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Mr Bruce West
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Argyll and Bute Council
Kilmory
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PA31 8RT

13 September 2013

Dear Bruce

**Argyll and Bute Council
Review of Internal Controls - 2012/13**

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.

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.

The purpose of this review is 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 2012/13 financial statements.

Internal Audit

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.

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, issued in February 2013.

Systems of Internal Control

Through discussions with internal audit and review of the timings of planned reviews in their internal audit plan, it was agreed that internal audit would review the key internal controls operating in the eight main financial systems: Financial ledger, Debtors, Creditors, Council Tax billing and collection,

Non Domestic Rates billing and collection, Cash income and banking, Payroll and Treasury Management.

All eight internal audit files and reports were subject to review. Some gaps in coverage (mainly detailed substantive testing) were identified and carried out by ourselves. Our testing did identify a small number of issues that had not been raised by internal audit which require management consideration. These are listed in Appendix 1 to this management letter.

Internal audit have issued separate reports for each of the 8 reviews with a total of 41 recommendations (8 High, 10 Medium and 23 Low risk.)

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 placed reliance on these when planning our year end audit work. There are, however, a number of control weaknesses where improvements could be made. Action plans to address these weaknesses have been agreed by the council. Our approach to the financial statements audit was amended to reflect the identified control weaknesses.

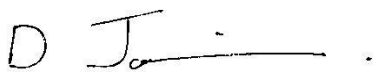
The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of members and officers to determine the extent of the internal 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 report 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 or myself if you have any specific queries relating to this management letter.

Yours sincerely



David Jamieson
Senior Audit Manager

Appendix 1

No	Issue/Risk	Agreed Action	Responsible Officer	Action Date
1	<p>Departments are able to create new customer accounts on the sundry debtors system. There are no procedures outlining the credit checks to be carried out. In addition credit limits are not set. There is a risk of inappropriate customer accounts being set up.</p>	<p>We recently prepared a new Sundry Debt Procedures Manual which was issued on 9 May. Section 4 sets out policies for creating new accounts which recognises that they should be sent out only after consideration as to the credit worthiness of the debtor prior to provision of a non statutory service to them. At 4.3 it goes on to cover the procedure for a credit check. Section 11 covers credit notes. A reason must be stated for these. We have still to deliver training relating to the new manual to all users of the sundry debtors system. We are just about to lose our team leader on secondment for 2 years and we have still to recruit a replacement.</p> <p>Training will be delivered to reinforce the procedures set out in the Sundry Debt Procedure Manual by 31 Jan 2014.</p>	Revenues Supervisor	31 January 2014

No	Issue/Risk	Agreed Action	Responsible Officer	Action Date
2	Our testing of a sample of credit notes identified one instance where the reason for raising the credit note was not recorded on the sundry debtors system.	As above	Revenues Supervisor	31 January 2014
3	Our testing of Council Tax discounts and exemptions identified one instance where no completed application form could be found to support a class 21A exemption.	<p>Class 21 a is a dwelling of a person made bankrupt. If we have the evidence to support this exemption, then we may well process this as it can be difficult to get the appropriate person to fill in a an application form in these circumstances when they have walked away from a property. This is a pragmatic approach which avoids instigating recovery action when we know exemption is merited and no recoveries would be made.</p> <p>Agreed action: None required. We do not agree that this is a risk where we have evidence on file of the bankruptcy of the previous owner and the property vesting in the permanent trustee in bankruptcy.</p>		

No	Issue/Risk	Agreed Action	Responsible Officer	Action Date
4	<p>Our testing of Council Tax discounts and exemptions identified one case where a single person discount had continued but no correspondence could be found since February 2008.</p>	<p>We have utilised Experian to assist with single person discount checks. Where they have verified that the SPD is due against their records, we have not had to do any further work. You will not see evidence of this verification against the documents held in the document management system against that specific account as it was not based on "correspondence". We have carried out 2 exercises with Experian which have checked 100% of our SPD records.</p> <p>Agreed action: None required. We do not agree that this is a risk where we have verified the continued eligibility for single person discount against Experian records.</p>		