



**Perth & Kinross Council**

**Financial Statements Audit Plan  
for 2009/10**

**External Audit Report No: 2010-02**

**Draft Issued: 17 May 2010**

**Final Issued: 31 May 2010**



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### **Restriction on Use**

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's Code of Audit Practice for the audit of the financial statements of Perth & Kinross Council.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of Perth & Kinross Council, and the Audit Sub-Committee and will be shared with the Accounts Commission and Audit Scotland.
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.
- This report sets out the findings from the specific areas covered by our review as well as our review of internal audit. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

# 1. Executive Summary

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## Introduction and Background

1. The purpose of this plan is to provide Perth & Kinross Council (the Council) and the Finance Team with a clear understanding of our approach to the audit of the financial statements for the year ended 31 March 2010 and to provide an update of our interim audit work to date. It also notes progress with the action plans agreed last year as a result of our interim and grant work.
2. This document outlines:
  - the accounts preparation expectations
  - our audit scope and approach
  - interim audit work to date
  - the issues for our year-end audit
3. The Working Papers Requested List (WPRL), which has already been issued to the Finance Team, is an important part of our approach and sets out our understanding regarding the documents the Council has agreed to prepare in order to facilitate our audit.
4. Information has been gathered through discussion with officers, including the Head of Finance, the Acting Chief Internal Auditor, Senior Internal Auditors, and members of the Finance team, review of internal audit reports and files and the financial monitoring reports, and from the assessment of the key financial controls. We have considered planning guidance issued to us by Audit Scotland for 2009/10.
5. Our audit timetable and planned audit outputs were detailed in our report 2010-01 **Risk Assessment, Annual Audit Plan and Fee Proposal for 2009/10** (Annual Plan) issued on 23 February 2010. They have been agreed with the Head of Finance and approved by the Audit Sub-Committee.

## Overall Conclusions on Interim Work to Date

6. From the interim work carried out to date we are satisfied that we have assessed the level of assurance to be gained from the financial control environment at the Council for producing financial accounts for the year ended 31 March 2010. For the majority of the main financial systems we have assessed either full or substantial assurance. The exception is the Fixed Assets Register which is limited as the main controls are carried out after the year-end. This is subject to completing our review of internal audit reports and files and completing the key control testing for the final few months of the year. Full details are included in section 4.
7. We are pleased to report that for the main systems the majority of expected key controls appear to be in place. We have however identified some key issues and control weaknesses that may impact on our audit approach for the year-end:
  - Agreed procedures for raising sales invoices and sales credit notes should be followed for all sales invoices and all sales credit notes
  - Invoice Processing Best Practice Guidelines should be followed for all purchase invoices
  - Journal Voucher Best Practice Guidance should be followed for all journal vouchers
  - Cheque book log procedures should be followed in full
8. Recommendations which should help to strengthen internal controls are included in the Action Plan at Appendix I, together with further detail of our audit findings. The recommendations have been agreed with senior officers at the Council.
9. We have identified some national and local issues that we have assessed as higher risk for the preparation and audit of the Council's financial statements. These are set out in tables 6 and 7 in Section 5.

## 1. Executive Summary

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### Overall Conclusions on Interim Work to Date (Cont'd)

10. We have followed up the Council's progress in implementing the actions agreed within our 2008/09 Financial Statements Audit Plan (FSAP) (Appendix II), the NDRI Action Plan (Appendix III) and the HB/CTB Subsidy Management letter actions (Appendix IV). The following recommendations are incomplete at the time of our fieldwork and will be followed up until they are fully implemented:

#### **2008/09 Financial Statement Audit Plan**

- Control reconciliations for Treasury Management, Payroll Suspense account, VAT and the fund analysis report from REMIT should be performed monthly and signed and dated by both the preparer and reviewer of the work.
- Full reconciliation of Purchase Ledger and Sales Ledger Bank accounts each month.
- Cheques older than six months old to be written back.
- Payroll information for starters, leavers and change of circumstances should be promptly submitted and all documentation fully completed.
- Agreed procedures for authorising of loans fund transaction should be followed by relevant Council personnel.
- Resources are in place to ensure that LASAAC guidance for asset registers for Common Good Assets is met within a reasonable timescale.
- Points arising from Internal Audit's review of working practices to be considered, with proposals developed and implemented to address points noted.
- A quarterly reconciliation of movements in the housing stock to be performed.

#### **NDRI Action Plan**

- A full review of discretionary NDRI system reliefs to be undertaken.

#### **HB/CTB Subsidy Management letter**

- Weekly feedback to the Service Manager on HB/CTB errors to be implemented.

### Acknowledgements

11. We would like to take this opportunity to thank all the officers within the Council who assisted us in gathering information for this plan.

## 2. Accounts Preparation

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### Introduction

12. Our audit of the Council's financial statements, and the agreed audit fee are based on the timely receipt of disclosure compliant accounts and supporting working papers prepared to an acceptable professional standard; the availability of key officers responsible for the preparation of the financial papers; and access to further information or explanations necessary to support the financial statements and the significant areas of judgement applied in the preparation of the financial statements.

### Format of the Accounts

13. The financial statements should be prepared in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice" (SORP), which is issued by the CIPFA/LASAAC Joint Committee.
14. The SORP is reviewed and updated annually. The 2009 SORP which applies to the 2009/10 financial statements was issued in August 2009.
15. For 2009/10, the most significant change to the SORP is in respect of the requirements for private finance initiative (PFI) and similar contracts. Accounting treatment for PFI and similar contracts is no longer based on FRS 5 but on an interpretation of IFRIC 12 Service Concession Arrangements contained in the Government's Financial Reporting Manual. There are also amendments in respect of accounting for non-domestic rates.

### Responsibility for the Preparation of the Accounts

16. The financial statements are an essential part of accounting for the stewardship of resources made available to the Council and reporting its financial performance for the use of those resources. It is the responsibility of the Council, and the Head of Finance as the proper officer, to prepare the financial statements in accordance with statutory timescales and all relevant regulatory requirements. This means:
  - the Council has to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs and to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
  - the proper officer is responsible for the preparation of the financial statements and ensuring that they are in accordance with proper practices as set out in the SORP; ensuring that suitable accounting policies have been selected and applied consistently; judgements and estimates made are reasonable and prudent; proper accounting records have been maintained and that reasonable steps have been taken to prevent and detect fraud and other irregularities
17. Meetings have been held with the Council's officers to consider preparation of the financial statements and agree our requirements as set out in the WPRL. This document has been updated to take account of feedback from the Head of Finance and his team and to include the delegated responsible officers for each area.
18. Officers have confirmed that "year-end close down procedures" were issued to appropriate staff before 31 March 2010.



## 2. Accounts Preparation

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### Responsibility for the Preparation of the Accounts (Cont'd)

19. The main contacts for our audit team in the course of the financial statements audit were identified as the Corporate Accounting Manager and the Central Accounting Manager for operational issues. Any significant audit issues arising during the course of the year-end audit will also be notified to the Head of Finance, who has overall responsibility for the preparation and co-ordination of the financial statements.
  
20. We have made enquiries about the Council's processes for the preparation of the annual governance statement and plan to review the process and the draft statement during the year-end audit. Any significant weakness in controls identified during our year-end audit will be brought to the attention of management for inclusion in the statement.

### 3. Audit Scope and Approach

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#### Scope of the Audit

21. Our responsibilities as independent auditors primarily derive from the Local Government (Scotland) Act 1973 and are summarised in Audit Scotland's Code of Audit Practice (the Code) approved by the Accounts Commission for Scotland, and guided by the auditing profession's auditing standards and ethical guidance. These responsibilities are to:
- audit the financial statements and place a certificate (independent auditors' report/opinion) on the statements stating that the audit has been conducted in accordance with part VII of the Act
  - satisfy ourselves that the financial statements have been prepared in accordance with all applicable statutory requirements
  - satisfy ourselves that proper accounting practices have been observed in the preparation of the financial statements
22. In forming our opinion for inclusion in our audit certificate we are required to report on the following:
- Whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.
  - If the Foreword is not consistent with the financial statements.
  - If the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.
23. We review whether the annual governance statement complies with the SORP and report if the statement does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.
24. In addition, we must consider the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### Audit Approach

25. Our overall audit approach was set out in our Annual Plan. In summary, this approach is based on our annual integrated assessment of risks across our responsibilities detailed in the Code in relation to the finance (including our audit certificate on the financial statements), governance and performance aspects of the wider audit model. This approach includes:
- understanding the business of the Council and risk exposures which could impact on the financial statements
  - assessing the key internal controls for the main financial systems and considering how risk exposure in the systems could affect the financial statements
  - identifying major transaction streams, balances and areas of estimation, understanding how the Council will include these in the financial statements, and developing audit tests for these

### 3. Audit Scope and Approach

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#### Audit Approach (Cont'd)

25. Continued
- assessing the risk of material misstatement in financial statements, in conjunction with our evaluation of inherent risk and control environment risk as part of our integrated risk assessment approach
  - determining the nature, timing and extent of our audit work programme to provide us with sufficient appropriate evidence as to whether the financial statements are free from material misstatement
26. Through this approach, we have also considered and documented the sources of assurance which will allow us to make best use of our resources and focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action, internal audit coverage and reliance on systems of internal control. Management action being relied on for 2009/10 includes:
- comprehensive year-end close down procedures and timetable issued to relevant staff
  - clear responsibilities for the production of the accounts and supporting working papers
  - the delivery of unaudited accounts to agreed timescales with an appropriate working paper package and completed WPRL
  - identification of other bodies/entities and the appraisal of their materiality for inclusion in group accounts
  - completion of key elements of the internal audit programme for 2009/10
27. The audit of the financial statements is completed over three stages. The first stage was carried out between November 2009 and February 2010 as part of our “understanding the business” review, which fed into the integrated risk assessment approach. The specific output delivered as a result of the first stage was our Annual Plan.
28. The second stage is carried out over the period from February to June 2010. This includes our financial control evaluation work and audit testing of the key controls for the main financial systems we plan to rely on for our financial statements audit, and our review of the Council’s financial monitoring reports available prior to our year-end audit commencing.
29. At the time of this report, we have considered the results of our financial control evaluation work and the provision of internal audit services. The outcome of this evaluation is set out in section 4. We have reviewed the available internal audit files and updated our evaluation to take account of the results of their work. On other areas where internal audit has yet to formally report their findings or where we have still to review their files we will update our evaluation to take account of their findings. This further evaluation will be considered in the context of its impact on our financial statements audit.
30. The third and final stage will be carried out during July to October 2010. We will focus our year-end audit on the significant risks and audit objectives for disclosure and significant areas of judgement included in the financial statements.

### 3. Audit Scope and Approach

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#### Materiality

31. Materiality is one of the fundamental accounting principles that should be complied with in preparing an authority's accounts. The SORP states that "Materiality is the final test of what information should be given in a particular set of financial statements...., materiality is a threshold quality ensuring that the information is of such significance as to justify its inclusion in the financial statements. An item of information is material to the financial statements if its misstatement or omission might reasonably be expected to influence assessments of the authority's stewardship, economic decisions, or comparisons with other entities, based on those financial statements. If there are two or more similar items the materiality of the items in aggregate, as well as of items individually, needs to be considered."
32. We are required to consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme.
33. Specifically, with regard to the financial statements, we assess the materiality of uncorrected errors and misstatements, both individually and collectively. Before concluding our year-end audit, we report all material and significant audit adjustments to the draft accounts and significant control weaknesses identified during our audit to those charged with governance.
34. We use a base calculation which is derived from the gross expenditure figure in the accounts as a materiality guide for our audit. This is calculated upon receipt of the draft accounts and advised to the Head of Finance and his team. Both materiality and significance levels are used to list potential audit adjustments arising in the course of the audit and will be reported to those charged with governance. Items below our level of significance (5% of materiality) will be deemed trivial and may not be reported.

#### Classes of Transactions, Estimates, Other Account Balances and Disclosures

35. In addition to our calculation of materiality, we use our understanding of the Council to determine which transactions are material and significant to the financial statements.
36. Our audit approach requires that we identify significant classes of transactions, estimates, other account balances and disclosures. We will develop audit objectives relating to each of these items and test the controls over each item based on our assessment of the risk of significant misstatement.
37. We have assessed financial instruments, pension fund (FRS 17) liabilities and other pensions transactions, property revaluation and capital accounting entries, manual accruals, prepayments, estimates and provisions as higher risk and will carry out substantive testing on these accounts during our year-end audit. Transactions in these areas are only processed at the year-end and they are not covered by our financial control evaluation work.

#### Fraud and Irregularity

38. It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity, including:
  - developing, promoting and monitoring compliance with standing orders and financial regulations
  - implementing strategies to prevent and detect fraud and other irregularity
  - receiving and investigating allegations of breaches of proper standards

### 3. Audit Scope and Approach

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#### Fraud and Irregularity (Cont'd)

39. We are required to consider the arrangements made by management. We do this in a number of ways:
- Our risk-based audit approach will focus on specific areas of high risk and provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity.
  - We review the Technical Bulletins produced by Audit Scotland with regard to fraud reports in local authorities and ensure that the Council has adequate arrangements in place to prevent similar frauds occurring.
  - We examine the policies, strategies, standing orders and financial regulations issued by the Council to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control.
40. We are also required to report any fraud above £5,000 to Audit Scotland and have agreed with the Council that we will be informed of any frauds if and when they are identified. We are not aware of any potential frauds occurring during 2009/10 other than those identified through the National Fraud Initiative.

#### Communication and Reporting

41. We will communicate regularly with officers in preparation for and during our audit of the financial statements. This communication should be two-way, and we encourage officers to have early discussions with us on any issues that may give rise to audit comment at a later date.
42. The Lead Auditor on site for the audit of the Financial Statements will be Adrienne Borrows and the Audit Director will be Margaret Richardson. Cathie Wyllie is the engagement partner responsible for signing the audit certificate. Issues arising during the audit should be brought to their attention. Contact details were supplied in our Annual Plan.
43. In accordance with International Standards on Auditing (ISA) 260, before issuing our audit certificate we will provide the Head of Finance and the Leader of the Administration (those charges with governance) with a report detailing any material and significant audit adjustments to the draft accounts and listing any unadjusted errors. Any significant control weaknesses and any significant matters which are identified during the course of the audit will also be included in this report, together with a copy of our proposed certificate.
44. We may also produce a separate year-end management letter should there be any technical accounting issues arising during the audit that we feel should be brought to the attention of the Head of Finance and the accountants involved in the year-end accounts process. Our observations and suggested recommendations would cover issues where we believe improvements could be made to either the accounts preparation or audit processes.
45. Finally, at the conclusion of our year-end audit we prepare and submit our annual audit report, the Report to Members and the Controller of Audit, which is the formal report to the Council's Audit Sub-Committee and Full Council about all aspects of our audit for 2009/10.

## 4. Interim Audit Work

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### Introduction and Background

46. The Code identifies that 'it is the responsibility of the audited body to conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based'. It is our responsibility as auditors to review and examine evidence that is relevant to these arrangements.
47. Our interim audit work as it relates to the financial statements audit included the following elements:
- A review of the provision of internal audit.
  - A review of internal audit work.
  - Our financial control evaluation review documenting, testing and assessing the key controls in place for the main financial systems.
  - Ongoing review of the financial position and budget monitoring reports.

### Review of Internal Audit Provision

48. Audit Scotland's Code directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. In accordance with ISA 610 – Considering the Work of Internal Audit, we have reviewed the framework for the provision of internal audit services. Our review included consideration of compliance with CIPFA's 2006 Code of Practice for Internal Audit in Local Government in the United Kingdom.
49. We have agreed that for 2009/10 our reliance on the work of internal audit will be limited and this was reported in our Annual Plan.
50. In our Annual Plan we drew attention to issues reported in 2008/09 arising from internal audit file reviews where we were unable to place reliance due to difficulties in establishing that the files presented for review support the findings reported. We also drew attention to our concerns with continuing slippage with the internal audit plans. We noted that working practices were being reviewed to address issues noted from 2008/09 in particular steps to revise the 2010/11 planning methodology. However any improvement made during 2009/10 will not be in place to address these issues for the whole of 2009/10. This year's Annual Governance Statement will therefore need to include the issues in this area again.
51. Our review to date has noted that slippage with the internal audit plan has continued. Currently internal audit have cancelled ten 2009/10 assignments from their initial agreed thirty assignments and have added one assignment, Integrated Human Resources and Payroll (IHRP). At the time of our financial control fieldwork in March four of the remaining twenty one assignments were complete. Of the four assignments completed, one assignment IHRP was only part completed and one assignment was outsourced to an external firm of accountants.
52. Internal audit are now in the final month of their 2009/10 audit year. At the time of our fieldwork in March less than 17% of their revised audit plan was complete. In addition there are a number of assignments outstanding from previous years audit plans, one from 2007/08 and three from 2008/09. We have been informed that by the time of the June Audit Sub-Committee 50% of the revised audit plan will be complete.
53. Internal audit's role is to "perform an independent assurance function within the Council" and "to provide an opinion on the effectiveness of the controls put in place by management in order to ensure that the Council achieves its objectives." Internal Audit is a key part of the process by which the Council manages its risks that threaten the achievement of its objectives. Should internal audit not fulfil their agreed audit plan their role is at risk and the Council will be operating without an effective independent assurance function.

## 4. Interim Audit Work

### Review of Internal Audit Files

54. In our Annual Plan we identified and agreed with the Head of Finance two areas of internal audit work we will still look to rely on, Implementation of Integrated Human Resources (IHRP) System and Statutory Performance Indicators (SPIs). The IHRP System is being reported over a number of stages and feeds into our financial statements audit; findings from the SPI project feed into our 2009/10 SPI work. Table 1 summarises progress to date in reviewing the IHRP reports and working paper files. We will review the remaining IHRP reports and files prior to commencing our year-end audit and will take account of their findings in determining the level and extent of our year-end testing where applicable.

**Table 1: Internal audit reports on which we planned to rely**

Report title	Final report issued	Progress Indicator
Implementation of Integrated Human Resources and Payroll System (a) IHRP User Acceptance Testing (b) Implementation of IHRP System (c) Information Security Management System (ISMS) SPIs	July 2009	R, F

R: Report reviewed

F: Working paper file reviewed

55. Internal audit's reported scope for the IHRP project is *"to provide assurance to the Project Manager, Senior Responsible Officer and the Project Board that robust internal controls are either planned for or are in place within the project."* This work is being reported over a number of stages as follows:
- Phase 1 concentrates on providing assurance that user acceptance testing for the Teachers payroll was sufficient to successfully go live in accordance with the project timetable. It is supported by prior briefings to the Project Manager.
  - Phase 2 will review the migration of payroll data for all other members of staff employed by the Council (general staff) and elected members.
  - In addition, an opinion is to be provided on the strength of system controls in the effective delivery of the payroll service and employee establishments and for workflow.
56. To date we have only received the Phase 1 report. From our review of Phase 1 of the IHRP project we are able to rely on Internal Audit's reported opinion that Teaching staff user acceptance testing was sufficient to provide assurance to the Project Manager, Senior Responsible Officer and Project Board that a successful transition would be achieved.
57. The file presented for review was prepared prior to changes in working practices currently being implemented and previous recommendations regarding improvements also apply to this file.
58. We will report the extent of our actual reliance on internal audit's work and the level of assurance gained on the remaining IHRP projects and SPIs in our annual report.

### Financial Control Evaluation

59. We have carried out a high level review of the key controls for the Council's main financial systems and carried out walkthrough tests to confirm that our understanding of these systems and the control environment is accurate. We have tested key controls up to the date of our review for all systems not tested by internal audit.

## 4. Interim Audit Work

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### Financial Control Evaluation (Cont'd)

60. The systems reviewed were the Main Financial Ledger, Payroll, Debtors and Creditors ledgers, Cash and Bank (including Cheque Control), Treasury Management, Fixed Assets Register, Non Domestic Rates, Council Tax, Housing Rents and Council Tax and Housing Benefits.
61. We used CIPFA's Hazard Identifiers to aid our documentation of the system and existing controls. Where we identified control weaknesses we have highlighted them on the control sheets. Council officers have confirmed the factual accuracy of the documented controls.
62. Further testing will be carried out prior to the start of our year-end audit, to confirm that the key controls have continued to operate in the period between our audit visit and the end of the financial year.
63. The evaluation of Fixed Assets and Capital Accounting controls was restricted as most of the work in this area is carried out as part of the year-end procedures. We therefore plan to carry out detailed testing for these areas during our year-end audit.
64. We have identified the key controls upon which we plan to rely for our financial statements audit. Where the expected key controls exist and are operating effectively we plan to take assurance from this and restrict our year-end audit testing.
65. We are pleased to report that for all of the other main financial systems reviewed, the expected key controls were found to be in place. The main issues identified during our testing are noted below. Recommendations which should help to strengthen internal controls are included in the Action Plan at Appendix I, together with further detail of our audit findings:
- Agreed procedures for raising sales invoices and sales credit notes should be followed for all sales invoices and all sales credit notes.
  - Invoice Processing Best Practice Guidelines should be followed for all purchase invoices.
  - Journal Voucher Best Practice Guidance should be followed for all journal vouchers.
  - Cheque book log procedures should be followed in full.
66. During our fieldwork we noted that there were two retrospective breaches in compliance with the Council's approved lending limits noted in the quarter to 30 June 2009. These breaches were reported to the Strategic Policy & Resources (SP&R) in December 2009 within the Treasury Activity & Compliance report for the quarter to 30 September 2009. We note that as a consequence of these breaches, new enhanced procedures have been developed to assist officers operating under the revised treasury policies and as a result no further recommendation is made in this report.
67. One of key controls we review is that Bank reconciliations are prepared, reviewed and authorised timeously each month. This review includes a review of the Purchase Ledger and Sales Ledger Bank account reconciliations. It was noted that the Sales Ledger bank account reconciliation at 31 March 2010 included a significant balance £1,498,405. On investigation it was noted that the reason for the significant balance was that there had been a system failure on the 31 March. As a result income from the Remit system of £1,481,598 was unable to be posted to the sales ledger and was instead posted in April. As the Sales Ledger Bank account is a control account, holding balances that require to be transferred it is important that this account is regularly reconciled and cleared. The £1,498,405 balance will require to be considered for the year-end financial statements to ensure it is correctly accounted for. In addition any potential impact on the year-end bad debt provision calculations will also require to be considered.

## 4. Interim Audit Work

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68. A couple of minor issues were also noted from our review of the Cash and Bank systems:
- Meetings to agree bank facilities for year to 31 March 2011 took place after the date in which the agreed facilities expired. We have been informed that the delay was due to cancellation of a meeting scheduled for 30 March 2010 and that facilities were agreed on 22 April. Bank facility meetings should be take place prior to the date of the agreed facilities expiring.
  - Changes to the list of approved signatories for 2009/10 were made due to staff changes. We noted that correspondence to the bank missed details of a new signatory. As a result of our review these details have now been submitted to the bank.
69. During our 2008/09 year-end audit we raised concerns with the council's procedures for interim funders. Interim funders were included within long term debtors in the 2008/09 financial statements as they represent debts due to the Council from individuals for care home fees paid on their behalf where the individual has assets which are not easily accessible. Our testing of the main system for Debtors and Income has raised further issues in this area. We have been informed that a review of interim funding has been carried out by Housing & Community Care and that this review has raised a number of actions that require to be addressed. To address some of these concerns new procedures have been drawn up and we have been informed that these have been fully implemented and that all relevant staff have been trained and are fully aware of the issues. Interim funders balances should be reviewed to ensure these debts are not materially misstated in the year-end accounts; including an assessment of recoverability.
70. Our financial control evaluation work notes that progress with the e-procurement system PECOS continues with implementation across all Council Services. Achievement of efficiency gains requires both roll out and use of PECOS. This in turn is dependent on updating PECOS with supplier details. PECOS usage for 2009/10 at the time of our fieldwork was noted to be approximately £0.676 million. The Council's 2009/10 target of approximately £0.350 million of efficiency gains anticipated from the expansion of electronic procurement using standard volume contracts appears ambitious.
71. We note that a new Integra system was introduced in April 2010 and is running parallel to the old Integra system until the end of April. General Ledger and Purchase Ledger elements of the new system were introduced live on 6 April 2010 and the Sales ledger was introduced on 7 April 2010. We will review the new Integra system as part of our 2010/11 financial control evaluation work and will consider relevant information included on the new system during our 2009/10 year-end audit when considering areas such as cut-off.
72. Our financial control evaluation work notes that Integra user access should be reviewed twice annually. For 2009/10 this was only carried out in April 2009. The review planned for October 2009 was not carried out due to other work priorities. We have been informed that security over user access will be reviewed and improved for implementation to the new Integra Environment on 1 April 2010 and as a result no recommendation is made in this report. We will follow-up the review of Integra user access to the new Integra Environment in our 2010/11 financial control evaluation work.

## 4. Interim Audit Work

### Financial Control Evaluation (Cont'd)

73. The results from our evaluation have been considered in terms of the impact on the financial statements audit and on our audit opinion. We grade the level of assurance we can take using the following basis:

**Table 2: Assurance Grading**

<b>Assurance Opinion</b>	<b>Assurance Description</b>
Full Assurance	There is a sound system of control designed to achieve the system objectives (this may be subject to completing some control testing in the period up to the year-end or internal audit work still to be reported).
Substantial Assurance	While there is a basically sound system there are some weaknesses that put some system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk or controls only operate or will only be reviewed at the year-end.
No Assurance	Control is generally weak leaving the system open to significant error or abuse.

74. Where full or substantial assurance can be taken that the controls are operating effectively throughout the year within each of the main financial systems, we limit our testing at the financial statements audit phase. Where limited or no assurance can be taken on the main financial systems then we expand our detailed testing during the year-end audit.
75. The following table details the level of assurance we expect from our overall financial control evaluation. A small amount of testing has still to be completed, to confirm that the key controls continued to operate for the full year. This work will be carried out at the start of our year-end audit.

**Table 3: Assumed Level of Assurance**

<b>Main System</b>	<b>Level of Assurance</b>
Main Financial Ledger	Substantial
Budgetary Control	Full #
Payroll	Substantial
Debtors and Income	Substantial
Creditors and Procurement	Substantial
Cash & Bank and Cheque Control	Substantial
Treasury Management	Substantial
Council Tax	Full #
Non-Domestic Rates	Substantial
Housing Rents	Substantial ##
Council Tax and Housing Benefits	Substantial
Fixed Asset Register	Limited (see para 63)

# No issues identified during our testing of the period April 2009 to January 2010. The level of assurance will be re-considered following completion of control testing for February and March 2010.

## The Housing dwellings reconciliation will be reviewed at the year-end



## 4. Interim Audit Work

### Reliance on the Council's Controls

76. We expect to rely on the following key controls in the following areas for our year-end audit:

**Table 4: Key Controls**

Main Financial Ledger	Final trial balance squares and reconciles to the final ledger prints. Audit trail tracks final ledger balances to key figures in the accounts. Back-up maintained for all significant journal entries. All control accounts (including VAT and Payroll Control accounts, Purchase Ledger Control, Sales Ledger Control) reviewed on a regular basis. All suspense accounts reviewed and cleared at the year-end.
Budgetary Control	All significant variances and virements from the final approved budgets for the year are fully explained and have been reported to the Council regularly throughout the year. Reconciliation is provided detailing all significant virements from the original to the final approved budget.
Payroll and Pensions	All changes to payroll standing data, including new starts and leavers during the year, have been properly authorised. All payroll payments to staff have been made to bona fide employees of the Council and all deductions have been properly accounted for. All key payroll and pension accounts codes within the main ledger are regularly monitored and all payroll control accounts are regularly monitored.
Debtors and Income	All goods and services provided by the Council during the year are properly authorised and invoiced or accrued by the year-end. All other income due to the Council properly accounted for. Cash received has been promptly banked intact and accounted for as Cash in the Sales Ledger Control Account or as other income. The Sales Ledger Control Account is reconciled regularly with outstanding Debtor balances. Regular debt monitoring and recovery action. Authorised listing of bad debts written off for the year and full details of provisions made at the year-end.
Creditors and Procurement	All goods ordered are properly authorised, matched with goods delivered and agreed to suppliers invoices prior to payment being authorised. The Council's procurement policies are followed and tendering arrangements in the Council's financial regulations are followed for all significant contracts. Purchase Ledger Control Account balance is regularly reconciled throughout the year with outstanding creditor balances.
Cash and Bank and Cheque Control	All main bank and cash imprest accounts are reconciled regularly throughout the year and reviewed by appropriate staff. The final bank reconciliation for the main account is reconciled to the balance on bank statement at the year-end and all significant outstanding transactions are agreed to after date bank statements. All income received is processed and banked timeously in full. The cashing system and the financial and other ledgers are correctly updated. All cheques and BACS runs are properly authorised and accounted for in the correct period. A register of cheques and BACS are properly authorised and accounted for in the correct period.



## 4. Interim Audit Work

Treasury Management	All loans funds transactions, including advances, repayments and interest, were properly authorised and are supported by the appropriate documentation held by the Treasury Management Team.
Non Domestic Rates	All amendments to the property masterfile are supported by Tayside Joint Valuation Board documents. Updated parameters are independently checked to ensure these are correct. Checks are in place over the accuracy and completeness of billing. Refunds are authorised appropriately. Exemptions and reliefs are supported with adequate documentation. Cash received in the cash receipting system is reconciled to cash per the non-domestic rates system. The non-domestic rates system balances are reconciled to the main accounting system balances at the year-end.
Council Tax	All amendments to the property masterfile are supported by Tayside Joint Valuation Board documents. Updated parameters are independently checked to ensure these are correct. Checks are in place over the accuracy and completeness of billing. Refunds are authorised appropriately. Exemptions are supported with adequate documentation. Cash received in the cash receipting system is reconciled to cash per the council tax system. The council tax system balances are reconciled to the main accounting system balances at the year-end.
Housing Rents	All amendments to the property masterfile are independently checked to supporting documentation. Updated rent charges are independently checked to ensure these are correct. Void properties are monitored. Cash received in the cash receipting system is reconciled to cash per the housing rents system. The housing rents system balances are reconciled to the main accounting system balances. The housing dwellings reconciliation is performed at the year-end.
Housing Benefit / Council Tax Benefit (HB/CTB)	Regular staff training on changes to HB/CTB regulations. Quality checks on input to the HB/CTB system. Updated parameters are agreed to relevant HB/CTB circulars. Payment runs are reviewed for high value payments. Reconciliations are undertaken between the HB/CTB system and the rent system, council tax system and the main accounting system at the year-end.
Segregation of Duties	Appropriate segregation of duties is maintained throughout the Council, including payroll processing and cheque and BACs runs.
System Access	Appropriate system access controls in place for all of the above systems.

## Corporate Governance

77. The Council has an approved Local Code of Corporate Governance which is available from the Council’s website [www.pkc.gov.uk](http://www.pkc.gov.uk). We reported in our 2008/09 Report to Members that a working group was currently reviewing the Local Code. This review is progressing and a draft report on a proposed code was presented to a meeting of the Executive Officer Team (EOT) in March 2010. Following approval it is reported that the draft code will be submitted to the Full Council for adoption.

## 4. Interim Audit Work

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### Corporate Governance (Cont'd)

78. Our 2008/09 interim work included a review of the revised Scheme of Administration, Standing Orders and Financial Regulations to ensure that they are fit for purpose. Our review has found that these are fit for purpose. To date, there has been no material change to these documents since they were last revised.

### Letters of Assurance and Confirmation

79. In accordance with Audit Scotland's guidance we have written to the Treasurer and the External Auditor of Tayside Valuation Joint Board to seek assurances in relation to the valuation services provided by the Board to the Council.
80. The Treasurer has confirmed that she is not aware of any significant weaknesses in the Board's systems that would give rise to material errors or misstatements in the valuation services provided to the Council. We will seek assurance from the Board's External Auditor before concluding our audit.

### Financial Position

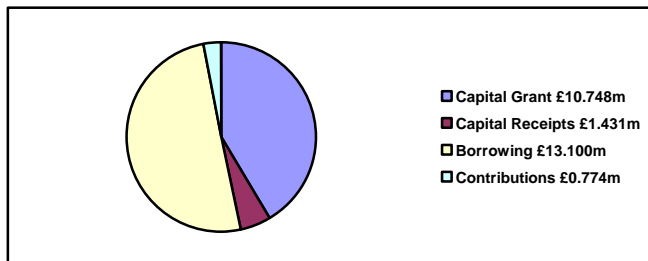
81. The latest projected revenue outturn reports submitted to the Council's Strategic Policy & Resources (SP&R) Committee based on ledger figures at January 2010 forecasts an overall net under-spend on the 2009/10 General Fund Management Budget of £0.609 million, split between services and the contingency budgets, £0.529 million and £0.080 million respectively, against the revised net expenditure budget of £334.208 million.
82. The £0.529 million under-spends against service budgets are made up of under-spends in Education & Children's Service (ECS) of £0.822 million, a £0.318 million under-spend in the Housing & Community Care Service (H&CC) and a £0.005 million under-spend in the Chief Executive's Service and these are offset by overspends of £0.204 million across The Environment Service (TES) and a £0.412 million overspend in Corporate Services.
83. Reported reasons for under-spends in the service budgets in ECS include staff slippage of £0.433 million and schools carrying forward £0.381 million of resources into 2010/11 for planned projects. In TES reported reasons for under-spends include staff slippage of 0.500 million, £0.210 million of savings in waste management contracts, £0.250 million of projected savings on the Parking Services account and £0.269 million of savings in the renewed energy contract. Savings in TES in these and other areas are offset by the projected overspends on areas such as £1.6 million on the winter maintenance budget due to severe weather conditions. In H&CC reported reasons for under-spends include slippage within the Telecare Service. This and other under-spends are offset by overspends of £0.610 million in Learning Disability Services. The £0.412 million Corporate Services overspend is principally due to a projected shortfall of £0.544 million in income for architect's professional fees as a result of slippage in the capital programme.
84. The Council's approved capital budget (revised) for 2009/10 is £28.607 million. Actual expenditure (net of grants and contributions) for the 11 months to February 2010 on the Composite Capital Programme reported to the Council's SP&R Committee on 21 April 2010 totalled £16.681 million, with total receipts and grants amounting to £10.076 million.

## 4. Interim Audit Work

### Financial Position (Cont'd)

85. The current estimated total capital resources available for 2009/10 amount to £26.053 million and are detailed in Table 5 below.

**Table 5: Capital Funding 2009/10**



86. The main reasons given for the slippage in the capital programme are revised completion dates and re-phasing of expenditure on current projects. Final expenditure on capital projects, together with receipts, will be reported in the 2009/10 accounts process and to a following SP&R Committee. We will review this as part of our fixed assets work at the year-end.
87. We will consider the impact of these variances against the budgets in determining the higher risk areas for our financial statements audit. We will review the final position during our year-end audit and will also review the overall movement and final balances on the Council's reserves, including uncommitted balances and permitted carry forwards within the Councils Revenue Budget Flexibility Scheme. This is an area that Audit Scotland will require us to comment in our Annual Report.

## 5. Issues for the Year-End Audit

### Specific Risk Areas

88. Our Annual Plan highlighted a number of business and audit risk areas some of which may impact upon the financial statements and the audit opinion. For the purposes of the specific year-end planning we have identified some national and local issues that we have assessed as higher risk of impacting on the preparation and audit of the Council's financial statements. These are set out in tables 6 and 7 below.

**Table 6: National Issues**

FRS 17 Pension Funds Liabilities	The impact of changes to the pension funds' regulations needs to be considered. Ensure disclosures are as required for 2009/10.
Equal Pay and Single Status	Provision and disclosure in the accounts relating to equal pay claims and implementation of the new terms and conditions under single status.
Non Domestic Rates (NDR)	NDR are collected by the Council as an agent on behalf of central government and should be accounted for accordingly.
Whole of Government Accounts	The deadline for completing the audited return has been brought forward to 30 September 2010. Arrangements need to be out in place to ensure this deadline is achieved.
Accounting for PFI projects	Accounting treatment for PFI and similar contracts is no longer based on FRS 5 but on an interpretation of IFRIC 12 Service Concession Arrangements contained in the Government's Financial Reporting Manual. Appropriate disclosures to be made in the financial statements.
International Financial Reporting Standards (IFRS)	The Council will need to restate 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based balance sheet. From initial discussions, the Council are making progress in preparing for full IFRS implementation.

**Table 7: Local Issues**

Capital Funds and other funds and reserves	Appropriate disclosure of all funds and reserves, including detail of movements between reserves in line with SORP guidance.
Capital accounting entries	Appropriate entries to be included in the accounts for acquisitions, disposals, revaluation, depreciation, leased assets, intangible, deferred grants, fixed assets financed from current revenue (CFCR).
Capital retentions	Consideration to be given to separately disclosing a liability for capital retentions within the working papers for Creditors.
Icelandic Investments	Appropriate presentation and disclosure of these investments.
Statement of Total Recognised Gains and Losses (STRGL)	Any 'other' gains / losses should be fully reconciled.
Accounts to meet the SORP disclosure requirements in all material aspects.	Early completion of CIPFA's Disclosure Checklist to ensure compliance.

89. At the start of our year-end audit we will meet with the Head of Finance and his team to discuss these issues and will update our planning to take account of any further issues that have arisen during the accounts preparation process.



## Appendix I –Action Plan

<b>1. Cash and Bank</b>		
<b>Control Objective:</b> To ensure that cheques issued are controlled.		
<b>Key Control:</b> A register of cheques and BACS are properly authorised and accounted for in the correct period.		
<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>
<p>The Incomes Manual details that a cheque log is maintained and that cheque books are logged in and the log is signed and dated once complete.</p> <p>Our review of the log noted that cheque books are logged in. However the log is not signed and dated once complete.</p>	<p>Procedures as detailed in the Incomes Manual concerning cheque book log should be followed in full.</p>	<p>Cheque book log – agreed. This task has now been designated to the Incomes Officer responsible for undertaking the daily cheque reconciliation and is verified on a daily basis.</p> <p><b>To be actioned by: Senior Exchequer Manager</b></p> <p><b>No later than: Completed</b></p>
	<b>Grade</b>	<b>C</b>



**Appendix I –Action Plan**

<b>2A. Debtors (Sales Ledger)</b>				
<b>Control Objective: To ensure that only sales ledger reconciliations reflect sales transaction activity and that they do not contain references to forward dated invoices or credit notes as these differences arise principally due to input error.</b>				
<b>Key Control: Sales Control reconciliations reflect sales transaction activity to date.</b>				
<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>		
<p>Our review of Sales Ledger Reconciliations performed from April 2009 has noted that these include forward dated invoices and credit notes as a reconciling adjustment.</p> <p>Our 2008/09 financial statements audit work also noted forward dated invoices and credit notes on the year-end sales ledger reconciliation. We were informed that forward dating invoices and credit notes arise principally as a result of posting errors.</p> <p>We note that Internal Audit's Follow-up report of 18 November 2009 to Audit Sub-Committee reports that a policy on review of forward dated invoices has taken place and will be implemented with the new upgrade to Integra (due to come into effect 1 April 2010).</p>	<p>In addition to reviewing the policy on forward dated invoices we recommend that an e-mail reminder be sent to all staff involved with raising invoices and credit notes reminding them of the importance of ensuring invoice and credit note dates are correct before posting to the system.</p>	<p>Forward dated invoices &amp; credit notes - The Integra upgrade has removed the ability to forward date invoices. However, this is a parameter setting and could be allowed at year end.</p> <p><b>To be actioned by: Senior Exchequer Manager</b></p> <p><b>No later than: Completed</b></p> <table border="1" style="width: 100%;"> <tr> <td style="width: 50%;"><b>Grade</b></td> <td style="width: 50%;"><b>B</b></td> </tr> </table>	<b>Grade</b>	<b>B</b>
<b>Grade</b>	<b>B</b>			



## Appendix I –Action Plan

<b>2B. Debtors (Sales Ledger)</b>		
<b>Control Objective: To ensure that invoices and credit notes raised follow set procedures and these include authorisation limits for posting and authorising invoices, charging details, segregation of duties, sequential invoice / credit notes are authorised appropriately.</b>		
<b>Key Control: Invoices and credit notes raised are authorised appropriately.</b>		
<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>
<p>From a sample of 18 sales invoices raised during the year to date we have noted the following issues:</p> <p>(i) An invoice was raised where the total on the invoice was £1 million less than the sum of the individual amounts detailed on the invoice. On investigation we were informed that the copy invoice issued was hand amended by Council personnel prior to sending to the customer to add the additional £1 million. The invoice was amended due to the fact that Integra is currently unable to cope with sums greater than £999,999.</p> <p>We have been informed that where transaction levels exceed £999,999 more than one invoice should have been raised and this was “forgotten” in this case.</p> <p>(ii) One invoice from the sample of 18 invoices tested to date was raised and authorised by the same person.</p> <p>(iii) Delays were experienced with receiving back-up documents to support the raising of the invoice for all of the above invoices samples selected to date. Testing samples were selected mid February and as at 7 April 2010 supporting information for raising of invoices was still outstanding.</p>	<p>(i) All sales transactions raised that are greater than £999,999 should be reviewed and raised over more than one invoice to ensure individual invoice totals do not exceed £999,999.</p> <p>(ii) Sales invoice procedures should be followed and invoices should not be raised and authorised by the same person, where possible.</p> <p>(iii) Supporting back-up documentation should be readily available for all sales invoices raised to ensure invoice queries are easily resolved.</p>	<p>(i) Sales transactions over £999,999 should be raised over more than one invoice; this should ensure individual invoice totals do not exceed £999,999. The new Integra upgrade effective from 1 April 2010 has rectified this problem.</p> <p>(ii) Invoice procedures - Due to the decentralised function for sales ledger it is not always possible for a different individual to raise and authorise invoices. There are locations where there is only one individual with sales ledger responsibilities.</p> <p>(iii) Supporting back-up documentation - It is the responsibility of each Service to ensure invoices are valid and adequate records are kept to support this. An email reminder will be issued.</p> <p><b>To be actioned by: Senior Exchequer Manager</b></p> <p><b>No later than: i) completed (ii) No action (iii) 31 July 2010</b></p>
	<p><b>Grade</b></p>	<p><b>B</b></p>



**Appendix I –Action Plan**

<b>2C. Debtors (Sales Ledger)</b>		
<b>Control Objective: To ensure that invoices and credit notes raised follow set procedures and these include authorisation limits for posting and authorising invoices, charging details, segregation of duties, sequential invoice / credit notes are authorised appropriately.</b>		
<b>Key Control: Invoices and credit notes raised are authorised appropriately.</b>		
<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>
<p>From a sample of 20 credit notes raised during the year to date we have noted the following issues:</p> <p>(i) Credit notes raised against sales invoices do not always refer to the original invoice for which the credit is being raised or include details of the original invoice number.</p> <p>(ii) Six of the sample of credit notes raised were credit notes for Interim Funders invoices. To December 2009 we have been informed that the process for Interim Funders invoices was that “upon death” credit notes are raised in full for all Interim Funders invoices to clients and then a final invoice is raised for all services received.</p> <p>(iii) One credit note for £74,469.97 was noted to have been raised twice in error. When the error was noticed (on the same day) the duplicate credit note was cancelled.</p> <p>(iv) An updated Sales Ledger manual has been produced and has been available from May 2009. We note that this updated manual contains service specific guidelines for Education Service and The Environment Service. No service specific guidelines are included for the Councils other services for the raising of invoices and credit notes.</p>	<p>(i) All credit notes raised against sales invoices should include a reference to the original invoice and make reference to the original invoice number.</p> <p>(ii) Credit notes raised against sales invoices should only be raised for services that have not been provided.</p> <p>(iii) N/a</p> <p>(iv) Consideration should be given to ensuring that procedures for the raising of invoices and credit notes for the provision of council services are in place and are consistent across all council services.</p>	<p>(i) &amp; (ii) Credit notes raised - agreed and this should be done as a matter of course. The system reminds staff to allocate the credit note but does not stop the process if this is not done. Guidance will be issued to Services to reiterate this control.</p> <p>(iii) N/a</p> <p>(iv) Service specific guidelines for raising of invoices and credit notes – With the introduction of the upgrade and changes in processes the Systems Team will produce a revised manual.</p> <p><b>To be actioned by: Senior Exchequer Manager (Systems)</b></p> <p><b>No later than: August 2010</b></p>
	<b>Grade</b>	<b>B</b>



## Appendix I –Action Plan

3. Creditors (Purchases Ledger)		
Observation	Recommendation	Management Response
<p><b>Control Objective:</b> To ensure that only legitimate and authorised payments are processed.</p> <p><b>Key Control:</b> All goods received are checked against Purchase Orders and all invoices are checked against the Purchase Order before processing.</p> <p>In our 2008/09 ISA 260 we reported that when completing our Creditors / Purchases FCE work we had identified a number of issues concerning purchase orders and invoices. Our 2009/10 review has noted an improvement with purchase order and invoice processes. Improvements are still required and from a sample of 20 purchase invoices processed during the year to date we have noted the following issues:</p> <ol style="list-style-type: none"> <li>1. One invoice was noted as having no grid stamp.</li> <li>2. Four invoices were grid stamped but not all the details on the grid stamp were fully completed.</li> <li>3. There were some difficulties reading authorised by signatures.</li> <li>4. Different styles of grid stamps appear to be in use during the year.</li> <li>5. The arithmetic check on the grid stamp was not completed for one of the sample selected, although it was noted that figures on the invoice were ticked.</li> <li>6. Invoice Processing Best Practice Guidance refers to the arithmetic check; however the grid stamp example in the guidance does not include this detail.</li> </ol>	<p>Invoice Processing Best Practice Guidelines should be followed for all purchases invoices.</p> <p>(i) We recommend that a reminder e-mail is sent to all appropriate personnel to draw attention to the Invoice Processing Best Practice Guidance.</p> <p>(ii) Consideration is given to amending the Invoice Processing Best Practice Guidance to add the arithmetic check to the grid stamp example in the guidance.</p>	<p>(i) E-mail reminder - Reminder to be posted on the Integra Information Zone no later than 31 July 2010.</p> <p>(ii) Amendment to Invoice Processing Best Practice guidance – As previously intimated it is not cost effective to change or procure new grid stamps especially in light of the possible changes that will take place in regard to invoice processing over the next few years. The Systems Team will consider how the Best Practice Guidance can be changed to ensure that arithmetical checks are evidenced and these revised guidelines will be available and posted on the Integra Information Zone no later than 31 July 2010.</p> <p><b>To be actioned by: Senior Exchequer Manager (Systems and Payroll)</b></p> <p><b>No later than: 31 July 2010</b></p>
		<p><b>Grade</b></p> <p style="text-align: center;"><b>B</b></p>



## Appendix I –Action Plan

4. General ledger		Management Response
Control Objective: To ensure that journal transactions are correctly authorised and processed.		
Key Control: All journals processed require to be authorised. Appropriate back-up must be retained with the journal.		
Observation	Recommendation	Grade
<p>Our review of journal vouchers for the year to date notes that best practice procedures are not always followed.</p> <p>Our sample testing of 18 journal vouchers found instances of:</p> <ol style="list-style-type: none"> <li>1. Lack of input and authorisation details not being fully completed on two journal vouchers</li> <li>2. One journal voucher had been raised and authorised by the same person</li> <li>3. A journal was processed that did not use the formal journal voucher form</li> </ol> <p>As journal vouchers are one of the main ways used to enter information into the General Ledger by the Council, if correct procedures are not followed then incorrect information can be processed.</p>	<p>Journal Voucher Best Practice Guidance should be followed and in particular attention should be paid to ensuring that journal voucher input and authorised details are completed, that journal vouchers are completed and authorised by different persons, and that a formal journal voucher is completed. We recommend that an e-mail reminder is sent to all appropriate staff drawing attention to Journal Voucher Best Practice Guidance.</p>	<p>E-mail reminder Journal Voucher Best Practice Guidance - Guidance will be re-issued to appropriate staff</p> <p><b>To be actioned by: Central Accounting Manager</b></p> <p><b>No later than: 31 July 2010</b></p>
		<b>B</b>



## Appendix II – 2008/09 Action Plan Updated

1A. All systems	Control Objectives: To ensure that all key control reconciliations carried out are adequately performed on a timeous basis.	Key Controls: All control reconciliations are regularly performed and these are signed and dated by the preparer and reviewer of the work carried out timeously each month.	Observation	Recommendation	Management Response	Progress to Date
			<p>Our review noted instances where the reconciliations performed were not always signed and dated by both the preparer and reviewer of the work carried out and also where these were not always performed timeously. For example we found that:-</p> <p>(i) Treasury Management reconciliations for loans outstanding are generally only signed by preparer, the October and November reconciliations had no preparer details and the April and May reconciliations were performed in June and the December reconciliation was performed in February.</p> <p>(ii) Incomes Management debtors control account reconciliations are only signed by both preparer and reviewer on 3 to 4 occasions per month and this does not always include the month end reconciliation.</p> <p>We also found that for</p> <p>(iii) Suspense Account reconciliations and</p> <p>(iv) VAT reconciliations, these reconciliations are performed regularly on a monthly basis and no issues are noted with the reconciliations performed. However the reconciliations do not detail who has performed the reconciliation, when it was performed and there is also no evidence on file of any review.</p>	<p>We recommend that both the preparer and reviewer sign and date work on all key control reconciliations and that all key control reconciliations are performed timeously each month.</p>	<p>(i) Treasury Management – reconciliations are now signed by both the preparer and the reviewer. The year-end close down procedure means that ledger prints are not available until June hence the delay in undertaking the reconciliation. The delay in undertaking the December reconciliation was due to staff turnover which has now been addressed.</p> <p>(ii) The Debtors Control account has been signed daily since this matter was highlighted.</p> <p>(iii) All Suspense accounts are reconciled in a timeous manner and are now signed and dated by the preparer and the reviewer unless the source information is provided by email and</p> <p>(iv) VAT reconciliations are reviewed by the Central Accounting Services Manager prior to the submission of the monthly return to HMRC. The VAT analysis is currently signed and dated by the manager concerned to indicate that the reconciliation has been reviewed. No further action is considered necessary.</p>	<p>Management – N/a (as complete)</p> <p><b>Auditor assessment of progress:-</b></p> <p><b>(i) On-going</b> – reviewer details were missing for two months (November and December), two months (July and August) were review was updated and for three months (September, October and February) the review was not completed timeously.</p> <p><b>(ii) Complete</b></p> <p><b>(iii) On-going</b> – although performed regularly each month, no details on the reconciliation of preparer or evidence of review.</p> <p><b>(iv) On-going</b> – January 2010 reconciliation contained no details of preparer and reviewer.</p> <p><b>Progress with actions (i), (iii) and (iv) assessed as ongoing will be followed up as part of our 2010/11 FCE work.</b></p>
					<p><b>To be actioned by: Completed</b></p>	<p><b>Grade</b></p> <p><b>B</b></p>



## Appendix II – 2008/09 Action Plan Updated

<b>1B. All systems</b>			
<b>Control Objective: To ensure that the finance manual is up-to-date, reflecting all agreed improvements and current guidance.</b>			
<b>Key Control: Updates to relevant finance manual are implemented timely.</b>			
<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>Progress to Date</b>
<p>Our 2007/08 review noted a number of areas where updates to the relevant finance manuals were required. All of the updates have now been actioned with the exception of Sales Ledger update. We have been informed that this was delayed due to long term sickness.</p> <p>In April 2009 we were informed that draft sales ledger management guidelines were out for consultation and also that there are proposals to amalgamate the systems and recovery manuals into one document.</p>	<p>We recommend that the update to the sales ledger manual is progressed timely to ensure that all agreed improvements and current guidance are available to relevant personnel.</p>	<p>The Sales Ledger update was posted on the Integra sharepoint site on 08.05.09.</p> <p><b>To be actioned by: Completed</b></p>	<p>Management – N/a (as complete)</p> <p><b>Auditor assessment of progress:- Complete</b></p>
		<b>Grade</b>	<b>C</b>



## Appendix II – 2008/09 Action Plan Updated

2A. Cash and Bank			
Control Objective: To ensure that all transactions are recorded and processed timeously and accurately.			
Key Control: Bank reconciliations are prepared, reviewed and authorised timeously each month.			
Observation	Recommendation	Management Response	Progress to date
<p>(i) Our review of bank reconciliations performed throughout the year noted that although reconciliations were performed, these were not always performed timeously. Delays were noted with reconciliations for the Main account, the Housing Rents account, the Purchase Ledger Bank account and the Sales Ledger Bank account. For example the Main account reconciliations for April and May 2008 were not performed until June 2008 and the October, November and December 2008 reconciliations were not performed until January 2009.</p> <p>(ii) In addition we note that there was a small amount of older outstanding cheques, greater than 6 months old, totalling £1,157 at the time of our review in February 2009.</p> <p>(iii) We also noted that for some reconciliations, the balances are not always fully reconciled, including the Purchase Ledger (PL) Bank account and the Sales Ledger Bank account. Not fully reconciling the PL bank account led to a significant audit adjustment in 2007/08. The Internal Audit report 08~020(b) Exchequer Management reported this in relation to the Revenues account.</p>	<p>(i) Completion and review of bank reconciliations is a key control, which should be completed and evidenced timeously each month.</p> <p>(ii) This should include a review of all appropriate supporting documentation and outstanding items with adjustments made as required.</p> <p>(iii) Reconciliations for all accounts, including the Purchase Ledger and Sales Ledger Bank accounts, should attempt to fully reconcile all items.</p>	<p>(i) &amp; (iii) It is acknowledged that such a key control needs to be expedited in a timeous manner. Operational difficulties including long term staff absence and resignations were the main reasons for those delays noted. All bank reconciliations are now completed within the target dates set, subject to Sheriff Officer collection analysis. Remedial action is being discussed to ensure that the Sheriff Officer remittances can be reconciled via BACS with a much quicker turn around. This remedial action is estimated to be complete by 31.10.09.</p> <p>(ii) All cheques older than 6 months are written back.</p>	<p>Management - (i) to (iii) All bank accounts are now fully reconciled on a monthly basis and are up to date.</p> <p><b>Auditor assessment of progress:-</b>  <b>(i) Partially complete</b> – delays were noted with the April reconciliations of the Revenues account, the Housing Rents account and with the review of the Card Income account. The June Revenues reconciliation was also not performed until August. We have been informed that delays were due to strain on resources while undertaking year-end procedures.  <b>(ii) On-going</b> – outstanding cheques greater than 6 months old were noted during the year. The 31 March 2010 bank reconciliation includes cheques totalling £6,190 from September 2009.  <b>(iii) On-going</b> – SL Bank account contains balances of £1,498,405 and the PL Bank account a balance of £2,653 at 31 March 2010. The March 2010 SL Bank reconciliation was also not adequately reviewed; signed by authoriser when the reconciliation did not actually reconcile.  <b>Progress with the above actions will be followed up as part of our 2010/11 FCE work.</b></p>
		<p><b>To be actioned by: Senior Exchequer Manager (Incomes)</b></p> <p><b>No later than: 31.10.09</b></p>	
		<b>Grade</b>	<b>B</b>



**Appendix II – 2008/09 Action Plan Updated**

2B. Cash and Bank	Control Objective: To ensure that all income received is processed and banked in full.	Key Control: Fund analysis reports from REMIT and/or AIM (Council's ledger cash receipting system) are used to reconcile receipts for day for various areas. Every week the amounts banked per bank statements are agreed to ensure the amount receipted is intact, with any discrepancies followed up.	Observation	Recommendation	Management Response	Progress to date
			<p>Our review noted that the Fund analysis report from REMIT reconciles receipts for each day across various areas. Every week the amounts banked per the bank statement should be agreed to ensure the receipted amount is intact, with discrepancies followed up. Each month end a Revenues reconciliation should be performed, with amounts contained in REMIT not agreed to the bank included as reconciling items.</p> <p>(i) Our review found that this key control was not performed timeously. At the time of our testing February, checks between the bank and REMIT had only been performed up to the end of November.</p> <p>(ii) We also note that an absence of preparer and reviewer details and dates when this work was performed.</p> <p>There is a risk that if discrepancies in the reconciliation process are not addressed timeously further issues / problems will occur. In addition delays with the REMIT reconciliations impacts on the Revenues Bank account reconciliation.</p>	<p>(i) Reconciliations between the REMIT report and the amounts banked per the bank statement should be performed monthly, in line with set procedures.</p> <p>(ii) The preparer and reviewer should sign and date this work.</p>	<p>(i) Reconciliations between REMIT and the bank statements are now completed within the following month to minimise any risk to the Council.</p> <p>(ii) All reconciliations are signed by a preparer and reviewer as a matter of course.</p>	<p>Please see management response completed.</p> <p><b>Auditor assessment of progress:-</b>  <b>(i) Complete</b>  <b>(ii) Partially complete - improvements were noted, with daily reconciliations performed and the last page of the REMIT report was signed by the person performing the task.</b>  <i>Although signed, we noted that the signature was unclear as to who had performed the task and there appeared to be a lack of review details.</i></p> <p><b>Progress with action (ii) assessed as partially complete will be followed up as part of our 2010/11 FCE work.</b></p>
					<p><b>To be actioned by: Assistant Exchequer Manager</b></p> <p><b>No later than: Completed</b></p>	
						<p><b>Grade</b> <b>B</b></p>



## Appendix II – 2008/09 Action Plan Updated

3A. Creditors (Purchase Ledger / Debtors (Sales Ledger)				
Observation	Recommendation	Management Response	Progress to date	
<p>(i) There is a need to improve segregation of duties in the registration and authorisation of invoices on Integra, an issue that has been identified over a number of years. We have been informed that in the longer term the roll-out of PECOS, the electronic procurement system, should bring improvements in this area. In the shorter term we note that in November 2008 Best Practice guidance has been updated and re-issued. At the time of our testing, February 2009, updated guidance had only been in place for a short time. Testing of improvements made in 2008/09 will take place during our 2009/10 audit work.</p> <p>(ii) We also note there remains a lack of segregation of duties between those who can raise invoices and those who raise credit notes. There is a risk that employees who have access rights can potentially clear invoices through the issue of credits, either fraudulently or in error. Although some progress has been made further progress is still required.</p>	<p>(i) We recommend that access rights and segregation continue to be monitored, with consideration given to sending a reminder e-mail to all appropriate staff to adhere to the updated Best Practice guidance.</p> <p>(ii) We recommend that further progress is made; the Sales Ledger manual should be updated to cover segregation of duties between those who can raise invoices and those who can raise credit notes.</p>	<p>(i) An e-mail reminder will be issued which will include a list of recent PL invoices registered and authorised by the same users. Guidance notes will be issued to remind Executive Directors of the need for segregation of duties in respect of raising invoices and raising credit notes.</p> <p>(ii) Guidance notes on the segregation of duties will be issued by the Head of Finance by 31/7/09 to remind Executive Directors of the need for segregation of duties in respect of raising invoices and credit notes. A composite Sales Ledger manual which will refer to the need for segregation will be tabled at meeting in the autumn of 2009 and be formally issued to services by 31/10/09.</p> <p><b>To be actioned by:</b>  <b>(i) Senior Exchequer Manager (Incomes)</b>  <b>(ii) Head of Finance / Senior Exchequer Manager (Incomes)</b></p> <p><b>No later than</b>  <b>(i) 31.07.09; and</b>  <b>(ii) 31/7/09 / 31/10/09</b></p>	<p>(i) &amp; (ii) completed and proofs already provided.</p> <p><b>Auditor assessment of progress:-</b>  <b>(i) &amp; (ii) Complete</b></p>	
<p><b>Control Objective:</b> To ensure that only legitimate and authorised payments are processed.</p>				
<p><b>Key Control:</b> Regular independent transaction checks are carried out which include checks on duplicate payments, checks on payments to individuals over £75k and checks for registered and authorised by the same user. Access rights and segregation of duties are in place for raising of and authorisation of invoices and credit notes.</p>				



**Appendix II – 2008/09 Action Plan Updated**

<b>3B. Debtors (Sales Ledger)</b>			
<b>Control Objective:</b> To ensure that invoices give details of what debt relates to, the goods and services provided and dates of provision. Invoices charges are fully authorised.			
<b>Key Control:</b> There should be sufficient details on all invoices to allow customers to fully understand the invoice amount and this includes details of charges for debt recovery, if required.			
<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>Progress to date</b>
<p>We have been informed that when a debt is recovered by the Sheriff Officer the Council now increase the amount due on these debts by 12% to cover the cost of the recovery. No reports or documentation have been submitted to Committee to support this charge as we have been informed that this is a pilot scheme.</p> <p>There is a risk that charges are being introduced at the Council that have not had Committee approval.</p>	<p>All charges being introduced at the Council should be approved by Committee.</p>	<p>A report on recovery charges will be presented to the Council's Strategic Policy &amp; Resources Committee as part of Revenue Monitoring report No 1 on 16 September 2009.</p> <p><b>To be actioned by: Senior Exchequer Manager (Incomes)</b></p> <p><b>No later than: 16 September 2009</b></p>	<p>Completed and proofs provided already.</p> <p><b>Auditor assessment of progress:- Complete</b></p>
		<b>Grade</b>	<b>C</b>



## Appendix II – 2008/09 Action Plan Updated

4. General ledger			
Control Objective: To ensure that transactions are calculated, valued and allocated correctly and all financial data is up-to-date			
Key Control: The General ledger is promptly updated for all relevant transactions.			
Observation	Recommendation	Management Response	Progress to date
<p>At the end of each financial year a procedure is followed that brings the closing balances from one year into the new financial year. The Council also prepares a crystal report of all the opening balances brought forward. The finance department then review the balances brought forward to ensure that these balances reflect the correct audited balances.</p> <p>The procedure for carrying forward balances from one year into another has been followed and a crystal report has been prepared. However this process and in particular the check on the balances by the finance department was not carried out after the year-end audited figures were agreed, in September. At a planning meeting in December the checks on opening balances were still outstanding and were in fact only finally performed in May 2009. There is a risk that delays in checks on opening balances brought forward may result in incorrect balances being brought forward and accounts monitoring being misstated.</p>	<p>Checks are carried out timeously on closing balances brought forward into the next financial year. Consideration should be given to setting a timescale of end of November for opening balance procedures and checks.</p>	<p>Closing Balances will be verified by the end of November and reviewed by the Chief Accountant.</p> <p><b>To be actioned by:</b> Accounting Manager                      Corporate</p> <p><b>No later than: 30 November 2009</b></p> <p><b>Grade</b> B</p>	<p>Process was completed in November and information provided to Henderson Loggie early December for verification.</p> <p><b>Auditor assessment of progress:- Complete</b></p>



## Appendix II – 2008/09 Action Plan Updated

5A. Payroll			
Control Objectives: To ensure that payroll information is promptly submitted.			
Key Controls: Management are required to report immediately events that may impact on the payroll.			
Observation	Recommendation	Management Response	Progress to date
<p>Our 2007/08 payroll review noted delays in reporting staff changes and such delays can result in overpayments. These should be avoided as a cash loss to the council may occur, the recovery of which can be time consuming and difficult. Our 2007/08 report also noted that an internal audit report 07~004 had reported this issue and that formal progress with this action will be followed up by internal audit through their follow-up process.</p> <p>We note that to date no formal action has been taken by Payroll to remind services of this requirement. We also note that a Kaizen event also identified this issue.</p>	<p>We recommend that consideration be given to sending a further reminder to all appropriate personnel to forward starter and leaver documentation timeously. With the imminent implementation of a new payroll system, any reminder should take account of the requirements of the new system.</p>	<p>An e-mail reminder on this matter was issued to all Financial Controllers on 10.04.09.</p> <p><b>To be actioned by: Completed</b></p>	<p>N/a</p> <p><b>Auditor assessment of progress:- Partially complete – although an e-mail reminder was sent on 10 April 2009 overpayments have increased due to reasons of relocating services payroll teams and the change in procedures associated with the move. A further reminder has made some improvement and it is expected the issue will be further addressed in the near future with the implementation of the MyView system.</b></p> <p><b>Progress with the above action assessed as partially complete will be followed up as part of our 2010/11 FCE work.</b></p>
		<b>Grade</b>	<b>B</b>



## Appendix II – 2008/09 Action Plan Updated

<b>5B. Payroll</b>			
<b>Control Objective:</b> To ensure that transactions are bona fide and that payments are not made unless all specified employee information is provided and completed.			
<b>Key Control:</b> All starters, leavers and change of circumstance forms should be completed, authorised and actioned timeously. Checks and reconciliations are carried out to ensure the validity of the data. Exception reports are regularly produced and independently examined.			
<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>Progress to date</b>
<p>(i) Sample testing of payroll starters, leavers and change of circumstance noted that forms used to detail changes do not always have all the relevant sections completed. For two of the fifteen forms sampled the boxes for "service use" were not complete. For one form the outstanding debt owing to the Council at time of departure was not complete and for one form the employee's signature was missing. There is risks that by not completing all parts of the forms for starters, leavers and change of circumstance all relevant payroll matters may not be considered and also that payroll issues with employees may not be able to be resolved if supporting documentation is not fully completed.</p> <p>(ii) Our review also noted that one deviance report and three exception reports were undated for evidence of checks and that one of the deviance reports, for one of the small payrolls was also unsigned. As one of the Councils payroll controls there is a risk that without signing and dating there is a lack of evidence that this has been fully performed.</p>	<p>(i) All appropriate sections of payroll forms involving starters, leavers and those undergoing a change in circumstance are completed. If sections of the form are not relevant then these should be noted as such.</p> <p>(ii) We recommend that all exception reports and deviance reports are signed and dated as evidence of checking.</p>	<p>(i) Staff responsible for processing documentation for new starters; leavers and change of circumstances will be reminded to ensure that the documentation is complete and appropriately signed. This issue will be addressed through the move to electronic administration and authorisation as part of the roll-out of the Council's new integrated human resource and payroll system.</p> <p>(ii) Staff responsible for checking deviances will be reminded of the need to sign and date reports</p> <p><b>To be actioned by: Assistant Payroll Manager</b></p> <p><b>No later than: 31.07.09</b></p>	<p>(i) &amp; (ii) Actions completed by Payroll staff</p> <p><b>Auditor assessment of progress:-</b></p> <p><b>(i) On-going</b> – two instances were noted where boxes on payroll forms were not fully completed. One instance related to the Payroll team box for "checked by" and one instance related to the Payroll Prep box and the related date.</p> <p><b>(ii) Complete</b></p> <p><b>Progress with action (i) assessed as ongoing will be followed up as part of our 2010/11 FCE work.</b></p>
	<b>Grade</b>	<b>C</b>	



## Appendix II – 2008/09 Action Plan Updated

6. Treasury Management				
Observation	Recommendation	Management Response		Progress to date
<p>(i) From our sampling test of loans fund transactions and subsequent discussions with treasury we noted that authorisation of transactions do not always operate in line with treasury procedures. We have been informed that instances can occur where transactions over £3 million do not always have the required authorised signatory as the signatory is not available at the time. We have been informed that when this occurs, transactions are authorised retrospectively. There is a risk that unauthorised loans fund transactions are entered into by the Council.</p> <p>(ii) When carrying out our testing on Treasury key controls we also noted that the Treasury Management Policies and Procedures detail for banking relations in respect of the Cooperative Bank did not appear to have been updated for the retendering agreement reached in 2008. There is a risk that by not updating Treasury Management Policies in full each year, policies and procedures may be in place that are not up to date.</p>	<p>(i) Procedures for authorising of loans fund transactions as outlined by the Council should be followed by the Council personnel.</p> <p>(ii) The annual updating of Treasury Policies (TMP) should take into account all changes that have occurred during the year.</p>	<p>(i) Procedures are documented and followed for authorising loans fund transactions. Due cognisance is taken in organising annual leave and absence from the office to maximise the availability of authorised signatories. However, operational necessity requires that the Treasury Management team be able to seek retrospective authorisation for transactions in the unusual circumstance where there are no authorised signatories available. As all transactions are ultimately authorised, the risk to the Council is considered minimal.</p> <p>(ii) The section on banking relations referred to is included for background information only and does not impact upon day to day Treasury Management activities. Whilst it is acknowledged that the documentation should have been up-dated and will be in undertaking the next review of Treasury Management Policy &amp; Procedures (December 2009), the risk to the Council is considered minimal.</p> <p><b>To be actioned by: Senior Accountant (Capital &amp; Treasury)</b>  <b>No later than: 31 December 2009</b></p>		<p>(i) &amp; (ii) Actions were completed November 2009.</p> <p><b>Auditor assessment of progress:-</b>  <b>(i) On-going – Internal Audit's Treasury Management Report 09/007 issued in May 2010 has reported that from June 2010 the daily Transaction Listing Sheet will be endorsed daily and that TMP will be updated to reflect this enhanced control.</b>  <b>(ii) Complete</b></p> <p><b>Progress with action (i) assessed as on-going will be followed up as part of our 2010/11 FCE work.</b></p>
			<b>Grade</b>	<b>C</b>



## Appendix II – 2008/09 Action Plan Updated

7. Housing Rents			
Control Objective: To ensure that amendments to the Housing Rents system are accurate and properly authorised.			
Key Control: There should be regular reviews of amendments to the system by officers independent of those responsible for updating the system.			
Observation	Recommendation	Management Response	Progress to date
There is no reconciliation of movements in properties on the rent system to independent records held by Estates or Area Office personnel.	A reconciliation of movements in properties should be undertaken by someone not involved with amending the Rent System.	<p>A quarterly reconciliation of movements in the housing stock is now undertaken by the Strategy and Support section within the Service who are independent of housing area office staff.</p> <p><b>To be actioned by: Completed (see Auditors' assessment)</b></p>	<p>N/a</p> <p><b>Auditor assessment of progress: -</b>            A cross sector team was initially set up to in 2009 to undertake reconciliations on a quarterly basis. Due to the responsible staff member leaving the Council quarterly reconciliations have not been undertaken. We have been advised that a full reconciliation will be performed at year end. Quarterly reconciliations to be actioned in 2010/11.  <b>Incomplete</b></p> <p><b>Progress with this action will be followed up during the year-end audit and as part of our 2010/11 FCE work.</b></p>
		Grade	B



## Appendix II – 2008/09 Action Plan Updated

8. Fixed Assets / Common Good Assets			
Control Objective: To ensure that Fixed Assets Registers are in place and that these are fully up-to-date.			
Key Control: Procedures are in place and are followed to ensure that fixed assets reflect all capital expenditure incurred, disposals and revaluations. This should apply to Council assets and Common Good assets.			
Observation	Recommendation	Management Response	Progress to date
<p>The Council has been carrying out a review of Common Good assets and this was due to be completed by 31 March. We have been informed that this will not now be completed for 31 March and that there is still a substantial amount of work to complete this task.</p> <p>The Council will not be complying with LASAAC guidance that asset registers that support the fixed assets presented in the common good balance sheet should be in place by end of March 2009.</p> <p>The Council may attract negative comments in the 2008/09 Report to Members and Audit Scotland's Overview Report. Although not a qualification issue, comment on the fact that the review of Common Good Assets is not complete, will be included in our Report to Members.</p>	<p>The Council should ensure that resources are in place to ensure that the LASAAC guidance for asset registers for Common Good Assets is met within a reasonable timescale. Compliance with LASAAC guidance is seen as best practice.</p>	<p>The review date of 31 March 2009 arose from the CIPFA/LASAAC guidance rather than from a commitment on the part of the Council. A meeting has been arranged with the External Auditors to discuss progress on this issue.</p> <p><b>To be actioned by: Legal Manager</b></p> <p><b>No later than: 31 August 2009</b></p>	<p>Common Good review in progress and title findings for burgh of Blairgowrie (largest burgh outwith Perth) almost complete. The preliminary assessment of burgh of Blairgowrie will shortly move onto the review stage (evidence reviewed by Project Team, findings agreed / reconsidered and conclusion reported to Project Board).</p> <p><b>Auditor assessment of progress:-</b>  <b>On-going</b> – to date this review has still to be completed and a substantial amount of work remains to be completed.</p> <p><b>Progress with the above action assessed as ongoing will be followed up during the year-end audit and as part of our 2010/11 FCE work.</b></p>
		<b>Grade</b>	<b>B</b>



Appendix II – 2008/09 Action Plan Updated

9. Internal Audit			
Control Objective: To ensure that internal Audit operates effectively.			
Observation	Recommendation	Management Response	Progress to date
<p>(i) Internal Audit is currently re-prioritising the 2009/10 plan and considering reviewing working practices.</p> <p>(ii) We have agreed to discuss issues identified from working paper file reviews with Senior Internal Auditors.</p> <p>(iii) We have also agreed to attend a team meeting to discuss the role of external audit and the reliance we place on internal audit work</p>	<p>(i) As part of the review of working practices the checklist in the most recent CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom should be used.</p> <p>(ii) &amp; (iii) Meetings to be arranged.</p>	<p>(i) Re-prioritisation of the 2009/10 audit plan is on-going with a view to obtaining Audit Sub-Committee approval. A review of working practices will be undertaken with a view to completion by the end of September.</p> <p>(ii) &amp; (iii) Arrangements will be made by the end of September for:</p> <p>(a) Meeting external auditors to discuss issues identified from working paper files reviewed; and</p> <p>(b) External audit attendance at a team meeting to discuss the role of external audit and the reliance they place on internal audit work.</p> <p><b>To be actioned by: Chief Internal Auditor</b></p> <p><b>No later than: September 2009</b></p>	<p>Actions completed by Acting Chief Internal Auditor.</p> <p><b>Auditor assessment of progress:-</b></p> <p><b>(i) On-going</b> - from discussions and review of minutes we note that the re-prioritisation of the 2009/10 audit plan is on-going. Revisions to the 2008/09 and 2009/10 internal audit plans were reported at 19 August 2009, 18 November 2009 and 3 March 2010 Audit Sub-Committee meetings. In addition a revised planning methodology has been devised for the development of the 2010/11 Internal Audit Plan covering the period June 2010 to March 2011. This should be communicated to all stakeholders to ensure the plan is risk based and engages all stakeholders. A review of working practices against the most recent CIPFA Code of Practice for Internal Audit in the United Kingdom has been undertaken by the Acting Chief Internal Auditor and an action plan from this review has been developed. The required actions will require to be implemented to improve working practices. We have been informed that this will form part of the Team Plan for 2010/11.</p> <p><b>(ii) &amp; (iii) Complete</b></p> <p><b>Progress with the above action (i) assessed as ongoing will be followed up during the year-end audit and as part of our 2010/11 FCE work.</b></p>
	<b>Grade</b>	<b>B</b>	



## Appendix III – 2008/09 Non-Domestic Rates Action Plan Updated

1. Claim Submission					
	Observations	Recommendations	Management Response	Progress to date	
<p><b>Control Objectives:</b> To ensure that the Non Domestic Rates Income (NDR I) Return submitted for audit is accurate.</p> <p><b>Key Controls:</b> A review process is in place to ensure completion errors are corrected.</p>					
<p>(i) For 2007/08 the completed return was submitted to the Scottish Government by the due date. However the submissions to us, as External Auditors were not made by the due date.</p> <p>(ii) The signed completed return was dated 28 October 2008 which is later than the electronic grant claim submission date of 22 October 2008.</p> <p>(iii) Year-end audit adjustments of £346,096 were not included in the return submitted for audit.</p> <p>(iv) The number of audit adjustments made to the un-audited return for 2007/08 has increased compared to 2006/07. This is partly due to a change in personnel preparing the 2007/08 return, as the return has been prepared by an individual with no previous exposure to preparing this return or to the 2007/08 year end Non Domestic Rates workings.</p>	<p>(i) Copies of the final completed un-audited return (electronic version and hard copy) should be sent to us by the due date.</p> <p>(ii) The signed un-audited completed return should be signed and dated either prior to or at the same time as the electronic grant submission.</p> <p>(iii) Any year-end audit adjustments should be taken into account in the submitted return.</p> <p>(iv) Improvements should be made to the Council's grant claim review process so that any completion errors are corrected prior to submission to the Scottish Government and for audit.</p>	<p>The procedure note will be updated to ensure the External Auditors get a copy of the final completed un-audited return (electronic and hard copy) at the same time as the submission to the Scottish Government.</p> <p>Vacancies within the Central Accounting Team have now been filled to address the resourcing issues. With the appointment of the new Accounting Technician, additional checks will be built into the process to ensure the claim is completed and submitted accurately and on time. These checks will include a review to ensure that any year-end audit adjustments are incorporated.</p> <p><b>To be actioned by: Central Accounting Manager</b></p> <p><b>No later than: 31 March 2009 and at time of submission</b></p>	<p>Submission to Scottish Government &amp; External Auditor on 20 November 2009.</p> <p><b>Auditor assessment of progress:-</b>  <b>(i) (ii) (iii) and (iv) Complete</b></p>		<p><b>Grade</b> B</p>



## Appendix III – 2008/09 Non-Domestic Rates Action Plan Updated

2A. NDR System - Reliefs			
Control Objective: To ensure that NDR reliefs are reviewed as required by NDR guidance.			
Key Control: NDR reliefs are reviewed in line with Council policy and the NDR review run timetable accurately represents the agreed schedule of NDR reliefs being carried out each year.			
Observation	Recommendations	Management Response	Progress to date
<p>(i) Legislation requires a review of reliefs every five years at a minimum. The Council's Procedure Manual states "All types of relief should be reviewed no longer than in a 5 year period" and that the Council "would prefer to review all reliefs within a 3 year rolling period". We note that this is dependent on other priorities and resources available. Our review of 2007/08 NDR reliefs awarded and the supporting 2007/08 NDR scheduled review runs timetable noted that a number of reliefs were scheduled for review in February 2009, and that some of these are now over the three year preferred period since their last review (a number by only one month and others by seven months). The supporting 2007/08 review run timetable noted that a three year review run was scheduled for 2007/08 for these reliefs.</p> <p>(ii) A full review of discretionary policies has not taken place since 2000, although interim reviews have been carried out over some of the discretionary policies.</p>	<p>(i) The Council's review run timetable should reflect the agreed scheduled reviews being carried out each year. If a scheduled review is unable to be carried out within the Council's preferred 3 year rolling period then we suggest this is documented on the review timetable.</p> <p>(ii) Consideration should be given to carrying out a full review of discretionary reliefs as this has not been carried out for a number of years.</p>	<p>(i) We accept that the wording on the review timetable appeared misleading and this has been amended. We will ensure that a reason is recorded against any scheduled review on the timetable that we have been unable to undertake. We will continue to ensure that all cases are reviewed within the legislative timescale of 5 years.</p> <p>(ii) A full review of all non domestic rates policies will be undertaken over the next two financial years.</p>	<p>(i) Review timetable updated in respect of scheduled reviews unable to be undertaken and review timetable compiled for 2009/10 to ensure adherence to 5 year limit.</p> <p>(ii) NDR policy review has commenced.</p> <p><b>Auditor assessment of progress:-</b>  <b>(i) Complete</b>  <b>(ii) On-going</b> – we have been informed that a full review of discretionary policies is to be undertaken over the next two financial years.</p> <p><b>Progress with the above action (ii) assessed as ongoing will be followed up during the year-end audit, NDR grant audit and as part of our 2010/11 FCE work.</b></p>
		<p><b>To be actioned by: Benefits &amp; Revenues Manager</b></p> <p><b>No later than: 31 March 2011</b></p>	
		<p><b>Grade</b></p>	<p><b>B</b></p>



## Appendix III - 2008/09 Non-Domestic Rates Action Plan

<b>2B. NDR System – Reliefs (cont'd)</b>	
<b>Control Objective:</b> To ensure that NDR reliefs are reviewed as required by NDRI guidance.	
<b>Key Control:</b> A NDRI review run timetable is maintained which accurately represents the agreed schedule of NDR reliefs being carried out each year.	
<p>(i) Control spreadsheets used to record review of reliefs have shown no significant improvement since we reported issues in this area in our 2007/08 Financial Statements Audit Plan. The 2007/08 NDRI Review Runs spreadsheet was found to contain inaccuracies and the 2008/09 NDRI Review Runs spreadsheet had still to be updated, eight months into 2008/09.</p> <p>(ii) Inaccuracies in the 2007/08 spreadsheet include the inclusion of a comment that the relief would be reviewed in 2008/09 when this was no longer happening, details were missing for when the last review took place and one of the reviews for which details were entered did not actually take place.</p>	<p>(i) Control spreadsheets for review of reliefs should be updated timeously and accurately reflect any reviews carried out and dates when reviews last took place and are next scheduled to take place. The NDR review run timetable should accurately reflect the agreed schedule of NDR reliefs being carried out each year.</p> <p>(ii) An agreed schedule of NDR reliefs should be set at the beginning of each year and this agreed schedule should be detailed on the review timetable.</p>
<p>(i) &amp; (ii) We accept that the wording on the review timetable appeared misleading, this has been amended.</p> <p style="text-align: right;"><b>To be actioned by: Benefits &amp; Revenues Manager</b></p> <p style="text-align: right;"><b>No later than: 31 March 2009</b></p>	<p>(i) &amp; (ii) Already addressed – no further action necessary</p> <p><b>Auditor assessment of progress:-</b> <b>(i) &amp; (ii) Complete</b></p>
<b>Grade</b>	<b>C</b>



### Appendix III - 2008/09 Non-Domestic Rates Action Plan

3. NDRI Systems – Bad debts		
Control Objectives: To ensure that bad debt write-off are properly authorised and auctioned.		
Key Control: Debts written off through the ledger agree with those reported as written off to Committee.		
Observation	Recommendations	Management Response
<p>(i) There is a difference between the debts written off included in the NDRI return and the year-end accounts and that reported to Committee. The submitted return and the year-end accounts report £391,976 of debts written off, whereas the Council has only reported £316,642 of debts written off to Committee (Strategic Policy and Resources Committee 16 April 2008), a difference of £75,334.</p> <p>(ii) We have been informed that the difference has arisen due to problems with the NDRI spreadsheets and that the amount reported to Committee is correct.</p>	<p>(i) In future debts written off through the ledger and reported in the year-end accounts should agree with that reported to Committee.</p> <p>(ii) Adjustments are processed to correct the difference of £75,334 before 31 March 2009 to ensure the Council's ledgers (Integra and Northgate) correctly reflect authorised bad debt write-offs.</p>	<p>(i) Agreed – procedures to be updated to reflect this additional check.</p> <p>(ii) Completed in 2008/09 Final accounts process.</p> <p><b>Auditor assessment of progress:- (i) &amp; (ii) Complete</b></p>
	<p>To be actioned by: <b>Central Accounting Manager</b></p> <p><b>No later than: 31 March 2009</b></p>	<p><b>Grade</b></p> <p><b>B</b></p>



## Appendix IV –2007/08 HB/CTB Subsidy Management Letter Updated

Observation and Risk	Recommendation	Management Response	Progress to date
<p><b>1</b> The Council does not undertake analytical review of the claim by comparing current year cell values with prior year cell values. This should give reasons for movements including:</p> <ul style="list-style-type: none"> <li>- Details of movements in caseloads;</li> <li>- Actual or expected rent charge increases;</li> <li>- the impact of any changes in benefit regulations; and</li> <li>- expected trends in cells or expected relationships between cells.</li> </ul> <p>Analytical review is a useful tool to identify errors and without analytical review errors in the claim may not be identified.</p>	<p><b>R1</b> Undertake analytical review on the claim and provide reasons for year on year movements. Note: Each year Audit Scotland provides a spreadsheet to assist with doing analytical review. A copy of this spreadsheet may be requested from us with doing this.</p>	<p>SUB030 Northgate report is now run four weekly after the PTEN 4weekly payment run. This enables the benefits staff to liaise with their accountability sections to discuss movements in the report generally from the cell values extrapolated.</p> <p><b>To be actioned by:</b>  <b>System Support – Accountancy – Management Team</b></p> <p><b>No later than: monthly ongoing</b></p> <p style="text-align: center;"><b>Grade</b></p> <p style="text-align: center;"><b>B</b></p>	<p>SUB30, caseload movements, strategy / projects, temporary accommodation, legislation changes and performance are all discussed as they arise or minimum monthly between both benefits management team and accountancy.</p> <p>Projection / analysis of out-turn for year is monitored monthly too.</p> <p><b>Auditor assessment of progress:-</b>  <b>Complete</b> - 2008/09 HB/CTB subsidy audit work has noted that analytical review is now being performed.</p>
<p><b>2</b> When reviewing manual adjustments to the claim we found a number of addition errors. Although such errors should be picked up in the audit the Council should check workings and/or use spreadsheets to record manual adjustments to identify these before the claim is submitted.</p>	<p><b>R2</b> Ensure there is appropriate review of the addition calculations when including manual adjustments in the claim.</p>	<p>Spreadsheets are now used by the Principal Officer to identify movements in the cells, resulting from manual adjustments.  This spreadsheet should be checked by accountancy.</p> <p><b>To be actioned by:</b>  <b>Principal Officer – Accountancy</b>  <b>No later than:</b>  <b>Year end processing</b></p> <p style="text-align: center;"><b>Grade</b></p> <p style="text-align: center;"><b>C</b></p>	<p>As part of year end processing any adjustments required are identified by the Principal Officer – Benefits as described and are subsequently discussed with the accountancy team. These are entered into a spreadsheet and reconciled and submitted to the auditor.</p> <p><b>Auditor assessment of progress:-</b>  <b>Complete</b> - 2008/09 HB/CTB subsidy audit work noted checks are now performed.</p>

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<p><b>3</b> During testing some instances were noted where staff were incorrectly inputting data. This included:</p> <ul style="list-style-type: none"> <li>- input errors in income details, dates and categories</li> <li>- overpayment classification errors</li> </ul> <p>One error noted relates to the notification of changes of circumstances. We noted that where there was more than one notification relating to the same change (e.g. separate notifications from the council tax section and the claimant) the date of the later notification might be used. In these cases the date of the first notification should be used.</p> <p>As a result of these input errors the claim was qualified and significant extra testing undertaken by Council staff. There is also the risk that the DWP may claw back subsidy as a result of these errors.</p>	<p><b>R3</b> Reiterate to staff the need for accuracy in inputting data. For changes in circumstances staff should be reminded to review the file for any earlier notifications of the same change in circumstance and apply this from the date of first notification.</p>	<p>(i) Quality checking procedures were reviewed in January 2009, with 10% of claims checked at pre-notification stage. The findings are notified to individuals on their particular errors and the management team are notified separately with graphical information and amount of under/over payments resulting from the checks.</p> <p>(ii) These findings are used to formulate training programmes for the team and individuals.</p> <p style="text-align: center;"><b>To be actioned by:</b></p> <p><b>Training Team Leader – Audit Officer</b></p> <p><b>No later than:</b></p> <p><b>Monthly – ongoing</b></p>	<p>(i) In addition to the corresponding comments which are still occurring, 10% checks and trend analysis informing training.</p> <p>(ii) The overpayments officer, team leader assessment and training team leader will shortly begin weekly feedback to the Service Manager on errors from additional quality checking in specific areas.</p> <p>Training TL – dates</p> <p>Overpayments Officer – op classification</p> <p>Team Leader assessment – pending items.</p> <p>Monthly quality checking continues and additional weekly support to commence as described above.</p> <p><b>Auditor assessment of progress:-</b>  <b>(i) Complete</b>  <b>(ii) Incomplete</b> - Audit work 2009/10 to date has noted that this process has still to be implemented.</p>
		<b>Grade</b>	<b>B</b>

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Observation and Risk	Recommendation	Management Response	Progress to date
<p>4 The HB/CTB system classes entitlement as a backdate based on dates input onto the system. If the date of claim is before the date of receipt then a backdate is automatically calculated and this creates a tick in the backdate box.</p> <p>There are four date fields on the HB/CTB system and it appears that staff are inputting dates in the wrong fields as other Councils using the system have no problems with their backdates cells.</p> <p>When a case is considered for a backdate a backdate justification form is filled in and, if approved, a copy is put on the backdate file. At year end the claims included in the backdate cells are checked against the backdate justification forms on the backdate file and cases without a form are excluded from the claim.</p> <p>This system is not foolproof and we found one case where a backdate justification form had not been put on the backdate file and had therefore been incorrectly excluded from the claim.</p> <p>Although the backdate cell does not affect the amount of subsidy claimed if the system is correctly being used there is a reduced risk of error.</p>	<p><b>R4</b> Review a sample of claims containing those found to be both correctly and incorrectly classified as backdates in 2007/08. Looking at the dates that were put onto the system identify the reason for the incorrect cases. Once this has been identified ensure that staff are aware of the reason for the problem and correctly input dates.</p>	<p>Our Appeals Officer undertakes weekly a review of all items in cells 38(RR), 126(RA), 161(CTB) relating to backdates on Subsidy Enquiry Form Level Report. This allows him to reconcile data against Northgate and where backdate sheets have been submitted that they too are reflected in the Northgate software.</p> <p>Any mismatches identified are rectified on a weekly basis.</p> <p>The staff member who created the mismatch corrects the Northgate database and this is again checked by the Appeals Officer.</p> <p><b>To be actioned by:</b>  <b>Appeals Officer</b>  <b>No later than:</b>  <b>Weekly - ongoing</b></p> <p><b>Grade</b>  <b>B</b></p>	<p>Our Appeals Officer continues to undertake weekly a review of all items in cells 38(RR), 126(RA), 161(CTB) relating to backdates on Subsidy Enquiry Form Level Report. This allows him to reconcile data against Northgate and where backdate sheets have been submitted that they too are reflected in the Northgate software.</p> <p>Any mismatches identified are rectified on a weekly basis.</p> <p>The staff member who created the mismatch corrects the Northgate database and this is again checked by the Appeals Officer.</p> <p><b>Auditor assessment of progress:-</b>  <b>Complete</b> - 2009/10 audit work has noted that checks are being carried out daily.</p>

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<p>5 HB/CTB system reconciliations were prepared in accordance with the software provider's guidance as required. However reconciliations between the HB system physical payments figure, the HB system BACS payments report, and the general ledger payments balance were not reconciled. Differences in these balances may be reported to the DWP and could result in reductions in subsidy if these are not properly reconciled.</p>	<p><b>R5</b> Reconcile the general ledger payments to the HB system BACS report payments and to the overall HB/CTB reconciliation (Northgate spreadsheet)</p>	<p>Our accountants now produce a spreadsheet detailing the reconciliation between BACS payments to the general ledger payments at year end processing. This commenced post 07/08 claim. However we have now reconciled not only the subsequent claims for 08/09 but also that of 07/08.</p> <p><b>To be actioned by:</b></p> <p><b>Overpayments Team Leader - Accountancy</b></p> <p><b>No later than:</b></p> <p><b>Year end processing of subsidy claim</b></p> <p><b>Grade</b></p> <p><b>B</b></p>	<p>Our accountants now produce a spreadsheet detailing the reconciliation between BACS payments to the general ledger payments at year end processing. This commenced post 07/08 claim. However we have now reconciled not only the subsequent claims for 08/09 but also that of 07/08.</p> <p>This will continue.</p> <p><b>Auditor assessment of progress:-</b>  <b>Complete</b> - Audit work 2009/10 has noted that reconciliations are being performed monthly.</p>



## Appendix V - Acronyms

BACS	Bankers' Automated Clearing Services	NDR	Non Domestic Rates
CIPFA	Chartered Institute of Public Finance and Accountancy	NDR I	Non Domestic Rates Income
CFGR	Contribution From Current Revenue	PARA	Paragraph
CTB	Council Tax Benefit	PECOS	Software provided by eProcurement Scotland
DWP	Department of Works and Pensions	PFI / PPP	Private Finance Initiative/ Public Private Partnership
ECS	Education and Childrens Services	PTEN	Northgate Benefits Report
EOT	Executive Officer Team	SORP	Statement of Recommended Practice
FCE	Financial Control Evaluation	PL	Purchase ledger
FRS	Financial Reporting Standards	RA	Rent Allowances
FSAP	Financial Statements Audit Plan	REMIT /AIM	Council's Cash Receiving System
HB	Housing Benefit	RR	Rent Rebates
IFRIC	International Financial Reporting Interpretations Committee	SL	Sales Ledger
IFRS	International Financial Reporting Standards	SPI	Statutory Performance Indicator
IHRP	Integrated Human Resources and payroll	SP&R	Strategic Policy and Resources
ISA	International Standards on Auditing	TES	The Environment Service
ISMS	Information Security Management System	TL	Team Leader
IT	Information Technology	TMP	Treasury Management Policies
LASAAC	Local Authority (Scotland) Accounts Advisory Committee	WPRL	Working Papers Requested List
N/A	Not applicable	VAT	Value Added Tax