
1. Executive Summary

Introduction

- 1.1 We conduct our audit in accordance with Audit Scotland's Code of Practice. The Code makes clear that it is the responsibility of management to ensure that internal control systems are appropriate.
- 1.2 Interim audit activity is largely concerned with undertaking reviews of selected systems. Our approach in 2003/2004 sought to obtain assurance, by systems review and testing, together with discussion with officers, as to the existence and effectiveness of a number of controls considered essential to ensure that reliance could be placed on the operation of the identified systems.
- 1.3 This report summarises the findings from our audit work and, where appropriate, makes recommendations to strengthen existing controls or otherwise address any identified weaknesses. It should be noted that the weaknesses recorded are only those which came to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses that may exist.
- 1.4 Our review covered the Council's regularity and governance arrangements including Council tax billing and collection, ordering & certification (Education), Manual Payroll, Internal Audit, Fraud & Irregularity, Governance Statement and previous years' follow-up.
- 1.5 This is our third and final regularity and governance report of 2003/2004.

Summary of Main Findings

- 1.6 **Council Tax Billing & Collection.** Adequate controls were found to be in place and operating satisfactorily within the Council Tax department. It was noted however, that there is currently no automatic interface of the Assessor's valuation updates into the iWorld Council Tax System. The Council recognise the need to implement an interface and a project is currently underway to attempt to develop this process in-house. There is also a need for an assessment to be made of the potential environmental threats to the associated infrastructure and integrated processes to ensure adequate business continuity planning.
- 1.7 **Ordering & Certification.** The ordering & certification process within the Education Department places significant reliance on manual authorisation controls. Sample testing conducted found that these controls are operating satisfactorily. No material weaknesses were identified that would require action across all schools. Some school specific issues were identified and have been raised in section 4 of this report.
- 1.8 **Internal Audit.** Review of the relevant files showed in general that work was well organised and properly carried out.
- 1.9 **Payroll.** The weekly process is very reliant on manual authorisation and data input verification controls. Sample testing conducted identified that these controls are operating satisfactorily. No material weaknesses were identified.

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- 1.10 **Prevention & Detection of Fraud.** The Council's policy regarding the arrangements for prevention and detection of fraud has not yet been incorporated into the Standing Orders. The policy also requires to be updated to define the arrangements for receiving and investigating complaints of fraud, corruption and improper financial conduct.
- 1.11 **Governance Framework.** The Council has adequate corporate governance arrangements in place. However it requires to formally revise its standing orders, financial instructions and scheme of delegation. Further it requires to implement an asset management planning strategy as a means of controlling its assets. A single system should be used to record these assets. Risk Management and ICT Strategies also require to be developed.
- 1.12 **Previous Years' Follow Up.** At September 2004, 32 of the original 157 recommendations made, by Audit Scotland during the previous two years remain outstanding. These will be subject to further follow-up action.
- 1.13 Although this report includes a number of specific recommendations to strengthen internal controls, it is the responsibility of management to decide the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
- 1.14 The factual content of the report remains to be agreed in discussion with appropriate officers from the Council. The Action Plan which sets out the proposed action to be taken in response to the audit recommendations should be read in conjunction with the relevant references from the main report.
- 1.15 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

Abbreviations Index:

Comino system:	Company name of a document management system
iworld system:	Council Tax System.
SX3:	Company name of Council Tax System provider.
RB Password:	Passwords for entry to the Council tax System commence the RB.
DMR:	Devolved Management Resources a transaction system used by Education.
AFA's:	Area Finance Assistants – Attached to schools.

2. Action Plan

No	Recommendation	Responsible Officer	Action	Date	Update as at 22 nd October 2004
	Council Tax Billing & Collection				
1	A Business Continuity Plan should be created to provide, in tandem, with the Disaster Recovery Plan, for rapid recovery in the event of an unforeseen disaster. Priority: Medium	J Orr Head of ICT and Financial Services	Create Plan.	31 March 05	Consultation required with IT Dept prior to developing plan. (In progress.)
2	Procedures to support the cash receipting process should be documented. These procedures should incorporate all relevant activities including all the controls in the process. Priority: Low	M Renton Revenues Manager	Produce procedure manual for all cash processes.	30 September 2004	Completed
3	The introduction of the new Council Tax review process should incorporate review of any high value relief or discount awarded in 2003/04. Priority: Medium	M Renton Revenues Manager	New rolling review process introduced using a combination of both Comino and iworld systems. The relevant instructions have been drawn up to assist staff with this new process.	Implemented August 2004	Complete
4	The password for the iWorld system ID 'RB' should be changed from its default setting. The new password should be locked in a safe and provided to SX3 on an 'as needed basis.' Once SX3 have completed maintenance work the password should be changed again. Priority: Medium	M Renton Revenues Manager	It is possible to change the 'RB' password, however it should be noted that this must be actioned by Sx3 who would have access to the password at all times. Any change would require to be carried out in agreement with the Benefits Section as specific jobs are dependant on the batch scheduler which is a shared facility. It is also vital that Sx3 have immediate access to the system to rectify faults as delays can prove costly. The Council accepts the minor risk involved.	Council Accepts the Risk	The oracle upgrade to 9i for the iworld system did not take place on the September weekend as planned but was carried out on 30 th October. This required continuous access to system. An action request has been sent to SX3 to change the 'RB' password.

No	Recommendation	Responsible Officer	Action	Date	Update as at 22 nd October 2004
5	The Housing Association authorised signatory list should be updated and consideration given to scanning the sample signatures onto Comino. Priority: Low	M Renton Revenues Manager	Letters will be issued to all Housing Associations requesting updated signatures.	30 September 2004	Letters issued to all Housing Associations in September, follow up letters also issued to non-returns. If information not received by 5 November facility will be withdrawn. Action will be completed by 30 November 2004
	Ordering & Certification (Education) - General				
6	The DMR procedures manual should be reviewed to ensure the content is still relevant and then formally issued to staff. Priority: Low	Finance Manager - Community Services	Agreed.	31 December 2004	This will involve a greater amount of work than originally estimated. Due to various changes with the system, departmental structure and staffing, it is unlikely that we will have sufficient time to meet this deadline. With this in mind the implementation date should be amended to 30th June 2005.
7	The person responsible for signing the order forms sent to suppliers should also provide evidence of their approval on the internal copy order. Priority: Low	Finance Manager - Community Services	Agreed.	31 December 2004	Ongoing

No	Recommendation	Responsible Officer	Action	Date	Update as at 22 nd October 2004
8	Logical access to create suppliers on DMR should be restricted to AFAs. Priority: Low	Finance Manager - Community Services	Agreed.	30 September 2004	We are due to have a meeting with our AFA's Mid November where we will discuss the various points and agree procedures. Written confirmation /instructions will then be issued in due course satisfying these action points. Implementation will be 31 Jan 2005.
9	Procedures whereby AFAs perform a periodic review of the DMR supplier masterfile should be formalised. Furthermore, a supplier naming convention should be implemented to reduce the risk of duplicate suppliers being created. Priority: Low	Finance Manager - Community Services	Agreed – will need to discuss naming convention with AFAs.	31 December 2004	Ongoing
10	Authorised signatory lists, incorporating sample signatures, should be compiled for all secondary schools. These should be updated periodically to reflect staff changes. Priority: Low	Finance Manager - Community Services	Agreed but this will form part of a Community Services wide exercise.	31 January 2005	Ongoing
11	Schools should be reminded of the importance of deleting and/or disabling obsolete DMR user accounts in a timely fashion. Priority: Medium	Finance Manager - Community Services	Agreed.	30 September 2004	Implementation will be 31 Jan 2005. (See 8 above).

No	Recommendation	Responsible Officer	Action	Date	Update as at 22 nd October 2004
	Ordering & Certification (Education) – Dunoon Grammar				
12	Key process documents such as requisitions and invoices should not be processed until they have been appropriately authorised and evidence of this authorisation has been annotated on the document. Priority: Medium	Finance Manager - Community Services	Agreed.	30 September 2004	Implementation will be 31 Jan 2005. (See 8 above).
	Ordering & Certification (Education) – Oban High School				
13	If, and when, ad-hoc or emergency orders are placed, the standard requisitioning process, should be followed retrospectively to ensure the appropriate authorisation controls are adhered to. Priority: Low	Finance Manager - Community Services	Agreed.	30 September 2004	Implementation will be 31 Jan 2005. (See 8 above).
	Ordering & Certification (Education) – Rockfield Primary, Oban				
14	Office staff should be provided with a copy of the Council Financial Regulations and the DMR procedure manual. Priority: Low	Finance Manager - Community Services	Agreed.	31 January 2005	Ongoing
15	Orders should not be raised unless the purchase requisition has been appropriately authorised. Priority: Medium	Finance Manager - Community Services	Agreed.	30 September 2004	Implementation will be 31 Jan 2005. (See 8 above).
	Manual Payroll				
16	Procedures to support the payroll process should be documented. These procedures should incorporate all relevant activities including all the controls in the process. Priority: Medium	Head of ICT & Financial Services	The current training / procedure notes will be expanded.	31 December 2004	Movements in staff responsibilities following restructure and initiatives on processing methods will delay this till 31 March 2005.

No	Recommendation	Responsible Officer	Action	Date	Update as at 22 nd October 2004
	Prevention and Detection of Fraud				
17	The Council's policy on fraud and corruption should be incorporated in the Standing Orders. Priority: Low	Head of Democratic Services & Governance	This will be done when new Standing Orders are prepared later this year.	31 December 2004	Completion expected by 31 March 2005 by which time the draft Constitution should be complete.
18	The Council's policy on Fraud and corruption should be updated to define the actual arrangements for receiving and investigating complaints of suspected cases. The policy should also outline appropriate disciplinary action to be taken in this respect. Priority: Medium	Head of Democratic Services & Governance	This will be done when new Standing Orders are prepared later this year.	31 December 2004	Completion expected by 31 March 2005 by which time it should be complete and incorporated into draft Constitution.

