

9 June 2016

Mr John Symon  
Head of Finance  
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Blackfriars Development Centre  
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Dear John

**Perth & Kinross Council: 2015/16 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 2015/16 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.

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 2015/16 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 payroll were reported to the Audit Committee in February 2016. Several areas were highlighted by internal audit with action being agreed with management to address most issues by May 2016. Officers have also agreed to undertake the annual reconciliation of establishment lists for the two services yet to complete this exercise by December 2016.

### 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 have also undertaken focused testing of trade receivable invoices to confirm the validity of the invoices raised and that the appropriate rates were being applied.

## **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 2014/15 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. These cases have all been cleared with no overpayments found.

In 2015 it was highlighted that the council was considering making weekly returns from care homes mandatory. The council's Care Home Liaison Group agreed in May 2016 that the weekly return form should be mandatory and a local minute of variation to the National Care Home Contract stipulates this requirement which is currently being agreed with care homes for 2016/17.

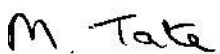
## **Acknowledgements**

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 these changes have been rare however there are no system controls to ensure that only authorised changes to standing data are processed and therefore fraudulent changes could be made.</p> <p><b>Risk:</b> Payments are made to the wrong individuals.</p> <p><b>Recommendation:</b> A review of changes to standing data should be evidenced to confirm only authorised amendments are made.</p>	<p>There are procedures in place to ensure that requests from third parties to change their bank details for future payments are genuine.</p> <p>In the case of new counterparties being used for the first time, external confirmation of the bank account details are supplied to the Incomes Team with the payment request, so providing evidence that the payment request and bank details are genuine and correct. Such evidence could be in the form of the counterparties own deal confirmation, and/or the brokers confirmation (where applicable).</p> <p>There are no available controls within the Treasury Management system (PSTM) to prevent changes to counterparty bank details. PSTM only gives 2 levels of access, read-only or full access rights, and all staff involved in Treasury need full access rights. However PSTM does maintain an audit log so transactions on the system can be reviewed.</p> <p>The Senior Accountant will liaise with the systems suppliers to determine whether improved access controls can be implemented.</p>	J Jennings (Senior Accountant)	June 2016

No.	Audit Finding	Proposed Management Response & Action		Responsible Officer	Date
Trade Receivables					
2.	<p>Authorised signatories are maintained to ensure only appropriate credit notes are processed. During our review we noted two officers had been authorising credit notes although their authorisation limits excluded credit notes. Neither the officers authorising nor the officers processing the credit notes were aware of this omission. The authorised signatory forms have subsequently been amended.</p> <p><b>Risk:</b> Errors/manipulation is undetected.</p> <p><b>Recommendation:</b> Officers should confirm that credit notes are appropriately authorised prior to processing.</p>	As noted the remedial action required to rectify this instance has been undertaken to resolve the operational issue. In terms of strengthening our internal controls, the possibility of creating a standard Integra e-form is being investigated that, it is hoped, will allow a user to raise a credit note and automatically workflow the authorisation to a nominated officer with a credit note authorisation profile.	E Sturgeon (Chief Exchequer Officer)	31 August 2016	
Non domestic rates					
3.	<p>Accuracy checks on the processing of changes to the NDR system are run daily and officers undertake checks on a number of the claims. As at April 2016, however, the accuracy checks from December 2015 had yet to be undertaken.</p> <p><b>Risk:</b> Errors in or manipulation of the NDR system is not detected timeously.</p> <p><b>Recommendation:</b> Accuracy checks should be undertaken timeously.</p>	The audit finding is accepted and understood.  Renewed effort will be made to rectify this matter by ensuring the outstanding checks are completed and ongoing checks are carried out timeously.	K Fraser. (Principal Officer - Local Taxes)	End of June 2016 to complete outstanding work and ongoing monthly completion thereafter.	

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4.	<p>State Aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade in the European Union. There is a de-minimis of 200,000 euros (or Sterling equivalent) for State Aid purposes that can be granted over a rolling 3 year period. Our testing highlighted one case in relation to renewable energy generation relief where an award was granted on the basis of a three year fixed period rather than a three year rolling period. This resulted in a payment in excess of the State Aid de minimus of approximately £0.022 million.</p> <p><b>Risk:</b> The council fails to comply with State Aid requirements and may be unable to recover the costs from the recipient.</p> <p><b>Recommendation:</b> State Aid for renewable energy requires to be considered on a three year rolling basis to ensure breaches are avoided.</p>	<p>Officers will:</p> <ul style="list-style-type: none"> <li>seek advice from the State Aid team in order to properly deal with these instances.</li> <li>ensure these cases are reviewed annually.</li> <li>enter a diary event date on the Northgate System.</li> </ul>	K Fraser/ A Macdonald (Principal Officers - Local Taxes)	Ongoing
<b>SWIFT</b>				
5.	<p>To ensure the validity of information in the SWIFT system various exception reports are considered by officers. For instance short break and crisis admissions with no end date; client died-service not ended etc. Our sample covered five weeks and included forty six exception reports within this period, however, thirty of these exception reports were either unavailable or there was no evidence of review.</p> <p><b>Risk:</b> Errors in or manipulation of the SWIFT system is undetected.</p> <p><b>Recommendation:</b> Exception reports should evidence the checks undertaken and should be retained for the appropriate period.</p>	<p>Although there were some reports which showed no evidence of review, our validation reports work on an exceptions basis so blank reports will not show any evidence of having been reviewed. If any cases highlighted on a validation report are not corrected when the report is reviewed, they would continue to show on future reports until they have been.</p> <p>Going forward however, all validation reports will be printed, signed, dated and stored for a period of 18 months. This will ensure that evidenced reports are available for any future audit reviews.</p>	L Tulloch, Finance Officer (Assessment & Charging)	9 May 2016