
Report To:	The Audit Committee	Date:	21 August 2018
Report By:	The Chief Financial Officer	Report No:	FIN/74/18/AP
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Interim Audit Letter – Review of Internal Controls and Financial Systems 2017/18		

1.0 PURPOSE

- 1.1 The purpose of this report is to bring to Committees attention a letter received from Audit Scotland regarding a review of the internal controls and financial systems 2017/18.

2.0 SUMMARY

- 2.1 Each year the Councils External Auditors will issue an interim letter in respect of work carried out to date. Appendix 1 is the letter received from Audit Scotland dated 5 July 2018. **APPENDIX 1**
- 2.2 The letter covers the scope of the work carried out, any key findings and other updates in respect of the National Fraud Initiative and the Best Value Assurance report.
- 2.3 The interim letter identifies one issue in relation to the authorisation of control account reconciliations and actions have been taken within the Finance Service to remind employees of the need to ensure that reconciliations are authorised by both the preparer of the reconciliation and the authorising officer.
- 2.4 A representative of Audit Scotland will be present at Committee to answer any questions which Members may have on the contents of the letter.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note the contents of the interim letter received from Audit Scotland and the matters arising.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 Audit Scotland are required to assess the systems of internal controls put in place by management. Each year the Councils External Auditors will issue an interim letter in respect of work carried out to date. Appendix 1 is the letter received from Audit Scotland dated 5 July 2018.

5.0 INTERIM LETTER

5.1 The overall conclusion of the letter is that the Council has appropriate and effective internal controls in place for the systems reviewed.

5.2 The interim letter identifies one issue in relation to the authorisation of control account reconciliations and actions have been taken within the Finance Service to remind employees of the need to ensure that reconciliations are authorised by both the preparer of the reconciliation and the authorising officer.

5.3 The letter also provides a positive assessment of the Council's involvement in the National Fraud Initiative (NFI). A separate report on the agenda highlights the main findings of the national NFI exercise.

5.4 The letter also provides an update in respect of follow up work relating to the Best Value Assurance Report and advises that these matters will be picked up in the Annual Audit Report which will be presented to the Inverclyde Council meeting on the 27 September 2018.

6.0 IMPLICATIONS

6.1 Finance

There are no financial implications arising from this report.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

6.2 Legal

There are no specific legal implications arising from this report.

6.3 Human Resources

There are no HR implications arising from this report.

6.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No

This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

6.5 Repopulation

There are no repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 The letter has been discussed with the three Finance Managers and an email has been issued to remind employees of the need to ensure that reconciliations are authorised appropriately.

8.0 LIST OF BACKGROUND PAPERS

8.1 None

Mr Alan Puckrin
Chief Financial Officer
Inverclyde Council
Municipal Buildings
Clyde Square
Greenock
PA15 1LY

12 July 2018

Dear Mr Puckrin

Inverclyde Council - Review of internal controls in financial systems 2017/18

1. 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 Inverclyde 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; and
 - complies with established policies, procedures, laws and regulation.

Overall conclusion

2. On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for those key financial systems reviewed by us.

System coverage

3. The following table summarises the key systems that we have tested in our interim audit for financial year 2017/18.

Key system	Audit coverage
Payroll	✓
General ledger	✓
Trade payables	✓
Trade receivables	✓
Cash and banking	✓
Capital accounting	✓
Council tax income and collection	✓
Non domestic rates collection	✓
Treasury management	✓

Key findings

- Overall we found the key controls in place within the Council's main financial systems operate satisfactorily. We identified one control weaknesses as summarised in Exhibit 1.
- Where possible we place reliance on the work of internal audit to avoid duplication of effort. This year we were able to place reliance on work done on council tax billing. We continue to consider other areas of internal audit work in relation to our wider code responsibilities as set out in our annual audit plan 2017/18.

Exhibit 1

Recommendations for improvement

Issue / risk	Recommendation	Additional audit procedures	Management response, responsible officer and target date
1. Key control reconciliations	Testing identified instances where control account reconciliations had not been adequately signed off by the preparer or confirmed as authorised. A failure to properly document and/or authorise reconciliations increases the risk of error in the system.	We have confirmed that this weakness did not lead to any errors or irregularities remaining undetected or uncorrected. We do not intend to revise our planned audit procedures.	The Finance Manager will formally remind all those involved in the preparation and approval of reconciliations that signatures are required in all cases. Finance Manager, July 2018

Source: *Testing of internal controls*

National Fraud Initiative

- The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Recommended matches should be investigated by participating public bodies.
- At the date of our final submission for the 2016/17 exercise (covering the period to January 2018), Inverclyde Council had followed up all 520 recommended matches and had completed 2,755 investigations (76% of total matches). A total of 51 investigations were ongoing. Through this work, four frauds and 61 errors had been identified, with total overpayments of £51,971.
- We submitted an auditor questionnaire in February 2018. This showed that the Council has made good progress in its engagement, with 11 of 12 areas assessed as satisfactory and one as mostly adequate. The Council's intention is to follow up all matches identified and we will provide an update on this work in our Annual Audit Report which will be issued in September 2018.

Exhibit 2

National Fraud Initiative

Total number of matches



3,608

Number recommended for investigation



520

Completed/closed investigations



2,755

Source: NFI web application (January 2018)

Best Value Assurance Report - progress against actions

9. In response to the Accounts Commission's Best Value Assurance Report (BVAR) in June 2017, Inverclyde Council prepared a BVAR improvement plan. The latest progress report on this plan was presented to the Council's Policy and Resources Committee in February 2018. This recorded that of the ten improvement actions nine were on-track and one, relating to undertaking a full-review of earmarked reserves, had been completed. We will review and report on this assessment of progress in our Annual Audit Report.
10. As part of our audit work in the current year we have undertaken detailed reviews of the Council's progress in corporate workforce planning and development, as well as succession planning. We have also continued to review the Council's financial management arrangements. The results of this work will also be reported in our Annual Audit Report.

Risk identification

11. The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work 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 Inverclyde Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Acknowledgement

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

Yours sincerely



Brian Howarth
Assistant Director
cc (email)