

The background of the slide features a large, light blue watermark of the University of Alberta crest. The crest is a shield divided into four quadrants. The top-left quadrant shows a beaver, the top-right shows a bison, the bottom-left shows a sailing ship, and the bottom-right shows a beaver. Above the shield is a crown with four maple leaves. Below the shield is a banner with the motto 'ANNE FOR A'.

# **AGENDA ITEM**

**8**

## **REVIEW OF SYSTEMS OF INTERNAL CONTROL**

**FALKIRK COUNCIL**

**Subject: REVIEW OF SYSTEMS OF INTERNAL CONTROL**  
**Meeting: AUDIT COMMITTEE**  
**Date: 20 June 2016**  
**Author: DIRECTOR OF CORPORATE & HOUSING SERVICES**

**1. INTRODUCTION**

- 1.1 Attached is a report from the Council's Auditor following his 2015/16 review of the Systems of Internal Control.

**2. FINDINGS**

- 2.1 The External Auditor has commented that the key controls within the Council's main financial systems are operating satisfactorily and that based on the audit work they have carried out, they did not identify any areas which were exposed to significant risk. There is, however, some scope for improvement and the report includes an Action Plan which contains 7 points which are being followed-up by senior management. Of the 7 points in the Action Plan 2 were raised as part of the 2014/15 review and work continues to make improvements in these areas.

**3. RECOMMENDATION**

- 3.1 The Committee is invited to note the External Auditor's report and the proposed management actions.

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**Director of Corporate & Housing Services**

**Date: 08 June 2016**

**Ref: AAD200616 – Review of Systems of Internal Control**

**Contact Officer: Amanda Templeman**

**LIST OF BACKGROUND PAPERS**

NIL

Mr Bryan Smail  
Chief Finance Officer  
Falkirk Council  
Municipal Buildings  
West Bridge Street  
Falkirk  
FK1 5RS

1 June 2016

Dear Bryan

**Falkirk Council 2015/16  
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 and 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 2015/16 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.

Auditing standards require external and internal auditors to work closely together to make optimal use of available audit resources, therefore we seek to rely on the work of internal audit wherever possible.

The following table summarises the main financial systems that were tested during 2015/16. 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 2015/16	Reliance on prior year audit work	Reliance on aspects of internal audit work in 2015/16
General ledger	✓		✓
Payroll		✓	
Cash and cash equivalents	✓		
Treasury management	✓		✓
Trade receivables		✓	
Trade payables		✓	
Trade Payables (social care specific)	✓		
Council tax billing and collection		✓	
Non-domestic rates billing & collection	✓		
Housing rents		✓	

*Note - internal audit findings do not feature in this letter as they 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 there is evidence that controls are not effective, we will adjust our planned audit 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 2014/15 internal controls management letter

We also followed up the issues reported to management in 2014/15 to ensure that progress has been made in implementing the agreed actions. Of the 7 issues and risks reported last year, we have identified 2 instances where the issue has not been resolved. These issues have been included in the 2015/16 action plan.

## 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 agreed with management.

### **Acknowledgement**

The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Yours sincerely

**Jim Rundell**  
**Senior Audit Manager**

cc: Mary Pitcaithly, Chief Executive  
Stuart Richie, Director of Corporate & Housing Services  
Amanda Templeman, Depute Chief Finance Officer (Joint Acting)  
Danny Cairney, Depute Chief Finance Officer (Joint Acting)  
Ian Renton, HR Systems & Payroll Manager  
Paul Ferguson, Revenues Manager  
Gordon O'Connor, Internal Audit Manager

# Falkirk Council 2015/16

## Review of Systems of Internal Control

### Appendix 1 - Action Plan

#### Key Risk Areas and Planned Management Action

Ref	Audit issue, risk and recommendation	Management action/response	Responsible officer / Target date
<b>General Ledger</b>			
1	<p><b>Authorisation of journals</b></p> <p>The council's existing procedures allow finance staff (including accountancy assistants, senior accountants and managers) to process journals of any value without authorisation or review from a delegated member of staff.</p> <p><b>Risk:</b> Journals posted to the ledger are subject to increased risk of fraud or error in the absence of segregation of duties.</p> <p><b>Recommendation:</b> Journals over a specified value should be checked and authorised by a person independent of the journal processing.</p>	<p>Risk accepted. Clerical Assistants require all journals and accruals to be countersigned. Accounting Assistants can authorise up to a value of £10k with Senior Accounting Assistants up to £75k. Journals are not authorised if the appropriate grade completes them. However, most high value journal entries, such as the depreciation charge for the year, will be reviewed implicitly through reconciliations. For example, through the reconciliation between the balance sheet and asset register.</p>	N/A
<b>Payroll</b>			
2	<p><b>Employee validation</b></p> <p>Some services are still failing to respond to the monthly employee validation requests issued by payroll. This means that payroll is not receiving confirmation on a regular basis that establishment details are correct.</p> <p><b>Risk:</b> Increased risk of inaccurate or fraudulent payments being processed, and of payments being made to individuals who have left the council's employment.</p> <p><b>Recommendation:</b> Management</p>	<p>The difficulties encountered by services are acknowledged. Nevertheless, most services manage to certify that their monthly payroll report has been checked and found to be in order. It is agreed that this report remains a key financial control but it is felt that reducing the frequency of report distribution could dilute that control. An escalation procedure was introduced as part of the 2014/15 action plan and this may have contributed</p>	<p>HR Systems &amp; Payroll Manager</p> <p>31 March 2017</p>

Ref	Audit issue, risk and recommendation	Management action/response	Responsible officer / Target date
	<p>should investigate the reasons for non-compliance and review the existing process to establish whether a more manageable process (e.g. bi-annual validation) could be introduced. Services need to be aware of the importance of employee validation as a key control over the council's payroll.</p> <p><b>Reported in 2014/15.</b></p>	<p>to improvements in the timeliness of services providing certification, so these procedures will continue to be followed where services delay certification of the reports. In addition, we will continue to work with services to identify any ways in which the process can be improved including the commitment to electronic delivery of the reports. This is expected to be implemented during 2016/17.</p>	
<b>Trade Receivables</b>			
3	<p><b>Debts greater than 6 years old:</b></p> <p>Within the total for accounts receivable we have identified some invoices where the debts are prescribed and the balances have not been written off.</p> <p><b>Risk:</b> Old outstanding debts cannot be collected.</p> <p><b>Recommendation:</b> Officers should review aged debt to ensure that all irrecoverable balances have been written off.</p> <p><b>Reported in 2014/15.</b></p>	<p>Now that the majority of prescribed debts have been written-off we have identified some invoices that are flagged as being actively recovered (and were therefore not written off) but are not. We will be asking our legal section for regular updates on any such cases where the debt is over 5 years old to ensure that we do not omit any prescribed debt from our write-off report in future.</p>	<p>Revenues Manager</p> <p>Ongoing</p>
<b>Trade Payables (Abacus - social care specific)</b>			
4	<p><b>User access rights</b></p> <p>Our review of the list of users of the Abacus system identified a number of users that have not accessed the system for longer than 6 months. This suggests that access to the system may no longer be required in their role.</p> <p><b>Risk:</b> Staff who no longer require access to Abacus can still gain entry to</p>	<p>Checks on inactive users on Abacus are now scheduled to be carried out by the performance and information section on the 3rd Wednesday of every month.</p>	<p>Finance Officer/ Senior Information/IT Co-ordinator</p> <p>Implemented from May 2016</p>

Ref	Audit issue, risk and recommendation	Management action/response	Responsible officer / Target date
	<p>the system thereby increasing the likelihood of fraud or error.</p> <p><b>Recommendation:</b> A regular review of users should be carried out to ensure that access rights are up-to-date and are based on need.</p>		
5	<p><b>Abacus/general ledger reconciliation</b></p> <p>A formal reconciliation between the Abacus system and the general ledger is not undertaken. Finance staff advised that the total on the Abacus system is agreed to the related amount posted to the ledger however, there is no audit trail to evidence this.</p> <p><b>Risk:</b> Inconsistencies between the Abacus system and the ledger may not be identified and resolved promptly.</p> <p><b>Recommendation:</b> A regular reconciliation between Abacus (as the feeder system) and the general ledger should be performed. Evidence of the reconciliation should be retained and subject to review.</p>	<p>A finance officer will on a monthly basis reconcile care home payments presented in Abacus feeder file to the ledger balance, and liaise with the service accountant to promptly investigate any inconsistency and take corrective action where necessary. Relevant documents will be reviewed by the service accountant.</p>	<p>Finance Officer/Service Accountant</p> <p>31 July 2016</p>
<b>Non Domestic Rates Billing and Collection</b>			
6	<p><b>Empty relief</b></p> <p>The results of our testing shows that NDR relief is in some instances granted on the basis of staff local knowledge, review of press releases and e-mail notification. Evidence was not retained on file to support all the relief cases. Although our testing did not identify any substantive issues we did find a lack of segregation of duties i.e. one member of the team is able to both identify and process a relief on a property.</p> <p><b>Risk:</b> Relief is awarded where the property does not meet specified criteria.</p> <p><b>Recommendation:</b> Management</p>	<p>Visual inspection and knowledge of properties is a crucial aspect of administering empty property relief and will continue to be utilised where possible to both ensure accuracy of relief but also avoid unnecessary demand for evidence from ratepayers.</p> <p>However where the information/knowledge of members of rates team is applied in future it will be passed to another member of the team to consider case and award relief. The only</p>	<p>Revenues Manager</p> <p>30 June 2016</p>



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	should refresh their policies and procedures for granting NDR relief and ensure that it is robust. In particular, there should be a clear segregation of duties. Also, appropriate evidence should be retained on file to support each relief case.	exception to this is where 2 members of rates team inspect a property in which case, as long as the dual knowledge is recorded, either member of staff can apply the relief.	
7	<p><b>Registered Disabled Person (RDP) relief</b></p> <p>Our testing found that businesses in receipt of RDP relief are not subject to a routine review to ensure that criteria for relief are still valid. The relief continues to be granted on the basis of the original application.</p> <p><b>Risk:</b> The absence of a formal review increases the risk of relief being granted to recipients who no longer meet the eligibility criteria.</p> <p><b>Recommendation:</b> A routine review of RDP relief cases should be carried out to ensure that awards remain valid.</p>	<p>RDP relief is limited to a modest number of properties where disabled persons are employed or cared for.</p> <p>The use of these premises is reasonably fixed and any additional review would be disproportionate to the risk.</p> <p>We are of the view that a 5 yearly review to confirm circumstances remain the same (in line with revaluation) appears proportionate.</p>	<p>Revenues Manager</p> <p>31 March 2017</p>