

Argyll and Bute Council

Review of Internal Control Systems 2011/12



Prepared for Argyll & Bute Council
June 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Summary	4
Audit Findings.....	5
Introduction	5
Internal Audit.....	5
Systems of Internal Control	6
Appendix 1 - Risk Areas and Planned Management Action.....	8

Summary

1. The key controls operating within the main financial systems of Argyll and Bute Council have been tested by audit to ensure that they are operating satisfactorily.
2. On the basis of the work undertaken we have concluded that, in the main, we are satisfied that there are adequate controls operating within the main financial systems. We therefore plan to place reliance on these when planning our year end audit work. There are, however, a small number of control weaknesses where improvements could be made and an action plan to address these weaknesses has been provided for completion by the council. Our approach to the financial statement's audit has been amended to reflect the identified control weaknesses.
3. Our annual audit plan for 2011/12, which was issued in February 2012, highlighted that we plan to place reliance on a number of reviews contained within the programme of work carried out by internal audit for the year ended 31 March 2012. Internal audit have reported their findings on these reviews separately.
4. It is the responsibility of management to decide on the extent of the internal control systems appropriate to Argyll and Bute Council. The weaknesses identified represent those that have come to external audit's attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist.
5. The co-operation and assistance afforded to audit staff during the review are gratefully acknowledged.

Audit Findings

Introduction

6. Auditing standards require that external auditors obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan the audit and develop an effective financial statements audit approach.
7. We seek to gain assurances that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements and the effective management of 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.
8. The purpose of this review was to evaluate whether the key internal controls operating within the main financial systems are adequate so as to enable us to place reliance on them when forming an opinion on the 2011/12 financial statements. It should be highlighted that these reviews were restricted to the key controls in place to meet our audit objectives for each system. A listing of the systems reviewed is shown on page 6.
9. The issues outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist. It should be noted that the members and officers of the council are responsible for the management and governance of the organisation and, as such, communication of issues arising from this audit does not absolve management from its responsibility to maintain adequate systems of internal control.

Internal Audit

10. Internal audit supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action.
11. As part of our risk assessment and planning process we carried out an early assessment of the internal audit function. Our review concluded that the audit service provided by the Internal Audit section in Argyll and Bute Council operates in accordance with the CIPFA code of practice for internal audit in local government. We were therefore able to place reliance on their work in a number of areas as detailed within our annual audit plan.
12. In his annual report for 2011/12, the head of internal audit provided his opinion that; 'Based on audit work carried out in 2011 – 2012 by Internal Audit, I am of the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, reasonable

assurance can be taken that the systems of governance and internal control are operating effectively.'

Systems of Internal Control

13. We tested the key controls operated by officers in the following main financial systems:
 - Creditors (including corporate credit cards)
 - Payroll
 - Council tax billing and collection
 - Non-domestic rates billing and collection
 - Debtors
 - Cash and cash equivalents.
14. To obtain the required audit controls assurance on these systems, testing strategies were developed and audit testing was carried out during the period February to May 2012.
15. Overall, we are satisfied that most of the council's key controls are operating as planned. However, we have identified a small number of areas where improvements could be made. These are outlined below and should be read in conjunction with the action plan at Appendix 1 that has been agreed with management. The action plan highlights the risk to the council if the issues identified are not addressed.

Creditors

16. **Corporate Credit Cards:** Our review established that approximately 100 employees, covering a cross-section of staff in all departments, have been issued with corporate procurement credit cards. Approximately £60,000 per month is spent through procurement cards on a wide variety of purchases. Although most employees' authorised monthly spending limit is £2,000 or less, two employees have an authorised monthly spending limit of £10,000 and five have monthly authorised spending limits of between £25,000 and £60,000. The council should review cardholder credit limits periodically to ensure that they are in line with business need.

Action Point 1

Council Tax billing and collection

17. **Discounts and Exemptions:** Sample testing of a variety of discounts and exemptions identified some instances where there was either inadequate evidence to support the entitlement to the discount or exemption or the evidence available was several years old. Lack of an appropriate system of award and review entails the risk that the council could be unnecessarily losing council tax income and that it may have difficulty in recovering amounts awarded in respect of fraudulent claims.

Action Point 2

Debtors

18. **Management information:** Our review established that there are more than 9,500 customer numbers listed on the sundry debtors system. Some customers however have duplicate account numbers and there are several obsolete users on the system. To ensure that information on outstanding debts is completely, validly and accurately produced, a regular review of standing data held on the debtors system should be undertaken.

Action Plan No 3

Cash and Cash Equivalents

19. **Bank reconciliations:** Regular reconciliations are a key element in the control environment operating over the council's bank accounts. Our review found that while the combined Council Tax and NDR bank account reconciliations have been prepared monthly, those dated from July 2011 were not signed or dated by supervisory staff reviewing and authorising the reconciliation. As a consequence it was not possible to confirm that review of the combined Council Tax/NDR bank reconciliations have been effected in a timely manner.

Action Point 4

Appendix 1 - Risk Areas and Planned Management Action

No	Issue/ Risk	Agreed Action	Responsible Officer	Action Date
1	<p>Credit card limits</p> <p>There is no periodic review of credit limits to ensure that they are appropriate to the business need.</p> <p>There is a risk that credit limits are unnecessarily high.</p>	<p>The Creditors Supervisor has discussed this matter with our contact agreement operating control NatWest, and has asked them to run an up to date list of MCCs available to each cardholder to allow us to ascertain if the present limits are still appropriate.</p> <p>The Creditors Supervisor has also arranged to meet with our Account Manager in September to discuss the whole Purchase Card matter with a view to making improvements in the way cards are operated. They are renewed every 3 years and at our last renewal date in February 2011 we wrote to every cardholder asking if they still needed a card and if so whether their individual and monthly limits were still relevant. There is also currently a review started July 2012, for which letters are being sent to all individual cardholders asking them if they need training regarding the acceptable use form.</p>	Anne MacColl-Smith/Malcolm Bannatyne	30 September 2012

No	Issue/ Risk	Agreed Action	Responsible Officer	Action Date
2	<p>Council Tax: Discounts and exemptions</p> <p>inadequate evidence exists to support entitlement to the discount or exemption or the evidence available is several years old.</p> <p>There is a risk that fraudulent discounts or exemptions are being claimed causing loss of income to the council.</p>	<p>Discounts and exemptions are reviewed on a cyclical basis normally every 2 years with the exception of discounts for people who are severely mentally impaired due to the nature of their condition and their level of vulnerability. A copy of this year's team plan showing the reviews that will be undertaken throughout the current financial year has been provided as evidence of this.</p>	<p>Fergus Walker/ Margaret Thomson</p>	<p>31 March 2013</p>
3	<p>Debtors - Management information</p> <p>Some customers have duplicate account numbers and there are several obsolete users on the debtors system.</p> <p>There is a risk that information on outstanding debtor accounts is incomplete or inaccurate.</p>	<p>Duplicate accounts may be created by different services for the same customer. This will be looked at closely by the new systems administrator for the sundry debtors system, and duplicate accounts removed or merged where possible.</p>	<p>Fergus Walker/ Jennifer Gorman</p>	<p>31 March 2013</p>
4	<p>Bank reconciliations</p> <p>Our review found that whilst the combined Council Tax and NDR bank account reconciliations have been prepared monthly, those dated</p>	<p>In future the council will ensure that Council Tax and NDR bank account reconciliations are signed and dated by supervisory staff reviewing and authorising the reconciliation.</p>	<p>Fergus Walker</p>	<p>31 August 2012</p>

No	Issue/ Risk	Agreed Action	Responsible Officer	Action Date
	<p>from July 2011 were not signed or dated by supervisory staff reviewing and authorising the reconciliation.</p> <p>There is a risk that errors within bank reconciliations remain undetected.</p>			