance from some controls operating within some financial systems. However, weaknesses were identified which if addressed would improve internal control and reduce the risk to the Council of a material error in the accounts. In addition effective controls would reduce the amount of testing we are required to do as part of our final accounts audit.

Summary report

Material System	Risk Assessment 2007/08	Risk Assessment 2008/09	Main areas of weakness found in 2008/09
General Ledger	High	Medium	The Council needs to address the risk of significant errors on journals. This should include considering journal controls. Many officers are able to input journals and there is no requirement for a second officer to authorise a journal or for a retrospective risk-based review of journals. In addition to the Council need to consider how significant errors can be avoided through training to ensure officers have sufficient understanding of the transactions they are processing.
Payroll	High	High	Inadequate authorisation system for payments, reconciliations with the general ledger are not signed and evidence of independent review retained. In addition Internal Audit identified a number of examples of missing forms for starters, leavers and changes. The Council has attempted to address this risk through an exercise at year end which requested budget holders to sign off their transaction reports which included a listing of employees paid in March. This exercise had mixed success with differences in interpretation of the instructions and not all returns being completed for some areas.
Accounts Receivable	Medium	Medium	Lack of separation of duties. Credit note controls are inadequate.
Accounts Payable (including procurement)	Medium	Medium	Lack of segregation of duties, access to systems for staff who have left still being in place. Inadequate system for authorised signatories, lack of goods receipting process in place for non market place invoices, retrospective orders raised, review of high value invoices and new suppliers not evidenced.
Bank and Cash	Not assessed as a separate system in 2007/08	High	Lack of clear audit trail from cash figure in accounts to bank reconciliations in 2007/08, to be followed up in the final accounts audit 2008/09.
Fixed Assets	High	High	No asset register for infrastructure assets, asset registers that exist but are not robust and over-reliance on manual processes. A number of significant historical errors were identified on fixed asset valuations brought forward. The Council identified that its assets valued at depreciated replacement cost were overstated. This was caused by the inclusion of recoverable VAT in the valuation. The Council estimated that the maximum error was £115m and that this would be corrected in the 2008/09 accounts.

Material System	Risk Assessment 2007/08	Risk Assessment 2008/09	Main areas of weakness found in 2008/09
Highways	High	Medium	Lack of segregation of duties and work is not checked systematically before payments are made. No complete reconciliation between CONFIRM and the general ledger.
Insurance	Amber	Amber	There is no regular reconciliation of the insurance system (LACHS), the legal system (SOLCASE) and the general ledger during the year so we will test this at year end.
Treasury management	Green	Green	Although controls in treasury management are stringent, due to the value of the items we will still need to seek third party confirmation of loans and investments held at year end.
Adult Social Care	High	High	Lack of reconciliation between contract sheets, A4W, SPITs and the general ledger. Significant numbers of suspended and supplementary invoices remain. Evidence that the Council is overpaying for beds. Lack of adequate authorisation on invoices paid.

- 9 The action plan at Appendix 2 summarises the recommendations made and the Council's response.

Detailed report

General Ledger

- 10 Our interim audit included the review of some general ledger controls but others will be tested at final accounts.
- 11 The main weakness identified is journal controls. This was reported last year although the Council has stated that they do not consider this to be a high risk area. Accidental or deliberate errors are often caused by journals. At present there are no written procedures on journal controls, apart from how to input them on the general ledger, but this is being actively addressed by the Council. However there is no requirement for a second officer to review the journal regardless of the amounts involved and many officers have the ability to input journals with little restrictions on codes they have access to; we understand the Council has no plans to change these arrangements.
- 12 Most of the significant errors in the 2007/08 accounts were caused by journals. The Council needs to identify the causes of these errors and implement controls to prevent or detect and correct the errors. This should include training to ensure officers have sufficient understanding of the transactions, clear procedures and a requirement for a second officer to review journals over a certain amount, even if this was done retrospectively.

Recommendation
R1 The Council should identify and address the causes of errors made as a result of incorrect journals. This should include training and a requirement for a second officer to review journals, even if this is on a risk basis retrospectively. In addition clear procedures should be implemented as soon as possible.

Payroll

- 13 We followed up the recommendations made on payroll last year and found that they had not been addressed so we have been unable to place reliance on controls. In response to this risk we have completed early substantive testing on payroll costs and will complete this at final accounts.
- 14 Payroll reconciliations are kept up to date but are not signed and countersigned. Reconciliations are a key control and it is important an officer takes responsibility for them formally and that there is evidence of independent review.
- 15 During our walkthrough of the system we identified that casual staff leavers were not taken off the payroll system for some weeks after leaving. We then tested one permanent member of staff who had left, but their manager had not processed the leaver form until the individual concerned contacted the Council to say she was still being paid. Payroll still had to remind the relevant manager at least once before the matter was resolved. This matter was referred to internal audit to investigate further in case there were any related issues to consider in more detail.

16 The internal audit report issued in March 2009 gave limited assurance on payroll.

Recommendation	
R2	The Council need to ensure that controls are effective in payroll to reduce the risk of fraud including ghost employees, underpayments and overpayments.
R3	Payroll control account reconciliations should be signed and countersigned to ensure that an officer is taking formal responsibility for the accuracy of the reconciliation and that there is independent review.

Accounts Receivable

17 We identified the following weaknesses in controls in Accounts Receivable:

- the ability to raise invoices is controlled by the need to have appropriate access to the system, there is no requirement for a second officer to authorise the invoice. The officer raising the invoice may be the same person reviewing the budgetary control transaction report which is one of the controls intended to detect errors. Lack of segregation of duties increases the risk of fraud or error; and
- the Council has written off a £44,000 debt without considering the full range of recovery procedures. The Council made direct payments to a client for their care package but the client failed to pass this money on to the care provider. The client was in receipt of benefits and the Council considered that it was not in the Council's interest to pursue recovery of the money. A separate payment was then made to the care provider to cover the amount owed to them for the services provided. We referred this matter to the Council's internal audit department for further consideration as there are many aspects to consider including the possibility of fraud, entitlement to benefits and wider control issues on personal care budgets.

18 The controls on credit notes are inadequate. Internal Audit identified this as an issue and we carried out some follow up work. It is important that controls on credit notes are effective due to the risk of fraud in this area. The Council raised £33,182,040 in credit notes during 2008/09, which was more than 11 per cent of gross income within net cost of services, excluding grants. The highest individual credit note was £16,235,000. The following control weaknesses were identified:

- a number of credit notes had not been signed at all or not authorised by a second officer;
- a credit note was issued for an underpayment which was uneconomical to investigate rather than using the formal write off procedure; and
- credit notes are issued when a debtor cannot afford to pay at that point in time. A credit note should not be issued in such circumstances but the debtor should remain and payment terms agreed.

19 The following errors were identified in the credit notes we sampled:

- A £16,235,000 credit note was issued to the Department of Health on 27 March 2009 to cancel an invoice raised for money owed relating to the pension scheme as a result of a transfer of staff some years ago. The amount was then received in April 2009. The Council signed a contract that was dated 31 March 2009 for this payment and the debt therefore had to be accounted for in 2008/09. The Council has agreed to amend its accounts accordingly;
- A credit note was issued to cancel a debtor account raised to recover a payment made in advance. The decision had been made to deduct the amount involved from invoices raised by the company concerned. The debtor should not be cancelled in such circumstances but the recovery should be allocated to the outstanding debtor account once the deduction has been made.
- A credit note has been issued to a school repeatedly when it could not afford to repay money owed relating to a significant VAT issue in previous years. As already stated if a debtor cannot afford to repay the amount due, the debt should remain but payment terms agreed otherwise the Council is at risk of not understanding the true position on its outstanding debt.

20 Due to the control weaknesses identified we will be testing income substantively at year end to address the risks highlighted. We will place reliance on internal audit testing where possible.

Recommendation

R4 The Council should thoroughly review the controls in place on credit notes and ensure the following controls are implemented:

- all credit notes should be signed and counter signed by those with the delegated authority to do so;
- credit notes should not be issued for irrecoverable debts as the formal write off procedure should be followed;
- credit notes should not be issued because the debtor cannot afford to pay at that time, the debtor should remain and payment terms agreed;
- credit notes should not be issued if a debt is to be recovered through deductions to payments. The deduction made should be offset against the debtor; and
- the Council should ensure that income is accounted for in the correct year, if there is significant doubt about the recoverability of a debt a provision for bad debt should be made.

Accounts Payable

21 There is no authorised signatory system in place for non market place invoices. Although the volume of payments initiated by market place is increasing, in excess of £360,000,000 is still going through non market place systems. Invoices are passed without the ability to check that the officer who has authorised the invoice has the delegated authority to do so. This control weakness increases the risk of fraud or error.

- 22 Our walkthrough of the system identified a credit note for £1.5m which was received from a waste disposal contractor in December 2008. The Council stated that the credit note related to an amount loaned to the company by the Council to cover start up costs at the start of the contract. Rather than being accounted for as a loan the Council has recovered the money via this credit note. Such loans should not be accounted for in this way and we advised the Council to correct it before preparing the accounts.
- 23 Internal Audit has identified:
- that controls are not operating effectively for the addition or amendments of suppliers onto the accounts payable system; and
 - examples of duplicate invoices being paid although they were clearly marked as copy invoices. The system control to prevent duplicate invoices being paid had not worked.
- 24 Due to the control weaknesses identified we will be taking a substantive testing approach to non pay.

Bank and Cash

- 25 We will be testing the cash balance in the accounts substantively. There were significant issues with cash in the 2007/08 accounts which were reported in the Annual Governance Report and we will be re-visiting these during the 2008/09 final accounts audit. Although bank reconciliations are performed regularly by the Council there was no clear audit trail between the total cash reported in the accounts and the bank reconciliations. In addition there was no robust system for determining the amount of cash held in the Council bank account that belonged to the Pension Fund. We understand that this has been addressed but it will be tested during the final accounts audit.

Fixed Assets

- 26 Fixed assets remain a high risk area for the Council in terms of the accuracy of the financial statements so we are taking a substantive testing approach to movements in the year. In addition, due to the risks involved, we tested the brought forward figures on a controls basis. A number of errors were identified, some of which could be isolated to particular types of fixed assets. We extended our testing and identified further errors as detailed in Table 1 but extrapolation of these provided us with sufficient assurance that the brought forward figures are not materially misstated. We understand the Council is planning to correct the errors we have identified.
- 27 It is important to recognise that some of the errors were significant but due to other significant compensating errors the total error is reduced.

Table 1 Errors identified in the valuations held in the Fixed Asset Register relating to the closing 2007/08 balances and the 2008/09 opening balances

Fixed Asset	Valuation Certificate	Value in Fixed Asset Register	Error	Explanation
Baddow Hall Infant and Junior Schools	£10,382,300	£6,308, 300	-£4,074,000	5 yearly re-valuation carried out but system not updated.
Roach Vale Primary School	£3,830,000	£6,260,000	£2,430,000	Out of date valuation certificate added to system in error
Epping Junior School	£7,020,000	£8,020,000	£1,000,000	System updated incorrectly
Perryfields Junior and Infant School	£12,556,980	£12,562,979	£5,999	Incorrect figure from valuation certificate used
Lee Chapel Primary School and the Knares	£6,434,000	£6,645,000	£211,000	System not updated to reflect initial re-valuation or corrected value
Kents Hill Junior and Infant School	£7,484,232	£7,494,732	£10,500	Out of date valuation certificate added to system in error
St James C of E Primary School	£63,000	£53,000	-£10,000	System not updated correctly
Carlton Road	£9,000	£200	-£8,800	5 yearly re-valuation received by Council 3 months after completion, too late for accounts
Hamilton Road	£11,300	£550	-£10,800	As above
'Thatched Cottages'	£6,500	£500	-£6,000	As above
Total Error			-£452,101	

28 It is likely that further errors on community assets valued at £0 in the accounts will be agreed with the Council but this work is still ongoing.

Recommendation	
R5	The Council already recognises the need to implement a fixed asset system and is in the process of doing so but the underlying causes of the errors in fixed asset valuations held on the current register must be clearly understood and controls implemented in the new system to prevent similar errors continuing.
R6	When the Council transfers the information from the existing fixed asset register to the new system it should be thoroughly checked to ensure that incorrect information is not transferred.

Highways

- 29** Invoices are passed for payment without physical inspection of the work in all cases. The intended control is that 10 per cent of work is checked which is a reasonable approach but the sample is not selected systematically or recorded to ensure that the intended control is operating effectively.
- 30** There is a lack of segregation of duties in Highways. The transaction tested for a walkthrough of the system was initiated and passed for payment by the same officer. Lack of segregation of duties increases the risk of fraud or error.
- 31** The system used by Highways is CONFIRM but many users are maintaining their own spreadsheet systems outside CONFIRM to provide them with the management information they need. There is a risk that supplementary systems do not reconcile with CONFIRM and that as a result there is inconsistent information being used for different purposes.
- 32** The Council does not reconcile CONFIRM with the general ledger. This is an important control to ensure that the accounts are not misstated.
- 33** Due to the control weaknesses highlighted we will be testing Highways expenditure substantively to gain assurance for the accounts.

Recommendation	
R7	The 10 per cent sample physical inspection of Highways work should be systematic and recorded to demonstrate the control is effective.
R8	Highways procedures should be enhanced to ensure there is adequate segregation of duties so that the same officer cannot initiate and approve an order and payment.
R9	The Council should consider the risks of Highways maintaining separate spreadsheets outside CONFIRM and ensure that all management information reconciles.
R10	The Council should reconcile the general ledger and CONFIRM regularly. These reconciliations should be signed, counter signed and retained.

Insurance

- 34 The Council did not reconcile the Insurance system (LACHS), the legal system (SOLCASE) and the general ledger regularly during 2008/09. The intention is that the systems will be reconciled at the year end and we will test this at final accounts. We will test the insurance provision in the accounts substantively.

Recommendation

R11 The Council should reconcile the insurance, legal system and general ledger regularly during the year, they should be signed, counter signed and retained.

Treasury Management

- 35 Internal Audit considers controls in Treasury Management to be strong which significantly reduces the risk to the Council of loss or error in the accounts. However, the sheer magnitude of the sums involved and the potential impact of a control failure, mean that we will also seek third party confirmation at year end, this is a relatively straight forward and standard audit procedure.

Adult Social Care (A4W)

- 36 The internal audit follow up reported issued in June 2009 gave limited assurance and has identified that a significant number of control weaknesses remain:
- there is a lack of reconciliation between contract sheets, A4W, SPITS and the general ledger and evidence that the Council has overpaid for beds;
 - a significant number of suspended and supplementary invoices remain outstanding to be cleared which increases the risk of a misstatement in the financial position during the year and at year end; and
 - invoices have been paid without adequate authorisation.
- 37 There is a time lag of two months between income being owed to the Council by an individual for care received and the debtor invoice being raised. This income is not accrued for monthly so there is a risk that income is understated in management reports during the year.
- 38 The Council reconciles payments made on A4W with the general ledger but there is no regular reconciliation of amounts pending and existing liabilities on the A4W system the amounts accounted for in the general ledger to determine the reported financial position.
- 39 Due to the issues on adult social care income and expenditure during the 2007/08 audit we will be testing A4W substantively at year end.

Recommendation

R12 The Council has already agreed an action plan with internal audit to address the weaknesses identified but given the length of time some of these issues have been present it is important that progress against this action plan is monitored very closely and any slippage addressed immediately.

R13 The Council should ensure that the reported financial position for adult social care is fully accrued for income and expenditure outstanding.

Other issues

- 40** The 2008/09 charge for services provided to Essex Probation Board was not raised until November 2008 following agreement of the Service Level Agreement (SLA) in October 2008. Failure to agree a SLA prior to the start of the year increases the risk of costs incurred not being recovered and confusion about where responsibilities are held.
- 41** We have requested that the Council consider its arrangements with partner organisations to assess if there are any that would constitute a pooled budget but this was not completed prior to the accounts being issued. Pooled budgets are subject to specific accounting requirements and while they may not be material to the Council they may be material to the partner organisation. Partners in some other sectors have faster closedown timetables so the Council would need to ensure it was in a position to meet those deadlines if such arrangements were identified.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed-Council response	Comments	Agreed Implementation Date	Follow up Finding
R2 The Council should improve journal controls by: implementing clear procedures for journals; and implementing a system for journals to be independently reviewed, which could be risk based.	3	Corporate Finance	Partially Agreed	Corporate Finance is in the process of writing specific guidance regarding the procedures to be followed for journals. Independent reviews of journals are not currently undertaken and the Council is not currently proposing to implement such a procedure as: It is considered a low risk area due to adequate compensating controls being in place which would identify any material misstatements made through inappropriate / incorrect journals being undertaken. These compensating controls therefore reduce the Council's risk exposure in this area.	December 2008	Follow up March 2009 identified that procedures are still not in place. The Council has not agreed to implement a system of independent review, even on a risk basis. In our view this is still a high risk area that the Council should address. Many of the significant errors in the 2007/08 accounts reported to the Audit Committee in the Annual Governance Report were linked to journals. Our testing at the year end will need to reflect our assessment of the risk.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed- Council response	Comments	Agreed Implementation Date	Follow up Finding
				<p>(Examples of compensating controls include:</p> <ul style="list-style-type: none"> - budget holder and finance team reviews of actuals to budget performance each month; - treasury management reconciliations; and - year end reasonableness review processes on closing the accounts). <p>No uncorrected material misstatements have been identified to date.</p> <p>If significant errors are identified in the future as a result of journals not being independently reviewed then the Council will consider implementing this control.</p> 		

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed-Council response	Comments	Agreed Implementation Date	Follow up Finding
R6 The Council should formalise the process of transaction reports being sent and checked if it is to rely on this control to prevent or detect and correct a significant misstatement. The process should: record who the transaction reports have been sent to ensuring that all areas of expenditure are covered; ask the budget holder to check the income and expenditure on their budget and confirm that there are no matters arising; and	3	Finance Partners	Yes – although already identified prior to the interim audit as a risk area	The cross cutting budgetary control review that was undertaken by IA during 2007-08 highlighted that due to changes in organisational structures the Finance Team were having difficulties in aligning budgetary control information. Now that the structures have been embedded the current arrangements will be reviewed again by Internal Audit during 2008-09 (Ref Number CPF18). This is scheduled to commence in Q3.	End of Q3	This control is not in place. The Internal Audit Budgetary Control review did not cover transaction reports as planned. The Council has stated that transaction reports are a mitigating control for control weaknesses elsewhere, it is therefore important that this control is effective. The Council has asked all budget holders to sign off the payroll costs for March on their transaction reports. This was completed for some service areas but not all. The transaction reports should be signed off for all income and expenditure regularly during the year in order to be considered

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed- Council response	Comments	Agreed Implementation Date	Follow up Finding
this confirmation should be retained.						as an effective control.
R7 The Council should ensure that there is an effective authorisation system in place for payroll.	3	Mark Hobson	Yes – although already identified prior to the interim audit as a risk area.	We are investigating the implementation of a database that retains copies of electronic signatures that can be used by all staff who need to verify authorised documents.	October 2008	This control is still not in place. The absence of effective controls in payroll increases the risk of ghost employees or overpayments.
R8 The Council should ensure that the recommendations made by Internal Audit on debt recovery have been implemented and that the system is now working effectively.	2	Internal Audit	Already implemented	Please refer to comments under R5.	N/A	The internal audit follow up has concluded that controls are still not operating effectively.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed- Council response	Comments	Agreed Implementation Date	Follow up Finding
R9 The Council should ensure that the daily total for invoices raised agrees to the requests processed.	2	Ron Hiller		Only approximately 10% of invoices are raised through requests coming into the Income team, with 90% being raised locally. Process for raising invoices via requests is: Invoice requestor submits written request, Request data stamped once received by Income team, Request processed within 24 hours (as per service standard), Details of the invoice being processed are recorded on IFS and the service credited with its value. The service would query if no credit is received within the service standard. Control in place is that if the budget holder is not able to identify appropriate credits on their budget reports, they will contact Finance Shared Services. This control is felt adequate.	N/A	If the control is the budget holder checking their reports we would be able to place reliance on this if the transaction report review referred to above was working consistently.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed- Council response	Comments	Agreed Implementation Date	Follow up Finding
R10 The Council should ensure that officers raising invoices and credit notes have the delegated power to do so.	2	S151 Officer/Internal Audit and Finance Partners	Yes – although already identified prior to the interim audit as a risk area.	The Financial Regulations 2007-08 internal audit commented on the need to review delegations of authority. The agreed response to the Internal Audit findings is that at the bi-monthly financial liaison meetings with the Finance Partners will provide ongoing assurance of delegated authority's and will provide evidence that these are being adhered to.	Ongoing	Credit notes are not consistently authorised and counter signed by officers with the delegated authority to do so. Invoices can be raised by anyone who has the appropriate access to the financial system, there are in excess of 900 officers with such access although this would include a number of schools. Without the requirement for a formal sign off of invoices raised by an appropriate officer there is an increased risk of accidental or deliberate error.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed-Council response	Comments	Agreed Implementation Date	Follow up Finding
R11 The Council should ensure that there is an effective authorisation system in place or all invoices.	3	Mark Hobson	Yes – although already identified prior to the interim audit as a risk area	<p>Please refer to our response relating to R7.</p> <p>The implementation of e-invoicing from Idea:Marketplace now gives an automated 3 way match (order, receipt, invoice). Increasing volumes are being processed this way.</p>	Oct 2008	This control is not in place for non market place invoices which are still significant to the Council. In excess of £360m non market place payments were made in 2008/09.
R12 The Council should ensure that there is an effective ordering and receipting process in place throughout the Council and that invoices are checked to orders before payment is processed.	3	N/A	No	<p>Please refer to our response relating to R11.</p> <p>Where invoices are not generated as a result of Idea: Marketplace orders, the authorisation of the invoice is the evidence that the goods/services have been checked. Please refer to points R7 and R11 on the plans the Council has to enhance this control area.</p>	N/A	For non market place invoices there is no authorised signatory system in place so this control is not effective.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed- Council response	Comments	Agreed Implementation Date	Follow up Finding
R14 The Council should review and improve the way asset management records are kept for infrastructure assets.	3	Corporate Finance		The Council does not currently maintain an asset register for infrastructure assets. This has been discussed with the External Auditors during the audit of the 2007/08 accounts, and is being considered as part of the Finance Improvement Programme. Consideration will be given to what improvements can be put in place for 2008/09; we will keep External Audit apprised of progress in this area.		The Council is unable to implement this recommendation fully until a new fixed asset system is in place which is planned for the 2009/10 accounts. The Council has taken steps to mitigate the risk.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed-Council response	Comments	Agreed Implementation Date	Follow up Finding
R18 The Council is already pro actively addressing control weaknesses in Highways. As part of this exercise the Council should ensure that: contract variations are appropriately authorised and recorded on CONFIRM; and if a sample approach is taken to checking work, the selection of that sample should be systematic and the approach taken documented.	3	Paul Cooke	Already in progress due to initiative by the Council in the form of the Highways Improvement Programme (HIP).	<p>We can confirm that the HIP has already considered these issues and will be addressed under the new processes and procedures.</p> <p>This will also be fed into the future Internal Audit work programme to ensure appropriate controls are operating</p>	October 2008	The sample checking of work done is still not systematic i.e. it is not clear that 10 per cent of work has been physically inspected as intended or how the sample was selected.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed- Council response	Comments	Agreed Implementation Date	Follow up Finding
R20 The Council should address the control weaknesses identified by the business process mapping of A4W.	3	Internal Audit & Mark Hobson	Already identified and in hand	An A4W follow up review is scheduled as part of the 2008-09 Internal Audit programme. Ref Number AHCW1. This plan was provided to External Audit at the beginning of the year.	By end 2008	A number of recommendations have not been implemented yet as detailed in Internal Audit's report (Limited Assurance) dated June 2009.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed-Council response	Comments	Agreed Implementation Date	Follow up Finding
R21 The Council needs to ensure that it has a clear understanding of the A4W system and that the reported financial position takes into accounts suspended and supplementary invoices throughout the year. The calculation of the year end debtor and creditor position should be signed and countersigned by officers with the appropriate level of responsibility.	3	Simon Bragg		<p>Reports are produced detailing the suspended and supplementary invoices outstanding at any time. This information is taken into account when producing the monthly, quarterly and final financial positions.</p> <p>A4W provides accurate reporting of the information contained with the system. This is monitored with the use of control reports as appropriate. Suspended invoices form part of this reporting. Supplementary invoices, invoices issued against the authority against unapproved commitments are recorded off system. The system reconciliation is authorised at year end by the system owner.</p>		The Internal Audit Report (limited assurance) dated June 2009 identified that suspended invoices are still a major issue for the Council. The Council is still having to spend a significant amount of resource resolving issues related to suspended invoices and the risk remains that the year end position will be misstated as a result although this will be followed up as part of the final accounts audit. There is no reconciliation between contract sheets, SPITS and A4W.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed-Council response	Comments	Agreed Implementation Date	Follow up Finding
R23 The Council should ensure that regular reconciliations between A4W and the ledger are completed and countersigned.	3	Ron Hiller	In hand	A project to develop a monthly system reconciliation has commenced to address this issue	October 2008	The payments made through A4W are reconciled to the ledger but there is no reconciliation between the general ledger and A4W that takes account of outstanding commitments.
R25 The Council should ensure that its liability associated with Essex Equipments Service deposits received is accounted for appropriately. In addition the Council should ensure that the many significant recommendations made by Internal Audit are implemented.	3	AHCW	Already in progress	<p>Internal Audit has already undertaken a follow up review in relation to Essex Equipment Service and this draft report was issued on 31 July 2008.</p> <p>Please also refer to the comments made about the formal follow up process that is operated by Internal Audit.</p> <p>Please note that the 2007-08 accounts have been adjusted to reflect the stock liability of the Equipment Store.</p>		To be followed up during the final accounts audit.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed-Council response	Comments	Agreed Implementation Date	Follow up Finding
R26 The Council should ensure that the risks associated with credit and debit card payments is being managed properly and that the Council is complying with relevant regulations and guidelines.	2	Mark Briggs	Already in progress	A project team has already been formulated and tasked with looking at the compliance with PCI. This work is currently ongoing	December 2008	This is still ongoing.
R27 The education grant received should be reconciled to the plan and the budgets allocated regularly during the year. The reconciliation should be signed and countersigned by officers with the appropriate level of responsibility.	2	Jim MacDonald	Agreed	DSG is received in line with Revenue Support Grant and allocated to a grant holding account. The holding account will be monitored monthly to ensure that DSG is received, reconciled and signed off to latest known allocation. Grant is brought into the revenue accounts through recurring journal and adjusted at year-end.	October 2008	This will be followed up as part of final accounts.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed- Council response	Comments	Agreed Implementation Date	Follow up Finding
R28 The Council should ensure that proper arrangements are in place for schemes funded by grant claims to reduce the risk of deductions or claw back.	2	October 2008	Agreed – in progress	Corporate Finance have recently drafted a grants instruction note designed to clarify the general arrangements that should be in place to account for grant claims and ensure that appropriate and sufficient evidence is in place for the audit of the claims. Arrangements are also in hand to undertake a grants workshop to highlight the key messages within the manual being produced. Corporate Finance is also looking to create an overall grants coordinator role which should provide support to those individuals responsible for managing specific grant funded schemes. The completion of this aim will be dependent upon recruiting to the role.	December 2008	The Council has taken steps to improve the control environment for grant claims. However the first grant claim due for 2008/09, Sure Start, was submitted for audit late.

Appendix 1 – Outstanding 2007/08 Recommendations

Recommendation raised in 2007/08 interim audit report	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed-Council response	Comments	Agreed Implementation Date	Follow up Finding
				<p>Where the Council acts as an accountable body for a grant claim but provides a proportion of the grant to a third party to undertake works, the Council will ensure that appropriate arrangements are implemented to ensure that the money is spent in accordance with grant terms and conditions. Rather than authorising payments be made, the Council will consider controls such as:</p> <ul style="list-style-type: none"> - service level agreements with the third party; and/or - sample checking invoices paid. <p>Arrangements in this area will be highlighted within the grants manual and the messages will be delivered through the grants workshops.</p>		

Appendix 2 – Action Plan 2008/09

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 The Council should identify and address the causes of errors made as a result of incorrect journals. This should include training and a requirement for a second officer to review journals, even if this is on a risk basis retrospectively. In addition clear procedures should be implemented as soon as possible.	3	Corporate Finance	Partially agreed	<p>The Head of Corporate Finance recently signed off the terms of reference for an Internal Audit review of the policy and control environment for journals.</p> <p>An Accounting Instruction Note will be issued during 2009/10 that defines the procedures for raising journal transfers.</p>	
9	R2 The Council need to ensure that controls are effective in payroll to reduce the risk of fraud including ghost employees, underpayments and overpayments.	3	Essex Shared Services	Yes (and in place)	<p>The Scheme of Delegation for Financial Management (SoDFM) has recently been updated and will be presented to Council for approval in October 2009; this defines the extent of financial management delegation within the Council.</p> <p>Work has been undertaken within each Directorate to assign posts to each 'authority level' within the SoDFM, and to collect sample signatures from the current incumbents of those posts. Details of authorised signatories have been made available to Payroll who, via a daily sampling exercise, are using this information to validate the authorisation of documents received.</p>	

Appendix 2 – Action Plan 2008/09

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					Payroll checks all 'data load' spreadsheets and an additional 30 random samples per day (600 per month) of hard copy information received.	
9	R3 Payroll control account reconciliations should be signed and countersigned to ensure that an officer is taking formal responsibility for the accuracy of the reconciliation and that there is independent review.	2	Essex Shared Services	Agreed	Accounts are being signed and counter signed on a monthly basis and are up to date. Procedures and guidance regarding control account reconciliation have been put in place via Accounting Instruction Note 3 – Control Accounts, which was issued by Corporate Finance March 2009.	

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	<p>R4 The Council should thoroughly review the controls in place on credit notes and ensure the following controls are implemented:</p> <ul style="list-style-type: none"> all credit notes should be signed and counter signed by those with the delegated authority to do so; credit notes should not be issued for irrecoverable debts as the formal write off procedure should be followed; credit notes should not be issued because the debtor cannot afford to pay at that time, the debtor should remain and payment terms agreed; credit notes should not be issued if a debt is to be recovered through deductions to payments. The deduction made should be offset against the debtor; and the Council should ensure that income is accounted for in the correct year, if there is significant doubt about the recoverability of a debt a provision for bad debt should be made. 	3	Essex Shared Services	Agreed	The Scheme of Delegation for Financial Management (referred to in response to Recommendation 2) is being used by Essex Shared Services and Payroll to ensure that credit note requests are being authorised only by managers with the delegated authority to do so.	

Appendix 2 – Action Plan 2008/09

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	R5 The Council already recognises the need to implement a fixed asset system and is in the process of doing so but the underlying causes of the errors in fixed asset valuations held on the current register must be clearly understood and controls implemented in the new system to prevent similar errors continuing.	2	Corporate Finance	Agreed	The new fixed asset register (FAR) system will help the Council to ensure that it is accounting for its fixed assets in accordance with proper accounting practice. Some of the time currently spent maintaining complex FAR spreadsheets should also be freed up, thus providing more time for a critical review and challenge of the base data on asset valuations etc.	
13	R6 When the Council transfers the information from the existing fixed asset register to the new system it should be thoroughly checked to ensure that incorrect information is not transferred.	3	Corporate Finance	Agreed	The FAR implementation plan recognises the need to undertake a thorough review of the data being transferred into the new system, to mitigate the possibility to incorrect data being input.	
14	R7 The 10% sample physical inspection of Highways work should be systematic and recorded to demonstrate the control is effective.	2	Environment, Sustainability and Highways		Recommendation to be discussed at the next Highways Finance Board Meeting (17 September 2009).	
14	R8 Highways procedures should be enhanced to ensure there is adequate segregation of duties so that the same officer cannot initiate and approve an order and payment.	2	Environment, Sustainability and Highways	Agreed	The Scheme of Delegation has now been approved and is being input into Marketplace during September. There will also be sample testing undertaken on the CONFIRM system going forward.	

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
14	R9 The Council should consider the risks of Highways maintaining separate spreadsheets outside CONFIRM and ensure that all management information reconciles.	2	Environment, Sustainability and Highways	Agreed	It is anticipated that this will be addressed by the work currently being undertaken as part of the P2P Workstream.	
14	R10 The Council should reconcile the general ledger and CONFIRM regularly. These reconciliations should be signed, counter signed and retained.	3	Environment, Sustainability and Highways	Agreed	CONFIRM has been materially reconciled to IFS at the end of 2008/09. A process is being set up for regular reconciliation going forward.	
14	R11 The Council should reconcile the insurance, legal system and general ledger regularly during the year, they should be signed, counter signed and retained.	2	Investments and Insurance	Agreed	A system of reconciliations is now in place. The LACHS/IFS reconciliations take place monthly and the LACHS/Solcase (now to be Visualfiles) reconciliations bi-annually. A spreadsheet record of reconciliations with the appropriate signatures is maintained.	
15	R12 The Council has already agreed an action plan with internal audit to address the weaknesses identified but given the length of time some of these issues have been present it is important that progress against this action plan is monitored very closely and any slippage addressed immediately.	3	Adults, Health and Community Wellbeing	Agreed	Recommendation is agreed.	

Appendix 2 – Action Plan 2008/09

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
15	R13 The Council should ensure that the reported financial position for adult social care is fully accrued for income and expenditure outstanding.	3	Adults, Health and Community Wellbeing	Yes	New processes introduced in 2009-10 monthly reporting have introduced monthly accruals for both income and expenditure and covers to a good degree of accuracy all the material areas of spend. Further developments during the financial year will refine this process and improve the results.	

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