

Angus Council

2015/16 Audit

Review of internal financial controls

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

Stephen Boyle is the engagement lead for the audit of Angus Council for the period 2012/13 to 2015/16.

This report has been prepared for the use of Angus Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. .

Key contacts

Stephen Boyle, Assistant Director
sboyle@audit-scotland.gov.uk

Anne MacDonald, Senior Audit Manager
amacdonald@audit-scotland.gov.uk

Colin Morrison, Senior Auditor
cmorrison@audit-scotland.gov.uk

Audit Scotland
Business Hub 15, 3rd Floor South
Marischal College
Broad Street
Aberdeen
AB10 1AB

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Contents

Introduction..... 4

Internal Financial Controls..... 5

Appendix A: Action Plan 8

Introduction

1. This report is the summary of our findings arising from audit work carried out as part of the 2015/16 audit of Angus Council. The nature and scope of the audit were outlined in our Annual Audit Plan presented to the Scrutiny and Audit Committee in March 2016 and follows the requirements of Audit Scotland's Code of Audit Practice which was published in May 2011.
2. Auditing standards require external auditors to 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.
3. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.
4. Appendix A is an action plan setting out the risks we have identified from the audit. Officers have considered the issues and are taking the specific steps in the column headed "management action". The Scrutiny and Audit Committee should ensure that they are satisfied with the proposed management action and that there is a mechanism in place to monitor progress.
5. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit, or of risks or weaknesses, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
6. The co-operation and assistance given to us by officers and staff is gratefully acknowledged.

Internal Financial Controls

7. International Standards on Auditing (ISAs) require evaluation of critical financial systems on an annual basis.
8. In order to gather assurances to support our opinion on the council's financial statements, we focus on 10 key internal financial control systems as listed in Table 1.
9. Our approach requires us to annually assess the key systems of internal control and how risks in these systems could impact on the financial statements. For each system identified, we undertake a short preliminary evaluation to obtain a general background of the system and to ascertain the key controls in operation. Where no significant change to a key internal financial control system has been identified, our approach generally allows us to rely on the results of any testing carried out in the previous 2 years. Even where reliance is taken from previous testing, we still undertake a brief walkthrough of controls to confirm they continue to operate as expected.
10. Table 1 provides a summary of the internal financial control systems, the number of key controls reviewed this year, where we placed reliance on the results of prior years and control weaknesses identified:

Table 1: Numbers of Key Controls Reviewed and Weaknesses Identified

Financial Control System	Controls Reviewed	Reliance on Prior Years	Control Weaknesses Identified
1. General Ledger	5	2	0
2. Payroll	7	4	2
3. Accounts Payable	5	3	1
4. Accounts Receivable	6	0	0
5. Cash & Bank	1	2	0
6. Treasury Management	8	1	1
7. Fixed Assets	3	0	0
8. Council Tax	4	3	0
9. Non Domestic Rates	2	5	0
10. Housing Rents	6	1	4

11. The control weaknesses arising from our reviews were as follows:

Payroll

12. We reviewed evidence to support the work carried out by officers in respect of the 2015/16 pay award uprating. Whilst we found no errors with the uprating itself, the audit trail could be improved if the person carrying out the checks to ensure the uprates were implemented correctly could initial and date their work so it is clear who has been involved in the control process.

Refer Action Plan No. 1

13. We sampled five leaver forms and identified one form which had no evidence of input/independent check (of input) by payroll. The payroll team could not locate the original leaver form and instead provided the yellow copy from the staffing file. As a consequence the form does not carry evidence of input/independent check.

Refer Action Plan No. 2

Accounts Payable/Carefirst

14. Reconciliations are carried out every four weeks between the Carefirst system and the financial ledger (Integra). We identified one reconciliation which was prepared and reviewed by the same person, evidenced by the same signature on the reconciliation. We were advised that this was because the person who normally prepared the reconciliation was off, and that the reconciliation was therefore prepared by the person who would normally review it. We subsequently tested 5 additional reconciliations and all were found to be satisfactory. While we appreciate that it is not always possible to have segregation of duties over holiday periods especially in small

teams, steps should be considered for independent checks to be carried out when staff return from leave.

Refer Action Plan No. 3

Treasury Management

15. The audit trails demonstrating the reconciliations undertaken during the year in respect of treasury management could be strengthened. Daily and weekly sheets of balances are maintained and CAPITA provide an important advisory service. In addition, Logotech records the council's borrowing and investments arrangements with banks and building societies. While reconciliations were concluded as part of the year end routines, a clearer trail could be provided demonstrating the controls in place and the sources of assurance taken by officers in reconciling Logotech with the financial ledger. We had also noted in 2014/15 that such reconciliations were not up to date due to staff changes within the section but had anticipated that the matter would have been resolved before we commenced the 2015/16 audit.

Refer Action Plan No. 4

Housing Rents

16. No reconciliation is completed between cash rent receipts per the cash management system and the Northgate housing rents system. There is consequently a risk that significant differences between the housing rents and cash receipting may not be identified and investigated timeously.

17. A reconciliation was believed to be completed between the cash management system and the financial ledger. However we have confirmed that the 'cash management' report was actually an extraction from the financial ledger.
18. There was doubt as to whether the cash management system could produce the necessary reports to enable regular reconciliations to be undertaken with the financial ledger and the housing rents system but we understand that officers have confirmed it should be possible.

Refer Action Plan No. 5

19. Weekly rent arrears reports are produced by the Revenues section and annotated to record action taken but these reports are not retained for audit purposes. While individual accounts will record action taken, there is no evidence of the overall control operated by the arrears section as the reasons for action or the justification for delaying action week to week is lost. The audit trail would be strengthened by scanning and retaining reports within CIVICA for an agreed period of time.

Refer Action Plan No. 6

20. We reviewed quarterly reconciliations carried out between the rents system and stock sheets maintained by the Communities Housing Teams. We did not find any issues with the reconciliations themselves, however the audit trail would be improved if housing stock reconciliations could be labelled and dated to show which period they relate to as this is not currently evidenced.

Refer Action Plan No. 7

Appendix A: Action Plan

Action Point	Refer Para No.	Risk Identified	Management Action	Responsible Officer	Target date
1	12	<p>Payroll annual uprating</p> <p>There was no record to evidence who has carried out the checks to confirm the accuracy of the annual pay award uprating.</p> <p>Risk: in the absence of an audit trail it is not possible to confirm if the control has operated correctly.</p>	<p>The system/payroll teams will be reminded of the importance of segregation of duties and confirming/initialling all processes to ensure accuracy has been achieved.</p>	Payroll Manager	31 August 2016
2	13	<p>Staff leavers</p> <p>There was no evidence of the required independent check in respect of one of the leavers sampled.</p> <p>Risk: There is a risk of processing error if input is not independently checked.</p>	<p>The payroll team will be reminded of the importance of the segregation of duties in place and to ensure that all documents are confirmed/initially.</p>	Payroll Manager	31 August 2016
3	14	<p>Carefirst / Ledger reconciliations</p> <p>The monthly reconciliation between Carefirst and the financial ledger was prepared but not independently checked due to annual leave commitments within the relevant team.</p> <p>Risk: Errors in the preparation of the reconciliation may go unnoticed or reconciling items may not be investigated.</p>	<p>Staff in the team have all been reminded that all reconciliations must be authorised by someone other than the preparer.</p> <p>Discussed at processing meeting & follow up email sent 05/08/16</p>	Senior Finance Officer	31/ August 2016

Action Point	Refer Para No.	Risk Identified	Management Action	Responsible Officer	Target date
4	15	<p>Logotech / Ledger reconciliations</p> <p>The audit trail demonstrating reconciliations carried out between the treasury management system, Logotech and the financial ledger could be clearer.</p> <p>Risk: Differences between the council's borrowing and investments as recorded in the financial ledger and Logotech may not be identified and investigated timeously.</p>	<ul style="list-style-type: none"> • Already in process of preparing revised check lists for individual investment / borrowing transactions – we will include the updating of Logotech / associated spreadsheets on these revised check lists • Monthly reconciliations to be re-instated and documented • Specific member of staff to be identified to lead on monthly reconciliations • Senior Accountant / Finance Service Manager to review / approve each reconciliation 	Finance Service Manager (Team B)	31 August 2016
5	16-18	<p>Cash Receipting / Housing Rents/financial ledger reconciliations</p> <p>No reconciliations are carried out between the rent receipts through the cash management system and the housing rents system or financial ledger.</p> <p>Risk: Cash receipting anomalies may not be identified and investigated timeously</p>	<p>A reconciliation is carried out between AIM and Integra by the postings of transactions through Revenues. The matter of reconciliation of the AIM/Financial ledger to Northgate will be further investigated but has proved problematic in the past due to timing issues and the way collections are now recorded.</p>	Revenues / NDR Manager and Business Improvement Manager	31 January 2017

Action Point	Refer Para No.	Risk Identified	Management Action	Responsible Officer	Target date
6	19	<p>Weekly rent arrears reports</p> <p>Evidence of arrears action taken by the Revenues section is lost as annotated weekly arrears reports are not retained.</p> <p>Risk: Reasons for taking/delaying action may not be clear.</p>	Reports will be scanned into Civica.	Revenues / NDR Manager	31 August 2016
7	20	<p>Housing Stock Reconciliation</p> <p>The audit trail supporting housing stock reconciliations could be improved by labelling and dating spreadsheets clearly.</p> <p>Risk: Failure to appropriately label files and documents weakens the audit trail and could cause unnecessary confusion.</p>	This naming convention has been in place for numerous years. This will be reviewed as part of the on-going work currently being undertaken in relation to record management governance, and may benefit from the inclusion of metadata information as part of the file housekeeping.	Acting Service Manager – Communities	31 October 2016