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29 November 2013

Derek Yule
Director of Finance
The Highland Council
Glenurquhart Road,
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Dear Derek

The Highland Council 2012/13 - Review of Main Financial Systems

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 the 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.

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible. We undertook a review of the internal audit section and concluded that it generally operates in accordance with the CIPFA code of practice for internal audit in local government and we were able to place reliance on those areas of internal audit work as set out in our annual audit plan. The following table summarises the key systems that were tested during 2012/13 including those where we have placed formal reliance on internal audit work to avoid duplication of effort:

Key System	External audit coverage	Reliance on aspects of internal audit work
General ledger	✓	
Payroll	✓	
Trade receivables	✓	✓
Trade payables	✓	
Cash and cash equivalents	✓	
Non domestic rates	✓	✓
Council tax	✓	✓
Housing rents	✓	✓
Benefits	✓	
Treasury management	✓	
Capital accounting	✓	

In addition to the systems highlighted above we were also able to take assurance from the work done by Internal Audit in relation to integrating care in the Highlands (which Internal Audit will be reporting on in due course) and work done on the security and integrity of council data held at Fujitsu's data centre.

Where controls have not been tested or where the evidence of a control's effective operation does not exist, we adjust our planned coverage of the financial statements to obtain sufficient evidence that they are free of material misstatement.

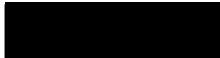
Our overall assessment is that the key controls within the Council's main financial systems are operating satisfactorily. However, we identified a few areas where further improvements could be made and these are detailed in Appendix A.

The areas for improvement outlined in the appendix are only those which have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses which may exist. Although we have reported a number of areas for improvement, we should highlight that it is the members and officers of the Council who are responsible for the management and governance of the organisation. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

The factual content of this report has been agreed in discussion with the appropriate officers. The co-operation and assistance of council staff during the review is gratefully acknowledged.

Please do not hesitate to contact me if you have any queries.

Yours sincerely

A solid black rectangular box used to redact the signature of Pearl Tate.

Pearl Tate
Senior Audit Manager

We identified the following areas where the council could further improve its system of internal control:

Policies and Procedures

- In previous years we have highlighted a number of policies and procedures that required updating and similar examples were found this year. It is good practice to review policies and procedures periodically to ensure that they remain fit for purpose and reflect subsequent changes in legislation, guidance, etc.

Accounts Payable

- The processing and checking of changes made to supplier standing data in the Procurement Unit were not being evidenced. Whilst our testing did not identify any specific issues this practice could leave the council exposed to inaccurate or unnecessary updates being made to standing data which could lead to fraudulent transactions.
- Controls that prevent the council making duplicate payments to suppliers can be overridden by staff adding an alpha character to the end of the suppliers invoice number. Whilst a duplicates payment report is checked by officers and action taken to recover any overpayments, efficiencies could be achieved by strengthening procedures to avoid overpayments occurring.

Cash & Cash Equivalent

- The Head of Internal Audit and Risk Management is a bank signatory and authoriser of on-line payments. It is not best practice for Internal Audit to be part of the internal control system on which they are required to give an opinion.

Payroll

- The spread sheet listing user access rights to the Resourcelink payroll system contains details of 250 employees whose rights were terminated when they left the council's employment prior to 31 March 2012. It would be good housekeeping practice to periodically remove these redundant lines from the spread sheet.