

The Moray Council

Assurance on Internal Controls 2008 /09

25 June 2009



 AUDIT SCOTLAND

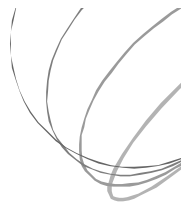


The Moray Council

Assurance on Internal Controls 2008/09

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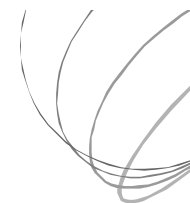
Introduction

Introduction

1. The Chief Financial Officer is responsible for the administration of the council's financial affairs including the maintenance of a sound system of internal control. A sound system of internal control will assist in managing risk, and help in the attainment of organisational policies, aims and objectives.
2. This report contains findings from the reviews carried out as part of the audit of the 2008/09 financial statements. The risks outlined are only those that came to our attention during the course of our reviews and are not necessarily, therefore, all the risks which may exist within the council's main financial systems.
3. It remains the responsibility of management to determine the extent of the internal control system appropriate to The Moray Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Audit Objectives

4. In carrying out our audit of the annual financial statements, we seek to gain assurances that The Moray Council:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the 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.
5. We gain this assurance from work performed in the audit year. Wherever possible, we seek to rely on Internal Audit's work where their scope and coverage is adequate for our purposes.

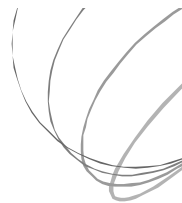


Audit Scope

6. We reviewed the following systems in order to assess the extent to which we could gain assurances for the audit of the 2008/09 financial statements:
 - Budgetary Control
 - Main Accounting System
 - Accounts Receivable
 - Cash Income and Banking
 - Council Tax.
7. Our review involved identification and assessment of the risks inherent in these systems, based on the likelihood of them occurring and the impact they could have. We also assessed the adequacy of the procedures and key controls in place to address the identified risks and the extent to which these reduce the risks to an acceptable level. In addition, we reviewed progress made in implementing the agreed actions included in the action plan appended to our 2007/08 Assurance on Internal Controls report.
8. Auditing standards encourage internal and external auditors to work closely together to make optimal use of available audit resources. As noted above, we seek to rely on the work of internal audit wherever possible. For 2008/09, we plan to take assurance from internal audit's work on the payroll, accounts payable, non domestic rates, housing rents and housing and council tax benefits systems. We are currently reviewing internal audit's work in these areas and intend to report our findings from these reviews in a separate report to management.

Acknowledgement

9. The contents of this report were discussed with relevant officers to confirm factual accuracy. The high levels of assistance and co-operation we received during the course of our audit is gratefully acknowledged.



Audit Findings

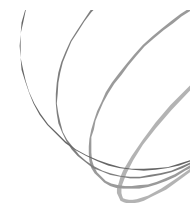
Overall conclusion

10. Our overall conclusion is that The Moray Council has a satisfactory level of internal controls in place within its main financial systems to enable us to take our planned assurances for the audit of the 2008/09 financial statements.

Good Practice

11. Our system reviews identified the following areas of good practice:

- there is a sound system of budgetary control in place with budget monitoring reports regularly reviewed by management and the relevant service committee
- an annual audit is undertaken of the internal control environment (covering information security and environmental controls) in operation within the council's IT provider's (2e2) data centre in Gateshead. 2e2 provide a managed service for the council's main accounting systems
- the exception reporting system in operation within the payroll system is well developed and operates effectively
- monthly reconciliations are undertaken between the financial ledger and the main bank accounts, accounts receivable and accounts payable systems. These key reconciliations provide assurance on the completeness and integrity of the data in the financial ledger
- twice yearly reconciliations are performed between data held on the non domestic rates and council tax billing systems and information held in the assessor's records. Differences identified are investigated and corrected
- bank account signatories review supporting documentation for all payments over £25,000 processed through the Accounts Payable system.



Areas for further improvement

12. We identified a number of areas where the council could further improve its system of internal control:

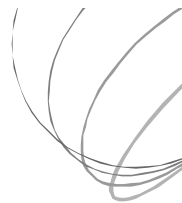
- **Main accounting system**- the council does not formally document its annual review of 2e2's financial accounts, including the conclusion reached on the company's financial strength and continuing capability to deliver its contract to manage the council's main accounting systems
- **Main accounting system** - the council's contract with 2e2 does not require the provision of regular management accounts or the company to notify the council if its profits or cash flow falls below a predetermined level
- **Cash income & banking** – financial regulations have not been updated to reflect the change in the council's cash collection arrangements from direct collection at council offices to an agency agreement with the Co-operative Bank enabling collections to be made at Post Offices and Paypoint outlets
- **Council tax (and non domestic rates)** –a number of users have password level 9 for these systems, the same as granted to the system administrator. Password and department levels require to be reviewed to ensure employees have the appropriate access levels required to do their jobs whilst maintaining a suitable level of internal control.

13. We also noted that the council's web site states that the Freedom of Information publication scheme will be reviewed in January 2008. This out of date reference requires to be amended to reflect the status of the current publication scheme.

Management Action

14. A summary of those areas where identified risk exposure requires management consideration is included in Appendix A. Planned action, responsibilities and timescales for action in response to the identified risk exposure were provided by management.

15. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to the Moray Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.



Follow up of Assurance on Internal Controls 2007/08 report

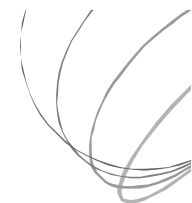
16. Our review of progress made in implementing the agreed actions included in the action plan appended to our 2007/08 Assurance on Internal Controls report concluded that seven of the eight planned actions had been fully implemented and that work has begun on the remaining action which is to document all operational procedures for non domestic rates. Our detailed findings are reported in Appendix B.



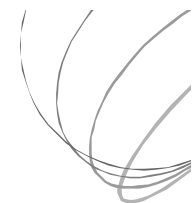
Appendix A

Risk Areas and Planned Management Action

No	Issue & Risk	Planned Action	Responsible Officer	Target Date
1	<p>The council does not formally document its annual review of 2e2's financial accounts, including the conclusion reached on the company's financial strength and continuing capability to deliver its contract to manage the council's main accounting systems.</p> <p>Risk: 2e2 may not deliver its contract to provide a managed service for the council's main financial systems.</p>	<p>The financial assessment of 2e2's Annual accounts will be documented and retained on file.</p>	<p>Principal Accountant</p>	<p>Commencing with 2e2's Annual Accounts for 2008</p>
2	<p>The council's contract with 2e2 does not require the provision of regular management accounts or the company to notify the council if its profits or cash flow falls below a predetermined level.</p> <p>Risk: the council would be unaware of any deterioration in 2e2's financial position and the likely impact on its ability to deliver the contract.</p>	<p>Quarterly Management Accounts have been requested from the company.</p>	<p>Head of Financial Services</p>	<p>This will depend on whether the Company agrees to supply these statements</p>
3	<p>Financial regulations have not been updated to reflect the change in the council's cash collection arrangements</p> <p>Risk: staff unaware of the new arrangements will be unable to provide appropriate information in response to members of the public.</p>	<p>Financial regulations will be updated to reflect the changes.</p>	<p>Head of Financial Services</p>	<p>September 2009</p>



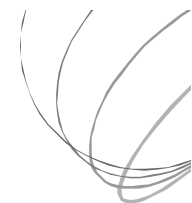
No	Issue & Risk	Planned Action	Responsible Officer	Target Date
4	<p>A number of users have password level 9 access to the council tax and non domestic rates systems, the same as granted to the system administrator. Password and department levels require to be reviewed to ensure employees have the appropriate access levels required to do their jobs whilst maintaining a suitable level of internal control.</p> <p><i>Risk: employees may not have the appropriate password and department access levels required to maintain a suitable level of internal control within these systems</i></p>	<p>Security access to the council tax and non domestic rates systems were due to be reviewed when the Taxation Manager fell ill. This review was delayed until his return and has now been completed. Appropriate levels of security access have now been given to relevant employees.</p>	<p>Taxation Manager</p>	<p>Completed</p>
5	<p>The council's web site states that the Freedom of Information publication scheme will be reviewed in January 2008.</p> <p><i>Risk: the public are not aware of the current status of the council's Publication Scheme.</i></p>	<p>The Council continuously updates the Publication Scheme and the website has been updated to reflect the current status of the Scheme which is currently being assessed for approval by the Office of the Scottish Information Commissioner.</p>	<p>Records Manager</p>	<p>Completed</p>



Appendix B

Follow Up of 2007/08 Assurance on Internal Controls Report

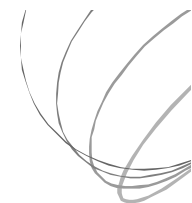
No	Issue & Risk	Planned Action / Responsible Officer / Target Date	Update & Status
1	Budget monitoring reports presented to Service Committees are not in a standard format. There is a risk that budget monitoring reports may be misunderstood by members if the figures are not presented in a consistent manner.	As part of Accountancy's Budget Monitoring Review for 2008/09 a standard template for Committee reports will be reviewed. The pros and cons of a standard report and reports tailored to each service area will be the focus of the review. Responsible Officer: Lorraine Paisey, Principal Accountant Target Date: 31 October 2008	Budget monitoring reports presented to Service Committees are now in a standardised format reflecting the activity headings agreed by the corporate management team. Action Completed
2	Additions and amendments to the suppliers' master file are not independently checked. There is a risk a dummy supplier may be created and fraudulent payments processed against this account.	With the implementation of the Moray Code of Conduct for Suppliers, no new supplier can be set up without the relevant information being completed by the company. An internal "audit" of the procedures is due to be undertaken in July 2008 to identify any problem areas. Responsible Officer: Diane Law, Payments Manager Target Date: 30 September 2008	Following the implementation of the Moray Code of Conduct for Suppliers, requests to create a new supplier need to be justified to the Procurement Team. As a result, the number of new suppliers created has fallen from 117 to 60 over the past year. Action Completed



No	Issue & Risk	Planned Action / Responsible Officer / Target Date	Update & Status
3	Supporting documentation is not retained for invoices that are subsequently cancelled. There is a risk that a full audit trail is not maintained in these circumstances.	<p>Council procedures indicate that this documentation should be retained. Continue to remind Users of the procedures and update reference manuals to include “do’s and don’ts” Undertake an audit to focus refresher training on individual departments that require it.</p> <p>Responsible Officer: Diane Law, Payments Manager</p> <p>Target Date: 31 December 2008</p>	<p>Supporting documentation is now retained for all cancelled invoices.</p> <p>Action Completed</p>
4	Budget holders, except those in Finance, are not authorising credit notes as required by Financial Regulations. There is a risk that credit notes may be issued without budget holder approval.	<p>Although this is part of Sales Ledger Training, documented procedures will be updated and departments reminded.</p> <p>Responsible Officer: Diane Law, Payments Manager</p> <p>Target Date: 31 December 2008</p>	<p>Issue covered at Budget Managers briefing sessions, Our testing found that budget holders are now authorising credit notes as required by Financial Regulations.</p> <p>Action Completed</p>
5	An invoice was re-issued (and a credit note raised for the original invoice) due to the inclusion of the incorrect financial ledger code. This is an inefficient way to correct a coding error.	<p>Documented procedures will be updated and departments informed that journals should be carried out for coding errors. Accountancy will also undertake to highlight this inefficiency to staff during the General Ledger Training Sessions and Budget Administration Meetings.</p> <p>Responsible Officers: Diane Law, Payments Manager and Principal Accountants, Accountancy</p> <p>Target Date: 31 December 2008</p>	<p>Accountancy staff highlighted the inefficiency to services. Journal entries now being used to correct this type of error.</p> <p>Action Completed</p>



No	Issue & Risk	Planned Action / Responsible Officer / Target Date	Update & Status
6	<p>The Council does not currently automatically apply to the DWP for deduction of council tax arrears direct from ongoing benefit entitlement in all cases. There is a risk that the council is not maximising all arrears recovery options open to it.</p>	<p>Although the Council does not currently automate the collection of Council Tax via Benefits deduction, it does through manual staff intervention apply to, and obtain from, the DWP deductions from state benefits in many cases. In the previous financial year, 2007-08, it obtained a total of 2,802 payments with a total value of £30,240 (it should be borne in mind that the amount that the DWP releases from benefit is small). The identification of accounts which are suitable for deductions is ongoing. We will automate this process over the next year. This will mean that, once a new warrant is obtained against a debtor who is in receipt of benefits, a deduction request will automatically be issued to the DWP. The automation process will require the assistance of the Council's software supplier.</p> <p>Responsible Officer: James Taylor, Taxation Officer</p> <p>Target Date: 30 June 2009</p>	<p>Once a warrant is obtained against a debtor the council is now able to automate the application to the Department of Work and Pensions for deduction of council tax arrears direct from their ongoing benefit entitlement.</p> <p>Action Completed</p>



No	Issue & Risk	Planned Action / Responsible Officer / Target Date	Update & Status
7	<p>Not all operational procedures for non domestic rates are documented. There is a risk that if staff leave the employment of the council so will the knowledge of the system, procedures and internal controls.</p>	<p>A number of non domestic rates batch processes are already documented (e.g. billing) and steps will be taken to publish this information on the Revenues Section's website. In addition, procedures will be written to document existing procedures and practices.</p> <p>Responsible Officer: James Taylor, Taxation Officer</p> <p>Target Date: 30 June 2009</p>	<p>This action has been delayed due to extended absence of the Taxation Manager due to sick leave. It is anticipated that documentation of all current processes and posting these to the Intranet will be completed by December 2009.</p> <p>As these processes continually evolve due to changes in legislation and working practices, the maintenance of these procedures will be an ongoing task.</p>
8	<p>The monthly reconciliation of the loans register to the financial ledger is not formally documented and reviewed by a Senior Officer. There is risk that no evidence is maintained that the reconciliation was performed and checked.</p>	<p>The Senior Payments Officer reconciles the register to the ledger monthly. However this is only evidenced by a tick in the register. This will now be expanded to show two initials, the Payments Administrator and Senior Payments Officer.</p> <p>Responsible Officer: Diane Law, Payments Manager</p> <p>Target Date: Immediate</p>	<p>The monthly reconciliation of the loans register to the financial ledger is now initialled off by the Payments Administrator and Senior Payments Officer</p> <p>Action Completed</p>