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19 June 2014

John Symon  
Head of Finance  
Perth & Kinross Council  
2 High Street  
Perth  
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Dear John

### Perth & Kinross Council 2013/14 - 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 accordance with ISA 330, paragraphs 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, prior year results. 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 2013/14 audit we undertook a review of internal audit and concluded that it generally operates in accordance with the Public Sector Internal Audit Standards with internal audit currently in the process of reviewing its procedures and documentation in order to become fully compliant. The following table summarises the key systems that were tested during 2013/14 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 2013/14 plan included coverage of starters and leavers

Our 2013/14 Annual Audit Plan detailed two areas of internal audit work we planned to place reliance on for the financial systems assurances: payroll and non-domestic rates. We were able to place reliance on the payroll work however some aspects of internal audit's work for non domestic rates tested periods prior to 2013/14. 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 issues were to be addressed by July 2014:

- some recruitment processes operate outwith the Establishment Approval Procedure
- evidence was not being retained that new starters supporting documentation were being checked

### **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. 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.

### **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

**Neil O'Connor**  
**Acting Senior Audit Manager**

No.	Audit Finding	Control Risk	Proposed Management Response & Action	Responsible Officer	Date
<b>Trade Payables</b>					
1.	<p>To ensure validity of information in the trade payables system various exception reports are distributed to services for action. For instance a report detailing invoices raised and passed for payment by the same user to ensure segregation of duties is operating effectively.</p> <p>There is no evidence that these reports are appropriately investigated.</p>	Error/manipulation is not detected.	<p>There were 9 incidents in May 2014 from the c12,000 invoices processed by the Council. Financial Controllers will be instructed to evidence that checks were carried out and the outcome of any investigations.</p>	Chief Exchequer Officer	30 June 2014
<b>Trade Receivables</b>					
2.	<p>The Council should ensure income is valid and accurate for all chargeable services.</p> <p>As reported in 2012/13 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.</p> <p>The management response to our findings in 2012/13 was for the Systems Team to produce a monthly report for each service in order to monitor where invoices and credits have been input by the same user. Although the reports are distributed to services, there is no evidence that these reports are investigated.</p>	Error/manipulation is not detected.	<p>Individual Services have different methods of checking the validity of invoices being raised based on their business needs. The use of product codes and associated pre-determined rates in the Sales Ledger system set up for example is a strong control as is the revenue monitoring process which identifies and reports on variances against income targets.</p> <p>Financial Controllers will be instructed to evidence that checks were carried out and the outcome of any investigations</p>	Chief Exchequer Officer	30 June 2014

No.	Audit Finding	Control Risk	Proposed Management Response & Action	Responsible Officer	Date
<b>SWIFT</b>					
3.	Segregation of duties is a key control to ensure that only appropriate transactions are processed in any situation. A number of individuals are able to create and authorise payments within the SWIFT system. There is therefore a potential lack of appropriate segregation of duties within the system.	Errors in or manipulation of SWIFT system is undetected.	Changes to the process were introduced last year to speed up the process. The Finance Officer (Incomes) is now responsible for authorising transactions which will ensure clear segregation of duties.	Business & Resource Manager (HCC)	26 June 2014 (from next payment run)
4.	Client files contain evidence that financial assessments have been checked, funding memos have been received, and all appropriate calculations completed and checked. However our testing highlighted that amendments to the assessments are not always confirmed by a second officer.	Errors go undetected and payments are incorrectly calculated.	When a client's details are amended, the checklist will be used to record appropriate actions and checks have been completed.	Business & Resource Manager (HCC)	Complete