

Address:

4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone:

0845 146 1010

Email:

info@audit-scotland.gov.uk

Website:

www.audit-scotland.gov.uk



Bruce West
Head of Strategic Finance
Argyll and Bute Council
Kilmory
Lochgilpheadl
Argyll
PA31 8RT

3 July 2014

Dear Bruce

**Argyll and Bute Council 2013/14
Review of Internal Controls**

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.

As you are aware, we are rolling out a new audit methodology this year which allows 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. On the basis of the information put into our audit model, we identified that the payroll and trade payables systems would be fully tested and that we would obtain assurances from previous years' audit work for the remainder of the Council's key systems.

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

The table below summarises the key systems that were either fully tested during 2013/14 or those where we have placed reliance on previous years' audit work. In respect of a number of systems, we have placed reliance on the work of internal audit and their findings which were formally reported to management.

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 collection and billing	✓ *	✓
Non domestic Rates collection and billing	✓ *	✓
Treasury Management	✓ *	✓
Capital accounting	✓ *	

* Reliance placed on previous years' audit work

Audit findings

A summary of those areas where identified risk requires management consideration is included in Appendix A. The following paragraphs also summarise the findings from our detailed controls testing work carried out in 2013/14.

Trade Receivables

For the month of January 2014, 19 daily reconciliations between Civica (trade debtors) and Oracle (ledger) were completed. In 7 cases, the preparer of the reconciliation had not signed the report. The box at the foot of the reconciliation statement should always be completed to identify who has prepared the report.

Sample testing of 20 credit notes identified one instance where a credit note had been raised to offset a debt which had been deemed irrecoverable. This is not a valid reason to raise a credit note. Write off procedures should be followed in all instances to write off irrecoverable debts.

Council Tax Billing and Collection

Sample testing of 30 discounts/exemptions identified one instance (class 13A Re-possessed property) where no application form had been received. Other forms of evidence had however been provided in support of the application.

An application form should always be obtained before any discount/exemption is applied to prevent the granting of inappropriate discounts/exemptions.

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 2013/14.

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 Russell Smith (0131 625 1949) or myself (0131 625 1931) 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

Appendix A

Action Plan

No.	Audit finding	Control risk	Proposed management response & action	Responsible officer	Date
1	Trade Receivables				
	For the month of January 2014, 19 daily reconciliations between Civica (trade debtors) and Oracle (ledger) were completed. For seven of the daily reconciliations, however, the preparer of the reconciliation had not signed the report.	Reconciliations may not be carried out correctly.	The paper copies in the file have all been signed although the name was not typed into the "Completed by" box. Staff have been instructed to complete this box in all cases.	Jennifer Gorman, Sundry debt administrator	Completed
2	Trade Receivables				
	Sample testing of 20 credit notes identified one instance where a credit note had been raised to offset a debt which had been deemed irrecoverable. This is not in accordance with the council's write off procedures.	Amounts which are recoverable could be written off.	The daily credit notes raised by departments are now all checked by the central debtor's team and this sort of error will be picked up and corrected in future. However there are occasions where debts may be deemed irrecoverable because of lack of evidence to substantiate the delivery of the service being invoiced, and in these cases credit notes will continue to be raised.	Jennifer Gorman, Sundry debt administrator	Completed

No.	Audit finding	Control risk	Proposed management response & action	Responsible officer	Date
3	Council Tax billing and collection				
	<p>Sample testing of 30 discounts/exemptions identified one instance where no application form had been received. However other forms of evidence had been provided.</p>	<p>Inappropriate discounts or exemptions may be applied.</p>	<p>Where the council has been unable to get an application completion by the council tax payer but has sufficient evidence to grant a discount or exemption, it will continue to grant these on a case by case basis. This is considered necessary to prevent issues arising when undertaking recovery action. These are relatively rare situations and will always be authorised by a senior officer.</p>	<p>Margaret Thomson, Revenues Supervisor</p>	<p>No further action required</p>