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Mr Bryan Smail
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West Bridge Street
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6 June 2013

Dear Bryan

Falkirk Council 2012/13 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 2012/13 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.

The following table summarises the main financial systems that were tested during 2012/13 including those where we have placed formal reliance on internal audit work to avoid duplication of effort:

System	External audit coverage	Reliance on aspects of internal audit work
General ledger	✓	
Payroll	✓	✓
Capital accounting	✓	
Cash and cash equivalents	✓	
Treasury management	✓	
Trade receivables		✓
Trade payables (including corporate	✓	✓

System	External audit coverage	Reliance on aspects of internal audit work
procurement cards)		
Council tax billing and collection	✓	
Non-domestic rates billing and collection	✓	
Housing rents and repairs	✓	

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

We plan to place formal reliance on the review of the trade receivables system that internal audit are undertaking. This work is not yet complete, however, based on our experience of the standard and quality of work undertaken by internal audit in other areas we do not anticipate any problems. Internal audit will report separately on their findings. We will carry out a review of this work and consider the impact of their findings on our financial statements approach.

• **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 and in some systems - general ledger, capital accounting, cash & cash equivalents, treasury management and housing rents and repairs - no specific risks have been identified. 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 2011/12 internal controls management letter

We also followed up the issues reported to management in 2011/12 to ensure that progress has been made in implementing the agreed actions. Of the 17 agreed actions reported last year, we have identified 2 outstanding actions and 1 where partial implementation is evident. These have been included in the 2012/13 action plan and we will continue to monitor progress in these areas.

Management Action

The weaknesses identified in the action plan accompanying 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 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

A handwritten signature in black ink, appearing to read 'Jim Rundell', written in a cursive style.

Jim Rundell
Senior Audit Manager

Email: Mary Pitcaithly, Chief Executive
John Flannigan, Depute Chief Finance Officer (Corporate Finance)
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