

Kirsty Flanagan
Head of Strategic Finance
Argyll and Bute Council
Kilmory
Lochgilphead
PA31 8RT

12 May 2016

Dear Kirsty

Argyll and Bute Council
Review of Internal Controls 2015/16

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 Argyll and Bute 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.

In accordance with ISA 330 (The Auditor's Procedures in Response to Assessed Risks), specifically paragraphs 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, prior year results.

In 2013/14 we revised our audit methodology to allow us to obtain assurances from previous years' audit work where no significant risks were identified. Our controls work has, therefore, been more focused compared to previous years with detailed testing of the general ledger and cash and banking systems. For the Council's other main financial systems we have relied on prior years' audit work.

Where we have placed reliance on prior years' audit work, we have tested the key controls by undertaking a "walkthrough test". This involved updating our system controls and identifying whether there have been any changes to the control environment. We then select a transaction at random and checked that internal controls have been applied correctly at each stage of its processing.

The table overleaf summarises our approach to the auditing of key financial systems in 2015/16 including where we have placed formal reliance on aspects of the work of internal audit. Internal audit findings do not feature in this report as they are reported separately by the Chief Internal Auditor.

Key System	External audit coverage	Reliance on aspects of internal audit work
Trade Payables	✓ *	✓
Payroll	✓ *	✓
Trade Receivables	✓ *	✓
Financial Ledger	✓	✓
Cash, Income and Banking	✓	
Council Tax Billing and Collection	✓ *	✓
Non Domestic Rates Billing and Collection	✓ *	✓
Treasury Management	✓ *	✓

* Reliance placed on previous years' audit work

Audit findings

A summary of those areas where identified risks require management consideration is included in appendix A. Some less significant issues were also identified; these were resolved in discussion with management and do not feature in this report. The following paragraphs outline the more significant findings arising from our audit work.

Cash, Income and Banking

The Expenditure Bank Account reconciliation for 30 November 2015 was prepared and approved on 17 December 2015.

Efforts should be made to have all bank reconciliations completed and approved closer to the previous period end. The risk of delay in reconciling accounts is that significant errors or omissions are not detected sufficiently early for effective corrective action to be taken.

A large and growing number of journal entries are required to agree the financial ledger with the expenditure bank account balance each month. The majority of these relate to payroll queries, over/under payments, timing differences and other adjustments awaiting confirmation before being able to be cleared. The November 2015 month end reconciliation included journal adjustments required of £3,154,052. Two amounts totalling £3,178,826 related to HQ transfers, leaving journals of £24,774 still to be posted. The Creditors Supervisor was chasing up all differences and taking appropriate steps to clear these with an aim to have them cleared by the year end.

Review of the October and November 2015 Income Bank Account reconciliations identified that items in the bank statement not in the financial ledger from prior periods were not significant. However, they included two items from 2014 totalling £22,893. We would have expected these long outstanding reconciling amounts to have been resolved.

Management should ensure that reconciling items are cleared promptly.

Trade Payables

Monthly accounts payable reconciliations are prepared by the Creditors Supervisor. As at 27th January 2016 there was no evidence of a secondary check on the reconciliations for October and November 2015. The explanation given was that the Creditors supervisor is based in Campbletown and his manager is based in Lochgilphead; the distance between locations making it harder for timely review.

Reconciliations should be reviewed promptly to ensure any discrepancies or errors are followed up in a timely manner.

As reported last year, prior to the Oracle upgrade the Council were able to run a report to facilitate a random check on bank accounts changes. This is no longer possible since the upgrade. However, the council are due to get a replacement system and have asked that this functionality is made available.

Non Domestic Rates Billing and Collection

Postings between the cash receipting system and the local tax systems are checked on a daily basis by the cash team. A full reconciliation (the NDR Raw Cash reconciliation) is carried out monthly by the Revenues Supervisor.

Reconciliations contained no evidence of having been reviewed by a second person after completion. Management commented last year that although it is not considered to be a risk, going forward the Revenues & Benefits Manager would countersign these along side the bank reconciliations.

Council Tax Billing and Collection

Although supporting documentation was on file for second home discounts it was noted that the last reviews were in March 2013 when claimants were asked for confirmation of 25 days residence in the year. Ideally review forms would be sent on a more regular basis to confirm the resident is still eligible for the discount. Without regular reviews there is a risk that discounts are being given to residents who do not qualify for the relief.

Overall Conclusion

Our overall assessment is that the key controls within the Council's main financial systems are operating satisfactorily. This allows us to take planned assurance on these systems for our financial statements audit work in 2015/16.

Risk Identification

The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to Argyll and Bute Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Acknowledgement

The contents of this letter 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 myself (0131 625 1931) or Russell Smith (0131 625 1949) if you have any queries on this management letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Jamieson', with a horizontal line extending from the end of the name.

David Jamieson
Senior Audit Manager

**Argyll and Bute Council
 Review of Internal Controls 2015/16**

Appendix A - Action Plan

No. Audit finding	Control Risk	Proposed management response & action	Responsible officer	Date	
Cash, Income and Banking					
1.	The Expenditure bank account is not always prepared and reviewed on a timely basis.	Errors or omissions may not be identified promptly.	It is normally done within 2 weeks of the month end. The December reconciliation was a few days later than planned. We will ensure it is done to planned timescale wherever possible.	Procurement & Commissioning Manager	Already in place
2.	Reconciling items on the bank account reconciliations are not being cleared promptly.	Reconciling items may not be rectified appropriately.	We have been unable to get Payroll to journal these older reconciling items and will now write them off. All new reconciling items are being journalled promptly.	Procurement & Commissioning Manager	June 2016
Trade Payables					
3.	Accounts payable reconciliations are not being reviewed on a timely basis	Discrepancies may not be identified and reconciling items may not be followed up promptly.	These will now be reviewed within 2 weeks of month end.	Procurement & Commissioning Manager	June 2016

No.	Audit finding	Control Risk	Proposed management response & action	Responsible officer	Date
4.	Although adequate controls are in place around any changes made to suppliers' bank details, there is currently no process in place to allow the random checking of entries.	Changes to suppliers' bank details could be made incorrectly.	We will again press our supplier to provide a report to allow these checks to be re-instated, and will implement this if a report is made available.	Procurement & Commissioning Manager	June 2016
Non Domestic Rates Billing and Collection					
5.	The monthly NDR Raw Cash reconciliation is not reviewed by a second person after completion.	Monthly reconciliations may not be carried out correctly.	This will now be done for all reconciliations in 2016/17 onwards.	Revenues & Benefits Manager	May 2016
Council Tax billing and Collection					
6.	The last review carried out on claimants receiving second home discounts was in March 2013.	Discounts may be awarded to residents who are not eligible for the relief.	This is now scheduled using student resource starting June 2016.	Revenues & Benefits Manager	September 2016