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Steve Barrett
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Argyll and Bute Council
Kilmory
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27 May 2015

Dear Steve

Argyll and Bute Council
Review of Internal Controls 2014/15

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 trade receivables, treasury management, Council Tax billing and collection and Non Domestic Rates billing and collection 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 2014/15 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 Internal Audit Manager.

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	✓	✓
Capital Accounting	✓ *	✓

* *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.

Treasury Management

The June 2014 Investments reconciliations had no evidence of review by a senior officer. The borrowings element of the reconciliation contained significant unexplained differences shown in the interest incurred section. Further investigation identified that the reconciliation was incomplete. The Finance Manager, Corporate Support accepted that the reconciliation was not complete, explaining that it was a one off occurrence which, now that the team has additional staff resource, would not re-occur. Subsequent completed reconciliations did not contain any significant differences.

Period end reconciliations should be prepared timeously, and should always be reviewed by a senior officer, in order to identify errors or anomalies promptly.

Trade Receivables

A sample of 10 credit notes was selected for testing. All were properly approved. Although it was fairly clear why the credit note had been raised, in seven cases the reason for credit field had not been completed on the debtors system. The reason for credit field on the debtors system should be completed to clearly record the reason for the credit note being raised.

Trade Payables

Prior to the Oracle upgrade the Council were able to run a report to facilitate a random check on bank accounts changes. IT staff are trying to make reports available so that random checking can continue to be undertaken. There is however no timescale for this.

Council Tax Billing and Collection

Authorisation forms for two employees, showing their access levels to the Council Tax system, could not be found. The missing forms were for the change to access rights for a cash administrator to be granted refunds access (her original access authorisation was on file) and for the Revenues and Benefits Manager who was granted read only access back in 2007 when appointed to the post. We have confirmed that the access rights granted to these members of staff are appropriate, however the authorisation forms should be kept secure and scanned onto the system once they have been fully completed.

Payroll

Existence checking is carried out by e-mailing employee listings to departments for confirmation. However, a reply is only required if there are any changes to report. This does not provide sufficient evidence that adequate checking is carried out as only those with issues are replying. A reply should be required in all cases even where there are no identified changes to report. The Team leader for Payroll and Pensions has agreed that going forward they will request a reply from all departments regardless of whether any changes are required.

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 2014/15.

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



David Jamieson
Senior Audit Manager

Appendix A - Action Plan

No.	Audit finding	Control risk	Proposed management response & action	Responsible officer	Date
1 Treasury Management					
	The June 2014 Investments reconciliations had no evidence of review by a senior officer. The reconciliation was found to be incomplete with significant unexplained differences.	Monthly reconciliations may not be prepared correctly.	All Monthly reconciliations are to be reviewed by Senior Finance Officer.	Finance Manager - Corporate Support	30th June 2015
2 Trade Receivables					
	Sample testing of 10 credit notes identified seven cases where the reason for credit field had not been completed on the debtors system.	Credit notes may be raised for inappropriate reasons.	A reminder will be issued to all sundry debtors system users that the field for the reason for credit should be completed. The system supplier will also be asked if this field can be made mandatory.	NDR/Sundry Debt Administrator	30th September 2015
3 Trade Payables					
	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.	Every time a bank account change is made, the entry is checked and counter-signed by another	N/A	N/A

No.	Audit finding	Control risk	Proposed management response & action	Responsible officer	Date
		<p>member of staff.</p> <p>Whilst there is a small residual risk that an authorised member of staff could make an unauthorised change, this risk has been minimised so far as is possible</p>			
4 Council Tax billing and Collection					
<p>Authorisation forms for two employees, showing their access levels to the Council Tax system, could not be found.</p>	<p>Missing forms result in the lack of a full audit trail.</p>	<p>It is accepted that the filing of the authorisation forms has not been perfect. These will be kept as scanned images in future in order to reduce the possibility of them being misfiled or going astray.</p>	<p>Council Tax Systems Administrator</p>	<p>1st June 2015</p>	
5 Payroll					
<p>Existence checking is carried out by e-mailing employee listings to departments for confirmation. However, a reply is only required if there are any</p>	<p>Departmental employee listings held by the Payroll section may not</p>	<p>Next round of existence checking scheduled March 2016.</p>	<p>Payroll Supervisor</p>	<p>March 2016</p>	

No.	Audit finding	Control risk	Proposed management response & action	Responsible officer	Date
	changes to report. This does not provide sufficient evidence that adequate checking is carried out as only those with issues are replying.	be fully up to date.	HR Development team will now request a response to ensure that the information has been checked to ensure that we provide an Audit Trail.		