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27 May 2014

Dear Bryan

Falkirk Council 2013/14
Review of Systems of Internal Control

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that Falkirk Council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

The purpose of this review was to evaluate whether the internal controls operating within the main financial systems are adequate so as to enable us to place reliance on them when forming an opinion on the 2013/14 financial statements. It should be highlighted that these reviews were restricted to the key controls in place to meet our audit objectives for each system.

In accordance with *International Standard on Auditing (ISA) 330: the auditor's response to assessed risk* paragraphs 14 and 15 our audit judgements are based on current year testing of controls and where appropriate, prior year results. Our risk based audit approach allows us to take a 3 year cyclical approach to system controls testing. This enables us to place assurance on previous years' audit work where the system controls are unchanged and no significant weaknesses were identified.

The table overleaf summarises the main financial systems that were tested during 2013/14. It also identifies those where we are placing reliance on prior years' testing and those where we have placed formal reliance on internal audit work to avoid duplication of effort:

System	External audit testing in 2013/14	Reliance on prior year audit work	Reliance on aspects of internal audit work in 2013/14
General ledger		✓	
Payroll	✓		
Capital accounting		✓	✓
Cash and cash equivalents		✓	
Treasury management		✓	
Trade receivables		✓	✓
Trade payables (including corporate procurement cards)	✓		
Council tax billing and collection	✓		
Non-domestic rates billing & collection	✓		
Housing rents	✓		

Note - internal audit findings do not feature in this letter and are reported separately to management.

Audit Findings

Overall, we have concluded that the key controls within the council's main financial systems are operating satisfactorily. Where controls have not been tested or where the evidence of a control's effective operation does not exist, we will adjust our planned coverage of the financial statements to obtain sufficient evidence that they are free of material misstatement.

Based on the audit work we carried out we did not identify any areas exposed to significant risk. However, there are some areas where there is scope for improvement and these are included in the action plan agreed with management which accompanies this management letter.

A number of other minor issues were also identified and notified to management during the course of our audit work but these do not feature in this letter.

Follow-up of 2012/13 internal controls management letter

We also followed up the issues reported to management in 2012/13 to ensure that progress has been made in implementing the agreed actions. Of the 12 issues and risks reported last year, we have identified 5 where the action is either outstanding or the action taken has not led to improvement. These issues have been included in the 2013/14 action plan and we will continue to monitor progress in these areas.

Management Action

The weaknesses identified in this management letter are only those that have come to our attention during the course of our normal audit work and, therefore, are not necessarily all the weaknesses that may exist.

Although we have identified a number of areas for improvements to the systems of internal control, it is the responsibility of management to decide on the extent of the internal control systems appropriate to Falkirk Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

The matters included in the action plan at Appendix 1 have been discussed and agreed with management.

Acknowledgement

The contents of this management letter have been agreed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Yours sincerely

Jim Rundell
Senior Audit Manager

Email: Mary Pitcaithly, Chief Executive
John Flannigan, Depute Chief Finance Officer (Corporate Finance)
Susan Mathers, Depute Chief Finance Officer (Revenues and Benefits)
Paul Ferguson, Revenues Manager
Ian Renton, Payroll Manager
Gordon O'Connor, Internal Audit Manager

Falkirk Council 2013/14

Review of Systems of Internal Control

Appendix 1

Action Plan - Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
Payroll			
1	<p>Our testing confirmed that payroll output was reconciled to the financial ledger on a quarterly basis throughout the year in accordance with established procedures. However, we noted that reconciliations are still not being independently checked and authorised by a more senior officer.</p> <p><i>Risk: there is a risk that any discrepancies between payroll output and amounts posted to the ledger are not identified promptly and become difficult to clear.</i></p> <p><i>Also reported in 2012/13.</i></p>	<p>The reconciliations are already undertaken at quite a senior level typically by a Payroll Team Leader or Payroll Officer. Since no further checking is undertaken, it is questionable what value is added to the control by the additional check and countersignature.</p> <p>The current procedure will be reviewed together with Internal Audit.</p>	Payroll Manager (30 Sep 2014)
2	<p>Manual forms are used to process new starts and leavers in some services. These forms are also used to process overtime and staff expenses. Our testing highlighted that payroll staff cannot always identify the authorising officer from their signature before they are processed. Manual forms do not always request the authoriser's name to be printed while the authorised signatory list maintained by the payroll section is incomplete.</p> <p><i>Risk: there is a risk that manual forms are processed by payroll without the appropriate authorisation leading to an increased risk of fraud or error.</i></p>	<p>This relates to a small group of individuals i.e. Modern Apprentices and Skill Seekers who are not part of the Falkirk Council establishment and who cannot, therefore, be processed through the electronic HR Forms Online system.</p> <p>Arrangements will be made to bring the Authorised Signatory lists up to date for this group of individuals and to undertake a 100% check of the paper new start forms.</p>	Payroll Officer (Operations) (30 June 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
3	<p>Monthly payroll reports are sent to departments for employee details to be verified. Services are required to notify the payroll section of the outcome of these checks to provide assurance on the accuracy of payroll data. At the time of our review several services had not notified payroll staff for a number of months.</p> <p><i>Risk: there is a risk of inaccurate or fraudulent payments being processed.</i></p> <p><i>Also reported in 2012/13.</i></p>	<p>This position has improved considerably since the audit was carried out with most Services being no more than two months outstanding.</p> <p>A new technology based solution is being developed so that the reports are distributed more readily and so that Managers can view the reports online. This should allow earlier confirmation that the reports have been checked.</p> <p>The Payroll Manager will meet with the Internal Audit Manager and Depute Chief Finance Officer to discuss how the current arrangements can be streamlined without compromising the control and to agree an escalation process where verification is not received timeously.</p>	<p>Payroll Manager (30 Nov 2014)</p>

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
		.	
4	<p>Payroll exception reports (e.g. percentage differential between actual and expected pay, high overtime, errors and warning) are produced for internal control purposes. It is important that these reports are reviewed and corrective action taken where necessary. Our testing highlighted that exception reports are not always signed and dated as evidence of review and confirmation that appropriate follow-up action has been taken.</p> <p><i>Risk: there is a risk that payroll errors are not detected and corrected promptly.</i></p> <p><i>Also reported in 2012/13.</i></p>	<p>An additional Item will be added to the Pay run Checklist to require Payroll Team Leaders to confirm that all pages of the reports have been checked, signed and dated.</p> <p>Payroll Team Leaders will be reminded of the need for this confirmation with the Payroll Officer (Operations) carrying out regular spot checks to ensure completion.</p>	<p>Payroll Officer (Operations)</p> <p>(1 June 2014)</p>
5	<p>Weekly audit reports are produced for all new starts, leavers and bank detail changes. The details in these reports are checked by a member of payroll staff. The audit reports can run to a number of pages in length and consist of a number of separate reports for different pay runs. As a result the reports are distributed amongst the payroll team for checking. We identified a number of instances where the reports had not been signed and dated as evidence of checking.</p> <p><i>Risk: there is a risk that inaccuracies in the audit reports are not identified promptly and investigated.</i></p>	<p>There is already an Item on the Pay run Checklist that prompts Payroll Team Leaders to confirm that Audit reports have been run and checked.</p> <p>The wording will be amended and Payroll Team Leaders reminded of the need for this confirmation with the Payroll Officer (Operations) carrying out regular spot checks to ensure this.</p>	<p>Payroll Officer (Operations)</p> <p>(1 June 2014)</p>

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
6	<p>We tested a sample of 15 changes to employee bank details. In one instance officers were unable to locate the authorised form to support the change made although there was evidence that the change had been checked on the monthly audit report. It is essential that all documents containing personal details are stored securely.</p> <p><i>Risk: personal details of an employee could be accessed by an unauthorised person.</i></p>	<p>Whilst the form could not be located, there is evidence on the Audit report that it was checked. It is considered that the instance identified was an exception and not indicative of a general weakness.</p> <p>Nevertheless, a reminder will be issued to staff regarding the need to ensure that documents are filed accurately.</p>	<p>Payroll Manager (1 June 2014)</p>
Council tax			
7	<p>It is the council's policy to carry out monthly sample checks on council tax input (e.g. discounts/exemptions applied) to ensure the accuracy of processing. At the time of our review these checks were not taking place.</p> <p><i>Risk: erroneous input may not be identified and corrected promptly.</i></p>	<p>Sample checking was carried out for both Council Tax Reduction (as part of housing benefit checks) and for new employees but it is accepted that resources were not allocated to any further sample checks during period of material backlogs.</p> <p>Sample checking will now take place at each billing run (currently daily) to ensure accuracy of sample of awards prior to issue of demand notices (demand notices are automatically generated when any relief is added or removed). This will ensure that all processed changes are adequately sampled and any errors corrected prior to</p>	<p>Revenues Manager (from May 2014)</p>

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
		customer receiving notification.	
8	<p>Our review found that there are some differences in the weekly reconciliation between the properties on the council tax listing and those on the assessor's records. On investigation we found that a number of these were not valid differences and occurred due to problems with the system's ability to recognise certain characters.</p> <p><i>Risk: there is a risk that the reconciliations are ineffective if officers cannot establish where real differences exist.</i></p>	<p>Paul Ferguson, Revenues Manager, has made contact with the Assessor to try and have these errors fixed. All errors bar one have been fixed as at 25/4/14.</p> <p>It should be noted that throughout the period these differences were displayed on the report we were able to evidence that there was no error on council tax system and the delay in resolving was due to the fact that this was not a material issue. This did not prevent appropriate identification and resolution of genuine errors.</p>	Revenues Manager (30 June 2014)
9	<p>We reviewed a sample of five weekly assessor compare reports and noted that there was no clear evidence that reconciling differences had been investigated and cleared.</p> <p><i>Risk: there is a risk that differences between the council tax listing and the assessor's records are not fully investigated.</i></p>	A process is now in place to run a report the day after corrections are made to demonstrate that the reconciling differences have been cleared.	Revenues Manager (from March 2014)

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
10	<p>We tested a sample of 30 council tax arrears cases to ensure that the debt was pursued in accordance with the council's prescribed timetable. Our testing highlighted one case where arrears had not been followed up within the prescribed timetable. In this case special arrangements for payment were agreed, however, this was later amended and the customer did not pay. A second reminder was not sent to the customer until later in the year due to the fact that the council tax system does not automatically identify changes made in relation to special payment arrangements.</p> <p><i>Risk: there is a risk that similar arrears balances are not being identified and investigated.</i></p>	<p>The process for recovery in relation to failed special arrangements was not as slick as we would have liked during 2013/14 but that has been improved and failed arrangements are captured timeously and recovery progressed. This was due to some inexperience with the new system.</p>	<p>Revenues Manager (from 1st April 2014)</p>
Non-domestic rates			
11	<p>Revenues staff to carry out monthly sample checks on non-domestic rate input (e.g. new reliefs applied, rateable value changes) to ensure that data has been processed accurately. At the time of our audit there had been a significant delay in completing these sample checks.</p> <p><i>Risk: erroneous input may not be identified and corrected promptly.</i></p>	<p>Delays exacerbated by system conversion but 'real-time' sample to be introduced at billing stage (similar to Council Tax) to avoid recurrence.</p>	<p>Revenues Manager (from May 2014)</p>

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
12	<p>Our review of the annual billing reconciliation between the value and number of bills on Civica Open and the assessment roll identified that although there was evidence that the reconciliations had been performed, there was no evidence to indicate who had prepared and reviewed the reconciliations and when.</p> <p><i>Risk: there is a risk that the reconciliations are not completed timeously and reconciling differences go undetected.</i></p> <p><i>Also reported in 2012/13.</i></p>	<p>The relevant files and paperwork were checked and fully reconciled but we accept that the reconciliation is unsigned. It is assumed because of our partial rebill (due to impact of Large Business Supplement) we have not re-performed the authorisation element of this reconciliation. This was an oversight on our part and we will ensure that the reconciliation is signed in 2014/15.</p>	<p>Revenues Manager (from April 2014)</p>
13	<p>The original documentation held in support of charity relief applications has not been retained in all cases. In addition, there is no evidence that a formal review of charity relief cases has been undertaken since the receipt of original applications.</p> <p><i>Risk: The absence of a formal review increases the risk that relief is granted in error or to recipients who are no longer eligible to receive relief.</i></p> <p><i>Also reported in 2012/13.</i></p>	<p>Due to time constraints following the system conversion in 2013/14 we were unable to review all reliefs as intended but any outstanding cases will be reviewed in 2014/15.</p>	<p>Revenues Manager (by 31st March 2015)</p>