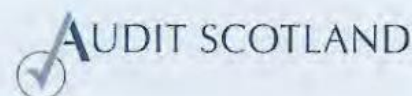


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Mr John Symon  
Head of Finance  
Perth & Kinross Council  
Blackfriars Development Centre  
North Port  
Perth  
PH1 5LU

23 June 2015

Dear John

### **Perth & Kinross Council: 2014/15 Review of main financial systems**

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work we seek to gain assurance that the Council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provides an adequate means of preventing and detecting material misstatements, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible. As part of our 2014/15 audit we undertook a review of internal audit and concluded that it generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. An external quality assessment is planned for 2016/17 however, in the interim the chief internal auditor has undertaken a self assessment to highlight compliance with PSIAS. Areas internal audit plan to address include:

- improving documentation including an internal audit charter
- updating the audit manual; evidence of integrity & objectivity (conflicts of interest)
- formalising professional development records
- the lack of certain technical expertise (e.g. IT). Where technical expertise is required, this is externally sourced.

In accordance with ISA 330, *The Auditor's responses to assessed risks*, paragraphs 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, prior year results. As part of our audit planning process we identified the main financial systems key to the production of the Council's financial statements. The following table summarises the systems that were tested during 2014/15 including those where we planned to place formal reliance on internal audit's work:

Key System	External audit coverage	Proposed reliance on aspects of Internal Audit work
General ledger	✓	✓
Payroll	✓	
Trade payables	✓	
Trade receivables	✓	
Cash and cash equivalents	✓	
Non domestic rates	✓	
Council tax	✓	
Housing rents	✓	
Benefits	✓	✓
Treasury management	✓	
Capital accounting	✓	
SWIFT	✓	

Internal audit's findings from the review of the general ledger and benefits were reported to the Audit Committee in April 2015. Several areas were highlighted by internal audit with action being agreed with management to address these by July 2015 including:

- refreshing and keeping procedural instructions up to date
- ensuring all leavers have their access to systems timeously removed
- ensuring all suspense accounts are reconciled monthly (general ledger only)

### Overall audit findings

Our overall assessment is that the key controls within the Council's main financial systems are operating satisfactorily. Where controls have not been tested or where the evidence of a control's effective operation does not exist, we adjust our planned coverage of the financial statements to obtain sufficient evidence that they are free of material misstatement. A summary of those areas where identified risk exposure requires management consideration is included in Appendix A to this management letter. Areas where management have accepted the risk in previous years or mitigating controls are operating effectively are highlighted below for your information.

### Trade receivables

As in previous years there is no standard evidence of checking/authorisation to confirm the validity of the invoices being raised or confirmation that the appropriate rates are being applied. Management's response in previous years accepted the risk highlighting that there are different methods of checking the validity of invoices based on the individual service's business needs and that the use of product codes and associated pre-determined rates within the system was a mitigating control. Management also considers its revenue monitoring process which identifies and reports on variances against income targets an overarching control in this area. However auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant therefore we will also undertake focused testing of trade receivable invoices to ensure the validity of the invoices being raised and confirm that the appropriate rates are being applied.



## **Treasury management**

Daily transaction logs are a key control in ensuring treasury management transaction are within the appropriate limits with appropriate counterparties and entered into system correctly. We tested a sample of thirty daily transaction logs and found two that had not been authorised. To obtain assurance that transactions were being appropriately authorised we reviewed the controls in relation to dealing slips and the payment through the online banking facility. These mitigating controls were operating effectively.

## **SWIFT**

Independent Sector Providers (ISP) are presently required, on an exception basis, to confirm where services provided have changed. Without positive confirmation there remains a risk that care home payments are made for services that have not been received. Management's response in previous years accepted the risk highlighting that:

- it was agreed that administration would be reduced if the care homes only reported on an exception basis
- participation in the National Fraud Initiative (NFI) has not identified any material overpayments to care homes in the data matching exercise regarding deceased clients.

In the current NFI exercise 58 cases were identified where a resident had died, but the local authority may not have been notified so potentially continued to make payments. 57 have been cleared with no issues found and one is still being investigated with the Department for Work & Pensions.

The issue of care homes not submitting timeous reports was discussed by the National Care Home Contract – Care Home Liaison Group in May 2015 with the suggestion that the Council make weekly returns from care homes mandatory. This issue is to be discussed at the next Scottish Care meeting.

## **Acknowledgements**

The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses which may exist. Although we have reported a number of areas for improvement, we should highlight that it is the members and officers of the Council who are responsible for the management and governance of the organisation. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Please do not hesitate to contact me if you have any queries.

Yours sincerely



Pearl Tate  
Senior Audit Manager

No.	Audit Finding	Proposed Management Response & Action	Responsible Officer	Date
<b>Treasury management</b>				
1.	<p>Only authorised amendments to standing data (e.g. bank account details) should be processed. Within the treasury management section changes are rare and there was only one change officers highlighted during the year. There was no evidence on the documentation held that the change had been verified directly with the broker and the third party.</p> <p><b>Risk:</b> Payments are made to the wrong individuals.</p> <p><b>Recommendation:</b> The review of changes to standing data should be evidenced to confirm verification with the broker and third party.</p>	Where a change is verified verbally (usually over the phone), details of the conversation will be documented and retained on file	Senior Accountant (CE)	1 July 2015
<b>SWIFT</b>				
2.	<p>Segregation of duties is a key control to ensure that only appropriate transactions are processed in any situation. The Council introduced a process in June 2014 whereby only two officers should authorise payments. This control however can be circumvented as there are several individuals with the ability to authorise payments in SWIFT. Our testing in 2014/15 highlighted one case comprising 4 payments with a total value of £46,000 (prior to the new system being introduced) that was created and authorised by the same individual. We have confirmed the validity of these payments with officers.</p> <p><b>Risk:</b> Errors in or manipulation of SWIFT system is undetected.</p> <p><b>Recommendation:</b> The access rights of individuals should be restricted to ensure adequate segregation of duties.</p>	<p>The procedure will be amended to ensure segregation of duties. From now on, Finance Support Assistants (FSA) will process payments, the Finance Officer (Assessment &amp; Charging) will authorise those payments in the system and the FSA will export the payment, thereby ensuring that payments are appropriately authorised.</p>	Business & Resources Team Leader (HCC)	1 July 2015