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15 July 2013

John Symon  
Head of Finance  
Perth & Kinross Council  
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Dear John

### **Perth & Kinross Council 2012/13 - 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 provide an adequate means of preventing or detecting material misstatement, 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 2012/13 audit we undertook a review of the internal audit section and concluded that it generally operates in accordance with the CIPFA code of practice for internal audit in local government. The internal audit manual is in the process of being updated to reflect current best practice following the Council's approval for using the Public Sector Internal Audit Standards from 2013/14. The following table summarises the key systems that were tested during 2012/13 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 receivables	✓	
Trade payables	✓	
Cash and cash equivalents	✓	
Non domestic rates	✓	
Council tax	✓	
Housing rents	✓	✓
Benefits	✓	
Treasury management	✓	
Capital accounting	✓	
SWIFT	✓	

At the time of our controls work the internal audit work programme for 2012/13 was still in the process of being completed. Our 2012/13 Annual Audit Plan detailed two areas of internal audit work we planned to place reliance on for the financial systems assurances: Payroll; and Housing Rents. We were able to place reliance on internal audit for these areas. Internal audit's work plan for 2013/14 includes a review of controls in operation for new starts and as a result this area was not covered within their audit in 2012/13. Our testing this year therefore covered new starters in the payroll system.

Several areas were highlighted for action by internal audit in these reviews. The following were of significant interest to us and it was highlighted that these were to be addressed by March 2013:

- there was no management oversight of the verification and reconciliation of the movements within the housing stock during the year
- the annual reconciliation of the housing rent income posted to the general ledger highlighted difference that had not been identified and corrected
- the Service is developing further performance reporting measures, which will allow more detailed analysis of rent arrears trends.

### **Overall Audit Findings**

Our overall assessment is that the key controls within the Council's main financial systems are operating satisfactorily. However, a number of risks were identified and are detailed in the attached action plan. 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.

An effective system of internal control is an essential part of the efficient management of any organisation. Appendix A summarises the salient points of note from our review. The areas for improvement outlined in the action plan 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, it should be highlighted that it is the members and officers of the Council who are responsible for the management and governance of the organisation.

### **Acknowledgements**

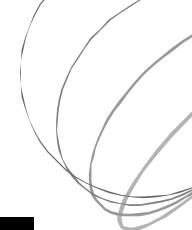
The factual content of the enclosed action plan has been agreed in discussion with the appropriate officers. The co-operation and assistance of Council staff during the review is gratefully acknowledged.

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

Yours sincerely



**Pearl Tate**  
**Senior Audit Manager**



No.	Audit Finding	Control Risk	Proposed Management Response & Action	Responsible Officer	Date
<b>Internal Audit</b>					
1.	<p>Internal audit's planned 2012/13 programme of audits was still in the process of being completed 3 months into 2013/14. This may adversely impact on the 2013/14 planned programme of reviews.</p> <p>Other areas highlighted in our review of internal audit included:</p> <ul style="list-style-type: none"> <li>there was no specialist ICT auditor in 2012/13</li> <li>the findings for the payroll audit were adequately documented however there was little evidence of review of the auditors work</li> </ul>	<p>Internal audit is not in a position to provide sufficient assurances to the Council to allow the annual governance statement to be approved.</p>	<p>All Internal Audit assignments for 2012/13 were completed in time to support the Chief Internal Auditor's Year End Report, and all were reported to the Audit Committee in June 2013. All reports were available for consideration prior to the Annual Governance Statement being approved. No further action is therefore required for 2012/13.</p> <p>The lack of a specialist ICT auditor in 2012/13 was not deemed a risk to the Council as Audit Scotland were undertaking the computer systems review. The lack of specialist skills is considered as part of the annual Internal Audit planning process.</p> <p>The payroll file was fully reviewed with consultation during the audit with the auditor undertaking the work. As such, any queries were dealt with on an on-going basis rather than being raised at an end of audit review. The Chief Internal Auditor believes this to be the exception rather than the rule.</p>	J Clark, Chief Internal Auditor	<p>Complete</p> <p>Mar 2014</p> <p>Complete</p>

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<b>General Ledger</b>					
2.	<p>Reconciliations of the control and suspense accounts are key financial control processes in giving assurance that the financial information is complete and accurate.</p> <p>Monthly reconciliations are not always performed timeously (for example purchase ledger reconciliation) and a few reconciliations contained minor differences that were not investigated (bank reconciliation).</p> <p>There is little evidence of review of suspense account reconciliations, for example Service Accountant monthly returns.</p>	Errors/frauds are not identified detected, timeously.	<p>The Purchase Ledger reconciliation was delayed due to staff turnover. This matter has now been addressed as a replacement has been recruited.</p> <p>All differences are investigated but as some are minor and not material, therefore less resource is allocated to these.</p> <p>A schedule of meetings will be arranged with Services to advise them of the importance of completing the monthly suspense account return.</p>	C Robertson, Assistant Exchequer Manager	<p>Complete</p> <p>Complete</p> <p>July 2013</p>
<b>Trade Receivable</b>					
3.	<p>The authorised signatory lists permit some individuals to raise sales invoices and also raise credit notes. One department had no individuals on the authorised signatory list with permissions to raise invoices or credit notes.</p> <p>Further testing of authorisations highlighted that eight invoices, out of thirty, were raised by individuals not on the authorised signatory list.</p> <p>To ensure the validity of these transactions supporting documentation was inspected which provided assurance that sales were genuine and satisfactorily recorded.</p>	Where segregation of duties and authorisation procedures are not operating effectively there is a risk that individuals can clear invoices through the issue of credits, either fraudulently or in error.	<p>Systems have login access details which are confirmed annually with Services. Part of this access includes authority by Users to input Sales Ledger Invoices and Credit notes. There is currently no one within Housing &amp; Community Care who has the authority to raise Invoices or Credit Notes. This will be addressed with the Service.</p> <p>To minimise the risk of Integra Users cancelling invoices by creating a credit note the Systems Team will produce a monthly report for each Service to monitor where invoices and credits have been input by the same user.</p>	A Craig, Senior Systems Development Officer	Aug 2013

No.	Audit Finding	Control Risk	Proposed Management Response & Action	Responsible Officer	Date
4.	The system automatically allocates sales invoices sequential numbering. Testing highlighted one invoice (reference number 000658404) that could not be traced.	An adequate audit trail is not maintained resulting in error or manipulation of balances.	Daily controls are carried out to ensure Sales Ledger balances agree with the ledger.  The Systems Team is to create a report to highlight missing invoice numbers timeously to allow investigation of the Document Update log. The log is purged after 30 days	A Craig, Senior Systems Development Officer	Aug 2013
<b>Non Domestic Rates (NDR), Council Tax (CT)</b>					
5.	Accuracy checks on the processing of changes to the NDR and CT system are run daily with checks undertaken on a number of the claims. These accuracy checks were not being undertaken timeously.	Errors in or manipulation of the NDR/CT system are not detected timeously.	Recruitment for additional staff will soon be underway which will increase capacity for a more proactive approach to accuracy checking.	K Fraser, Assistant Revenues Manager	Aug 2013
<b>SWIFT</b>					
6.	Audit testing of the SWIFT system found that: <ul style="list-style-type: none"> <li>a full reconciliation of the SWIFT system to the general ledger is not completed although a reconciliation is undertaken covering the permanent and crisis expenditure</li> <li>an audit trail was not maintained for the differences highlighted within the reconciliation</li> </ul>	Errors in or manipulation of SWIFT or general ledger systems go undetected.	The full reconciliation of the SWIFT system to the General Ledger (including both permanent and short break care expenditure) will be carried out monthly with effect from 1 September 2013.	F Low, Team Leader (Administration)	Sept 2013

No.	Audit Finding	Control Risk	Proposed Management Response & Action	Responsible Officer	Date
<b>Housing rents</b>					
7.	During 2012/13 it has been highlighted that one council house was sub-let by the tenant without the appropriate authorisation. There are no controls operated by the Council to establish if council houses are the subject of unauthorised sub-lets.	Council properties are not being utilised appropriately.	<p>A review of existing sign up procedures will be conducted to ensure service user identification is robust.</p> <p>Settling in visit processes will be reviewed to ensure household composition mirrors tenancy agreement / details held on Northgate.</p> <p>Further control measures will be established to ensure identification of fraud during the tenancy. These include:</p> <ul style="list-style-type: none"> <li>• Policy and Procedures on Tackling Tenancy Fraud</li> <li>• Training for staff</li> <li>• Tenancy Audits/Home Visits</li> <li>• Article on Tenancy Fraud in 'On the House'</li> <li>• Publicise reporting procedures for residents</li> </ul>	L Cooper, Neighbourhood Services Manager	<p>Dec 2013</p> <p>Dec 2013</p> <p>Aug 2013</p> <p>Oct 2013</p> <p>Nov 2013</p> <p>Mar 2014</p> <p>Nov 2013</p>