

EAST HERTS COUNCIL

AUDIT COMMITTEE – 25 NOVEMBER 2015

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

THE COUNCIL'S RESPONSE TO THE ANNUAL AUDIT LETTER

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report sets out the proposed response from the Council to the issues and recommendations raised in the Annual Audit Letter 2014/15.

RECOMMENDATIONS FOR AUDIT COMMITTEE:

That:

(A)	the response to the Annual Audit Letter be agreed.
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1.0 Background

- 1.1 All Councils are subject to independent, external review by an external auditor with the final conclusions and recommendations being presented to the Council in the Annual Audit Letter (AAL).
- 1.2 The AAL for the financial year 2014/15, (set out on agenda item 7 – Annual Audit Letter), summarises the key findings arising from the external audit along with proposed responses from the Council to these.
- 1.3 The AAL will be published on the council's website in order to comply with the publication requirements contained within the Accounts and Audit Regulations 2015.

2 Report

- 2.1 The AAL summarises the key issues and recommendations arising from the work undertaken by Grant Thornton UK LLP for the year ended 2014/15.

- 2.2 The letter follows on from the Audit Findings Report submitted to the Audit Committee on 23 September 2015.
- 2.3 The AAL confirms that the council received an unqualified opinion on both its financial statements for the year ended 2014/15 and for the value for money conclusion on 30 September 2015.
- 2.4 No issues have been raised in the AAL that were not raised in the Audit Findings Report. The three recommendations made by the external auditor are for the Council to:
1. Review the asset management system.
 2. Consider preventing access rights to prevent the same individual initiating and authorising purchase orders.
 3. Consider how the volume and significance of self-authorized journals may be reduced.
- 2.5 The suggested response from the Council to these recommendations is shown in the AAL and a brief commentary on each is given in the following paragraphs.

3 Asset management system review

- 3.1 The audit identified a number of issues related to the accuracy of records held in the Property, Plant and Equipment asset system.
- 3.2 The Annual Governance Statement action plan for 2015/16 includes a commitment to review the asset management system. This work is currently being progressed by the Head of Strategic Finance and the Business and Knowledge Systems Manager with a proposal to be submitted to the corporate management team (CMT) by December 2015.

4 Purchase order controls

- 4.1 One member of the accountancy team is able to both initiate and authorise purchase orders. Segregating these duties is a mechanism to reduce the opportunity for fraud to occur, for example, should fictitious purchase orders be raised.
- 4.2 The current finance system is not able to restrict this individual from authorising purchase orders that they have raised. The auditors were satisfied that no untoward purchase orders had been raised. The Head of Strategic Finance will review whether sufficient controls are in place to mitigate this risk.

5 Journal self-authorisation

5.1 The Accountancy Manager and Principal Accountants have the capability to self-authorise journal transactions. This occurred on 28 occasions during 2014/15. A process review has been undertaken by officers and these transactions have been minimised during 2015/16. A full audit trail of the creation and authorisation of journal transactions is maintained within the finance system.

6 Implications/Consultations

6.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper A**.

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