



LiveArgyll  
Internal Audit Report  
March 2021  
FINAL

# Inter Company Controls

Audit Opinion: Substantial

	High	Medium	Low	VFM
Number of Findings	0	1	3	1

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## 1. Executive Summary

### Introduction

1. As part of the 2020/21 internal audit plan, approved by the Audit & Scrutiny Committee in March 2020, we have undertaken an audit of the system of internal control and governance in relation to Inter Company Controls between Live Argyll and Argyll and Bute Council (the Council).
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with LiveArgyll officers and the information available at the time the fieldwork was performed. The findings 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 all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of LiveArgyll management to determine the extent of the internal control system appropriate to LiveArgyll.
3. The contents of this report have been agreed with the appropriate LiveArgyll officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

### Background

4. LiveArgyll was established by the Council and commenced trading on 2 October 2017. It is a charitable company limited by guarantee governed by its articles of association. LiveArgyll is responsible for services including libraries, leisure facilities, Active Schools, archives, museum, sport development, halls, community centres and community lets. The Council provides internal audit services to LiveArgyll to support their governance framework.
5. The Council provides support services to LiveArgyll as outlined in the Service Level Agreement (SLA). This includes the following financial services:
  - VAT and indirect tax advice
  - general ledger services
  - budget preparation and monitoring
  - treasury management.
6. The Council has created a separate company (Company 2) within their general ledger (the ledger) to ensure that LiveArgyll transactions are dealt with separately to Council transactions. The Council provide LiveArgyll access to the ledger, however the Council maintain responsibility for maintaining cost centres and the account code structure. They are also responsible for processing journal entries to correct mis-postings in the ledger as directed by LiveArgyll or to correct items that Financial Services staff identify.
7. The Council also provides Human Resources and Organisational Development support and advice to LiveArgyll including payroll services.

### Scope

8. The scope of the audit was to assess the controls to ensure expenditure and payroll transactions are appropriately allocated between Company 1 (the Council) and Company 2 (LiveArgyll) as

outlined in the Terms of Reference agreed with the General Manager, LiveArgyll on 9 December 2020.

## Risks

9. The risks considered throughout the audit were:
- **Audit Risk 1:** Controls have not been established to ensure that expenditure and payroll transactions are charged to the appropriate company
  - **Audit Risk 2:** Appropriate authorisation levels have not been established
  - **Audit Risk 3:** Roles and responsibilities have not been clearly defined

## Audit Opinion

10. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
11. Our overall audit opinion for this audit is that we can take a substantial level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale

## Recommendations

12. We have highlighted no high priority recommendations, one medium priority recommendation, three low priority recommendation and one value for money recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- guidance should be issued to relevant Council services regarding all appropriate procedures for LiveArgyll
  - LiveArgyll should be notified when tasks performed by Financial Services on behalf of LiveArgyll are completed
  - LiveArgyll should be provided with a list of users who can access Company 2 on the ledger for review and feedback at least twice annually
  - Council Officers should be reminded of the need to engage with LiveArgyll and take into account their views on any proposed changes to operational processes
  - an initial assessment should be carried out to assess the costs and benefits of creating Company 2 in the Resourcelink system.
13. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

## 2. Objectives and Summary Assessment

14. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

### Exhibit 1 – Summary Assessment of Control Objectives

	<b>Control Objective</b>	<b>Link to Risk</b>	<b>Assessment</b>	<b>Summary Conclusion</b>
1	Expenditure and payroll transactions are appropriately allocated between Company 1 and Company 2	Audit Risk 1 Audit Risk 2 Audit Risk 3	Reasonable	Expenditure and payroll transactions are appropriately allocated between Company 1 and Company 2. Allocating payroll costs to LiveArgyll requires manual intervention, reasonableness checks and sample testing. There may be benefit in exploring an option to create Company 2 in Resourcelink to create process efficiencies and reduce the risk of error. LiveArgyll are not notified when Financial Services complete tasks on their behalf.
2	Appropriate authorisation levels have been established with roles and responsibilities clearly defined	Audit Risk 2 Audit Risk 3	Substantial	Appropriate authorisations levels have been established across the key systems that LiveArgyll and Council officers use to provide services that LiveArgyll require however there is a need for comprehensive guidance on how to process transactions in relation to LiveArgyll. The Council should consult and take account of LiveArgyll's opinion on any process changes which will impact on them prior to implementing them. In addition LiveArgyll should be provided with a list of users who can access Company 2 in the ledger at least twice annually.
3	Appropriate authorisation is given before expenditure and payroll transactions are charged to LiveArgyll	Audit Risk 2 Audit Risk 3	Substantial	Payroll and expenditure items are all subject to appropriate authorisation.

15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

### 3. Detailed Findings

Expenditure and payroll transactions are appropriately allocated between Company 1 and Company 2

16. The Council provides support services to LiveArgyll as outlined in the SLA. The aim of this is to provide LiveArgyll a support service which ensures appropriate governance arrangements are in place on a comparable basis to services provided to Council departments. We reviewed the controls and governance relating to the processing of expenditure items in the ledger, payroll, creditors, PECOS and HR systems.
17. Within the ledger there are two companies, Company 1 (the Council) and Company 2, (LiveArgyll). This conforms to the requirements of SLA.
18. Within the ledger there are no logical access controls which prevent a staff member who has posting rights from both uploading and posting a journal. However a degree of control is provided via segregation of duties within the Council's finance team. LiveArgyll request a journal to be uploaded and a Council officer with no posting privileges uploads the journal. This is then forwarded to another Council officer who posts the journal to the ledger. We reviewed a sample the journals raised in October, November and December and confirmed all were uploaded by one officer then posted by a different officer. The arrangements are considered sufficient to reduce any risk associated with the ledger not providing for full duty segregation to an acceptable level. However LiveArgyll are not notified when Financial Services complete tasks on their behalf.

#### Action Plan 2

19. Resourcelink is the Council's integrated HR and Payroll System and is an essential tool in managing the LiveArgyll workforce. All employee information is held on Resourcelink, including salary information which is used to generate the payroll file. The Council administrate Resourcelink however LiveArgyll can access it to check their employee information.
20. LiveArgyll payroll costs are processed in Company 1 then journalled to Company 2 by council officers on a monthly basis. LiveArgyll are not notified when this is complete however payroll reports are provided to LiveArgyll who perform a reasonableness check including random sample employee checks. As the process requires manual intervention and verification controls are limited to reasonableness checks and sample testing we are unable to provide full assurance that payroll costs are always coded to the correct company. Budget monitoring should highlight any material erroneous postings. We intend to perform an audit of LiveArgyll's budget monitoring arrangements as part of the 2021/2022 audit plan.
21. Prior to establishing LiveArgyll the Council undertook an exercise predominantly focused on the ledger to determine how best to support LiveArgyll in terms of financial systems. At that time it was decided to process the LiveArgyll payroll in Company 1 and journal the costs to Company 2 each month using the cost centre as identifier. It appears that Resourcelink may have the capacity to support the establishment of a separate company which would remove the need for manual intervention, make the processing of payroll costs more efficient and provide for system validation controls reducing the risk of payroll costs being charged to the wrong company. To determine the feasibility of this a requirement specification should be drawn up and officers should engage with Zellis (Resourcelink supplier) to ascertain if it is feasible and any associated costs. Any additional costs should then be considered against the expected efficiencies and benefits it would generate.

**Action Plan 5**

22. LiveArgyll use the Council's Talentlink system to record recruitment processes. Talentlink provides control over cost allocation as users are required to select the relevant service and allocate the appropriate cost centre when creating a vacant post. In addition the vacant post is authorised through an established process in Talentlink. On completion of the recruitment process the successful candidate form is completed by a LiveArgyll officer and submitted to the Council HR team via Talentlink. A Council officer then creates the new employee on Resourcelink and a notification is sent to LiveArgyll who can check the accuracy of the details on Resourcelink.
23. MyView is the Council's online self-serve system through which employees submit claims for expenses, allowances and overtime. There are two structures in MyView, one for Council officers and one for LiveArgyll officers. LiveArgyll have access to MyView to submit expenses and overtime claims and these are authorised by the appropriate LiveArgyll manager prior to being uploaded into the payroll system. Employees are set up on MyView by Council officers, however LiveArgyll managers have full access to view their employee records.
24. LiveArgyll invoices are processed by the Council's creditor's team following agreed Council procedures. Invoices are authorised by LiveArgyll staff prior to processing. Where possible one member of the creditors team processes all LiveArgyll invoices to reduce the risk of error, however there will be occasions when other officers will assist (i.e. holiday or illness cover).
25. PECOS is the Council's online procurement portal. LiveArgyll exists as a standalone entity in PECOS which interfaces directly into Company 2 in the ledger. The controls established within PECOS are the same for LiveArgyll as they are for the Council. They have their own users, purchase orders, approval rule groups, approval plans etc. Council and LiveArgyll officers cannot access each other's codes. LiveArgyll are provided with similar management information reports to those made available to the Council including regular reports of open orders, unpaid invoices, year-end, accrual reports etc.

Appropriate authorisation levels have been established with roles and responsibilities clearly defined

26. The Council have an authorised list of ledger users which details the Council and LiveArgyll officers with access to Company 2 and their level of access. Appropriate authorisation levels are set within staff job roles and responsibilities. Officers designated as super users have access to all areas and authorisations levels.
27. Twenty two officers have access to Company 2 in the ledger. Of these, three are LiveArgyll officers and nineteen are Council officers (including two procurement officers and one IT officer). Ten officers have posting rights which allows them to post journals to Company 2, this includes one LiveArgyll officer. Our review of the list of Council officers with access to Company 2 concluded it was appropriate as there was a business need. There only being one LiveArgyll officer with posting rights is not considered an issue as Council officers raise and post journals on LiveArgyll's behalf. LiveArgyll are not periodically provided with a list of users who can access Company 2.

**Action Plan 3**

28. An authorised signatory list is available on the HUB which details expenditure limits and cost centres which staff can authorise expenditure against. In the event that the Council receive an invoice in the Council's name for services that LiveArgyll are required to pay for the process is

that the Council pay the invoice using Company 1 cost centres with the invoice sent to creditors for payment. A debtor's account is then set up to enable the Council to recoup the costs from LiveArgyll. During the audit we were alerted to a situation where a council officer had followed the correct process but had allocated a LiveArgyll cost centre to the invoice instead of a Council one. Creditors correctly processed the invoice through Company 1 which resulted in the transaction being placed in a suspense account as the LiveArgyll cost centres don't exist in Company 1. This resulted in additional work within the Council and LiveArgyll to move the costs. There are no system validation checks within the ledger which prevent Company 2 cost centres being processed against Company 1 the item is posted to the suspense account for investigation. There would be benefit in drafting and circulating a short guidance note to all relevant officers to advise them of the procedure to follow to manage invoices in the Council name which need to be repaid with the costs recouped from LiveArgyll.

#### **Action Plan 1**

29. An authorised user list is maintained for PECOS. There are 91 active LiveArgyll users currently on the system. Any new user forms are completed and authorised by LiveArgyll prior to the user being created in PECOS.
30. The Council is required to provide LiveArgyll with a service which is comparable to the service they provide to other Council departments. During this audit we identified a situation where the Council changed an operational process relating to journal processing after consulting with relevant Council and LiveArgyll officers. In this particular case whilst Council officers were in agreement with the change LiveArgyll were not. The change was implemented for both the Council and LiveArgyll despite LiveArgyll not being in agreement with it. This particular change was relatively minor in nature (and will be reversed by the completion of action plan 2 in this report), however it would be beneficial to remind Council Officers of the need to engage with LiveArgyll and take into account their views on any proposed changes to operational processes which have a direct impact on services provided to LiveArgyll. There is already a change control process (Schedule Part 3) built into the current contract and service agreement with LiveArgyll for support services and other material changes.

#### **Action Plan 4**

[Appropriate authorisation is given before expenditure and payroll transactions are charged to LiveArgyll](#)

31. Expenditure items are subject to appropriate authorisation prior to being charged to LiveArgyll. An authorised signatory list is maintained and all invoices require to be authorised prior to being processed by creditors. Controls are in place within PECOS to ensure transactions are appropriately authorised.
32. Appropriate controls are in place to ensure that expenses and irregular payroll costs are appropriately authorised in the MyView system.



## Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p><b>Guidance for Invoice Processing</b></p> <p>A situation was highlighted where a Council officer tried to process an invoice using LiveArgyll cost centres due to a lack of awareness of the correct procedure to follow when the Council is billed for works which need to be recouped from LiveArgyll. Guidance should be drawn up and circulated to relevant Council officers to ensure transactions, including invoices and debtors accounts are processed correctly.</p>	Expenditure might not be charged to the correct company.	Procedure note will be drafted and circulated to relevant officers.	Argyll & Bute Council Finance Manager  30 June 2021
Low	2	<p><b>Notification of Completion of Tasks</b></p> <p>LiveArgyll are not notified when Financial Services complete tasks on their behalf.</p>	LiveArgyll might not be alerted to any errors or missed journals in a timely manner.	LiveArgyll will be notified when tasks are completed by Financial Services staff.	Argyll & Bute Council Finance Manager  Completed
Low	3	<p><b>Notification of General Ledger Users</b></p> <p>The Council have an authorised list of ledger users which includes Council officers who can access Company 2. This list is not periodically provided to LiveArgyll for review and feedback.</p>	LiveArgyll are unaware of who can access Company 2 within the ledger.	List of users will be issued to LiveArgyll twice a year.	Argyll & Bute Council Finance Manager  30 June 2021

Low	4	<p><b>Managing Process Changes</b></p> <p>Within the Support Service Agreement, the Council is required to provide LiveArgyll with a service which is comparable to the service they provide to other Council departments and within Schedule Part 3 there is Change Control Procedures outlining the process to be followed when necessary changes are made.</p> <p>It would be beneficial to remind Council Officers of the need to engage with LiveArgyll and take into account their views on any proposed changes to operational processes which have a direct impact on services provided to LiveArgyll.</p>	Changes to processes may have a detrimental impact on LiveArgyll which the Council is unaware of.	We will send reminder Council Officer of the need to engage with LiveArgyll	<p>Head of Commercial Services</p> <p>30 September 2021</p>
VFM	5	<p><b>Establishing Company 2 in Resourcelink</b></p> <p>LiveArgyll payroll costs are currently processed in Company 1 and journals then raised to allocate the costs to Company 2. It would be more efficient, and provide for greater control, if Company 2 could be created in Resourcelink meaning Company 2 payroll costs are automatically posted to Company 2 in the ledger.</p> <p>To determine the feasibility of this a requirement a specification should be drawn up and officers should engage with the Resourcelink supplier to ascertain if it is feasible and any associated costs. Any additional costs would then need to be considered against the expected efficiencies and benefits it would generate.</p>	Payroll costs may be allocated to the wrong company and current processes may not be as efficient as they could be.	We will engage with the Council's Head of Customer Support Services to establish whether this proposal is feasible and would deliver benefit.	<p>LiveArgyll General Manager</p> <p>30 September 2021</p>

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
<b>High</b>	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
<b>Medium</b>	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
<b>Low</b>	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
<b>VFM</b>	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

## Appendix 2 – Audit Opinion

Level of Assurance	Definition
<b>High</b>	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
<b>Substantial</b>	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Reasonable</b>	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
<b>Limited</b>	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
<b>No Assurance</b>	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.