
Aberdeen City Council

Continuous Financial Controls Report

Period 1 April 2014 to 30 September 2014

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This report has been prepared solely for Aberdeen City Council in accordance with the terms and conditions set out in our engagement letter 4th October 2010. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Internal audit work will be performed in accordance with Public Sector Internal Audit Standards (PSIAS). As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Introduction

Purpose of this report

This report summarises the work that Internal Audit has undertaken on continuous financial auditing for the six months to 30 September 2014. This work has been undertaken as part of the 2014/15 Internal Audit programme approved by the Audit Committee in February 2014.

Background to continuous auditing and monitoring

Continuous auditing is the process of ongoing testing of key financial controls to assess whether they are operating effectively, and to flag areas and report transactions that appear to circumvent control parameters. We use a combination of manual testing and computer aided audit techniques (CAATs) to extract data from the IT system and to validate that controls are operating as designed.

Our testing covers compliance with key financial controls and results in the production of an internal audit report on a six monthly cycle, allowing for the identification and reporting of trends over a longer period of time.

Therefore, continuous auditing provides regular and timely controls assurance over the Council's core financial systems and informs our consideration of the adequacy and effectiveness of these systems within our Internal Audit Annual Report, which links to your annual governance statement within the financial statements. Continuous auditing is the process of ongoing testing of key financial controls to assess whether they are operating effectively, and to flag areas and report transactions that appear to circumvent control parameters. We use a combination of manual testing and computer aided audit techniques (CAATs) to extract data from the IT system and to validate that controls are operating as designed. Our testing over financial controls is undertaken on a six monthly basis and provides the following key benefits:

- It provides management with assurance over the operation of key controls on a regular basis throughout the year;
- CAATs allow testing of 100% of the population rather than relying on a sample (where controls are automated);
- Control weaknesses can be addressed during the year rather than after the year end; and
- The administrative burden on management is reduced in areas where there is sufficient evidence that key controls are operating effectively, when compared with a full internal audit systems review.

Scope

Continuous auditing has been adopted for nine of the Council's financial systems this year. The systems are:

- Fixed Assets;
- Accounts receivable;
- Non Domestic Rates (NDR);
- Payroll;
- Treasury Management;
- Cash;
- Accounts payable;
- Council Tax; and
- Housing Benefits.

The controls we have tested have been identified through discussion with relevant staff from each system, the performance of walkthroughs, and through comparison against Audit Scotland (external audit) best practice control matrices. All controls have been identified using a risk based approach.

CAATs work

To date we have designed and refined five and seven CAATs tests within Accounts Receivable and Accounts Payable respectively with the assistance of our data assurance specialists. The results of these are included within this report. There are certain areas, such as cash and fixed assets, where the controls in place are predominantly manual and so CAATs cannot be used.

2. Overall summary

Set out below is the summary per system, taking into account the number and extent of exceptions we found during testing and the number and severity of control design improvements identified. The criteria that have been used to rate each system are detailed in Appendix 1.

Period 1: 1 October 2013 to 31 March 2014 (reported to the Audit and Risk Committee in June 2014)

Period 2: 1 April 2014 to 30 September 2014 (as reported in this report)

Table 1: Summary of Period 1 and Period 2 rating and direction of travel

System	Rating to 31 March 2014 (Red, Amber, Green)	Rating to 30 September 2014 (Red, Amber, Green)	Direction of Travel/Trend (↓↔↑)
Fixed Assets	Green	Green	↔
Accounts receivable	Amber	Red	↓
NDR	Green	Amber	↓
Payroll	Green	Green	↔
Treasury Management	Green	Green	↔
Cash	Green	Green	↔
Accounts Payable	Green	Green	↔
Council Tax	Green	Green	↔
Housing Benefits	Green	Green	↔

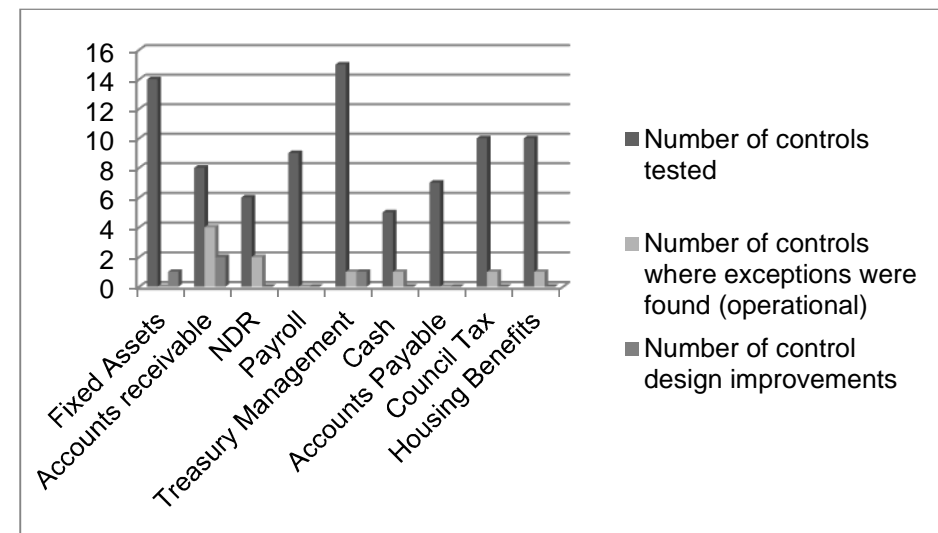
Period 2 testing (1 April 2014 to 30 September 2014)

The results are summarised below and are given in more detail in section 3.

Table 2: Period 2 results

System	Number of controls tested	Number of controls where operational exceptions were found	Number of control design improvements
Fixed Assets	14	0	1
Accounts receivable	8	4	2
NDR	6	2	0
Payroll	9	0	0
Treasury Management	15	1	1
Cash	5	1	0
Accounts Payable	7	0	0
Council Tax	10	1	0
Housing Benefits	10	1	0
Total	84	10	4

Diagram 1: Period 2 results



The key exceptions arising from our work on each system are given below.

Fixed assets

- The Transman system has not been updated to reflect the large number of vehicles that have been disposed of or written off. These are recorded in the system as overdue for service. This large list of overdue vehicles may lead to genuinely overdue vehicles not being detected. (*Medium Risk*)

Accounts receivable

- In 3 out of 25 cases, a new customer was sampled but the Customer Invoice form could not be found to show authorisation for the customer to be added to the system. (*Low Risk*)
- No review takes place of the suspense account of the unallocated receipts. This is because ACC have no process to identify them. A review needs to take place with reference to the unpaid invoices to allow their identification. (*Low Risk*)
- In 24 of 25 case accounts marked as disputed they have not subsequently been marked to show that they have been followed up. We could not determine whether this was due to a failure to follow up on disputed accounts or that the accounts had been followed up but not marked in the system. (*High Risk*)
- In relation to debt recovery procedures: (*Low Risk*)
 - In 12 out of 45 cases the reminder letter was issued late (after 31 days);
 - In 5 out of 45 cases the final notice was issued late (after 17); and
 - In 35 out of 45 cases the debt had been sent to the sheriff court late.
- For 3 out of 25 credit notes samples a Credit Note Authorisation form (CNA) could not be found to evidence the approval. (*Low Risk*)
- The folder containing the signatures of the people who can authorise CNA's is out of date and contains signatures of people who have left. (*Low Risk*)

NDR

- For 1 of the 20 refunds selected for testing a refund form could not be located. (*Low Risk*)
- For 4 out of 5 users sampled their level of access to the NDR system was deemed to be inappropriate for their job role and responsibility. (*High Risk*)

Payroll

- No exceptions noted.

Treasury Management

- In 5 of the 20 posting slips selected in our testing the posting had not been authorised by two separate authorisers. The cause of these exceptions was identified as due to one of the authorisers being on annual leave. A Delegation of Authority should be introduced to ensure that there is someone in place to carry out authorisations when either of the two current authorisers are absent. *(Medium Risk)*

Cash

- In 25 out of 25 bank reconciliations sampled the review of the reconciliation did not take place in a timely manner. *(Low Risk)*

Accounts payable

- No exceptions noted.

Council Tax

- In 5 out of 10 samples of weekly reports from the assessor the approval of the upload was not done in a timely manner. *(Medium Risk)*

Housing Benefit

- 4 of the 30 samples of instances of fraud passed to the fraud investigation team were not investigated within the 10 days. *(Low Risk)*

Management Comments

Management notes that there continues to be an effective financial control environment overall and that testing is identifying a small numbers of exceptions that are generally at the lower end of the risk scale. It is recognised that improvements can be made and there are a number of recommended control design improvements that are highlighted in the report. These will be implemented by the relevant officers in the timescales detailed.

Comparison of period 1 results with period 2

The charts and table below show the results for period 2 and period 1 for comparison. As can be seen from the diagrams, the proportion of control exceptions has fallen slight from 14% to 13% from period 1 to period 2.

Diagram 2: Period 1 – proportion of controls with exceptions

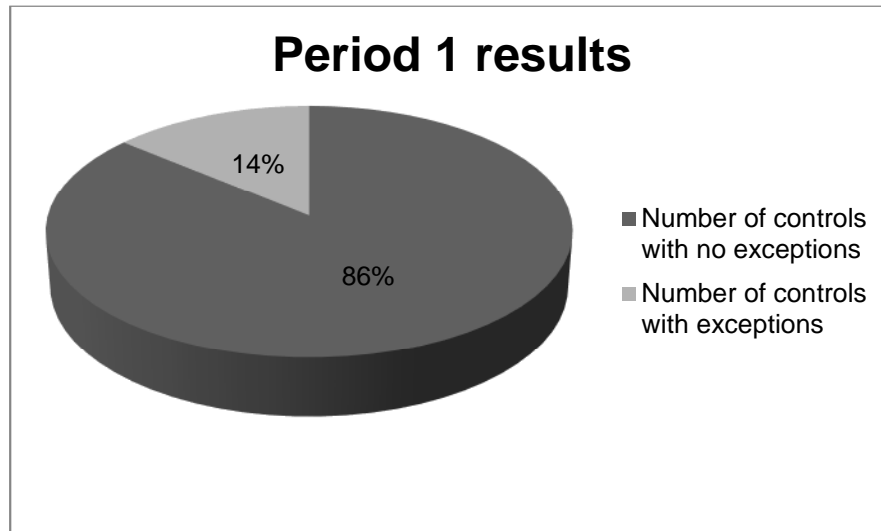


Diagram 3: Period 2 – proportion of controls with exceptions

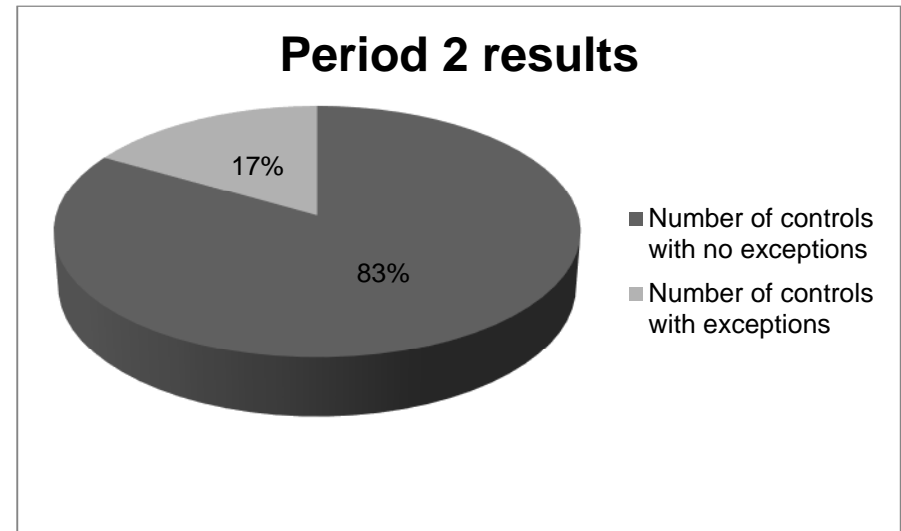


Table 3: Comparison of P1 and P2

System	Number of controls tested		Number of controls where exceptions were found	
	P1	P2	P1	P2
Fixed Assets	11	14	1	1
Accounts receivable	11	8	4	6
NDR	6	6	0	2
Payroll	11	9	3	0
Treasury Management	10	15	1	2
Cash	5	5	1	1
Accounts Payable	12	7	3	0
Council Tax	9	10	1	1
Housing Benefits	9	10	1	1
Total	84	84	15	14

3. System summaries

Fixed Assets

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
Acquisitions and capital projects				
FA1	A capital programme is drawn up at the beginning of each financial year and budgets are allocated to each budget holder in respect of defined projects approved via the bid process. The capital programme is formally approved by the Corporate Management Team (CMT) and Finance, Policy and Resources Committee (FPR).	N/A	0	Control operates at year end only.
FA2	A rolling 5 year replacement report is submitted to and approved by Council. The Council assess the level of funding to be allocated to fleet management for this 5 year period.	N/A	0	Control operates at year end only.
FA3	Capital purchases are made through the PECOS procurement system. Purchase authorisation limits are set for purchasers within the system with automated routing to appropriate approvers within the Council's scheme of delegation.	N/A	0	New control tested in 6 months to 30 September 2014

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
FA4	Capitalisation threshold is in place for all asset categories of £6k. On a monthly basis, capital accountants run a report of all purchases out of the revenue budget (and therefore have not been coded as capital expenditure within the ledger), which exceed £6k and capitalise any necessary transactions through a manual journal.	N/A	0	New control tested in 6 months to 30 September 2014
FA5	On a monthly basis, capital accountants download all general ledger entries to capital accounts and perform a review to ensure that all transactions are coded correctly. The capital accountants will then manually enter the assets on to the Fixed Asset Register, allocating the class of assets and a defined useful life.	N/A	0	New control tested in 6 months to 30 September 2014
Depreciation				
FA6	Useful life for Property, Plant and Equipment is identified, reviewed and approved on an ongoing basis.	N/A	0	New control tested in 6 months to 30 September 2014

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
FA7	All assets are automatically depreciated through the FAR system (AIRS) in accordance with the predetermined useful lives.	N/A	0	New control tested in 6 months to 30 September 2014
Disposals				
FA8	Disposals of property with a value >£250k must be approved by the Head of Finance, Head of Legal and FPR Property Subcommittee. Property disposals <£250k are approved by the Head of Asset Management.	0	0	
FA9	Disposals of vehicles are made through auction. The Fleet Manager must approve all vehicle disposals.	N/A	N/A	New control tested in 6 months to 30 September 2014 Control Operates only at year end

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
FA10	Disposal forms for property are completed and authorised by the Head of Finance and Head of Legal and approved by the FPR. Disposals are updated on the FAR when the Finance department are notified of the disposal after committee approval has taken place.	N/A	0	New control tested in 6 months to 30 September 2014
FA11	Disposal forms are sent from the Fleet Department to the Finance Team who update the FAR.	N/A	0	New control tested in 6 months to 30 September 2014
Adjustments & period end close				
FA12	Vehicles are serviced on an ongoing basis to ensure they are still working and in good order. The fleet management system (Transman) is updated with details of vehicle services.	N/A	1	New control tested in 6 months to 30 September 2014. Design exception – The system contains a large number of overdue service vehicles. This is because a large number of vehicles have been disposed of or designated off road and the system does not reflect this. An update is therefore require.
FA13	Land and buildings are revalued on a rolling five year basis in accordance with the relevant regulations. Revalued assets are updated in the FAR.	N/A	0	New control tested in 6 months to 30 September 2014

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
FA14	The value of assets per the AIRS system is reconciled to eFinancials on an annual basis as part of the annual accounts preparation process.	N/A	0	Control operates at year end and therefore not included in 6 months to 30 September 2013. Control not operated until late May 2014 and therefore included in September 2014 testing.
Total		0	0	

Accounts Receivable

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
Process-wide considerations				
AR1	There is a Financial Regulations Handbook which has the statutory obligations detailed. In addition there is an Income Service Manual that details day-to-day processing activities for accounts receivable	N/A	0	New control tested in 6 months to 31 March 2014
Order Processing				
AR2	Only the debtors team can set up new customers on the system and this is not individuals who process invoices. Details are passed to the team on Customer Invoice Control (CIC) forms from the individual departments.	N/A	3	3 CIC forms could not be found during testing.
Cash Receipts				
AR3	Unidentified receipts are posted to a dedicated suspense account which is regularly examined and cleared.	N/A	1	New control tested in 6 months to 31 March 2014. Design Exception – the review did not take place because ACC has do not believe they can identify these payments. A new review process needs to designed to identify these payments.
Bad debts				

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
AR4	Disputed customer balances are monitored monthly and followed-up with Services to identify status of balance.	N/A	24	<p>Updated control tested in 6 months to 31 March 2014</p> <p>In 24 of 25 case accounts marked as disputed have not marked to show that they have been followed up. PwC could not determine whether this was due to a failure to follow up on disputed accounts or that the accounts were not being followed up on</p>
AR5	Debt recovery procedures are in place: the system automatically issues reminder letters after 35 days of debt being due and a final notice after 14 days of the first date. After a further 7 days, debt is transferred to the Sheriff Officer.	36	35	<p>Sep 13 - In 16 out of 45 cases, the reminder letter was not issued. In 2 out of 45 cases the reminder letter was issued late (5 and 6 days late). In 18 out of 45 cases the final notice was issued late. (ranging between 19 and 90 days late)</p> <p>It was noted that due to a systems issue there was a large backlog of invoices and as a result the weekly reminders were not run as normal.</p> <p>Mar 14 - In relation to debt recovery procedures:</p> <ul style="list-style-type: none"> - In 12 out of 45 cases the reminder letter was issued late (after 31 days); and - In 5 out of 45 cases the final notice was issued late (after 17). - In 35 out of 45 cases the debt had been sent to the sheriff court late

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
AR6	The Head of Finance approves all write offs on a quarterly basis.	1	0	As at the date of testing (4 April 2014) neither the Q3 nor Q4 write offs had been approved by the Head of Finance. This is deemed untimely for the Q3 write off and therefore 1 exception noted.
Adjustments and period end close				
AR7	Services complete a Credit Note Authorisation (CNA) form that is approved by a service line manager. An authorised signatory list details who can approve credit notes.	N/A	4	3 (CNA) forms couldn't be found. The folder containing the authorised signatures is out of date and should be reviewed to ensure that it only contains valid signatories.
AR8	The accounts receivable sub-ledger is reconciled to the general ledger every month.	N/A	0	New control tested in 6 months to 31 March 2014
Total		37	67	

Accounts Receivable – CAATs

Control Reference	Title	Description	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
AR CAAT 1	Credit limits non zero	All users with a non zero credit limit. It is expected that each of these people is in the service income team or within pensions	0	0	
AR CAAT 2	GL authoriser not in user table	A list of users who have transactions in the Sales Ledger but no entry in the User tables	0	0	
AR CAAT 3	Invoice > limit	A list of credit memos that were authorised by somebody where the total value exceeds their authoriser limit.	N/A	0	
AR CAAT 4	Credit > Limit	A list of invoices that were authorised by somebody where the total value exceeds their authoriser limit.	N/A	0	
AR CAAT 5	Self Authorised Credit Notes	An extract of users who have raised self authorised credit notes on the system	N/A	0	
Total			0		

NDR

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
Valuation				
NDR1	Reconciliations take place on a weekly basis between the Grampian Joint Valuation Board valuation roll and the NDR system, which agrees both number of properties and rateable value. These are signed as reviewed by a department manager.	0	0	
Billing				
NDR2	Bills are calculated automatically according to each property's rateable value and any discounts/reliefs applied.	0	0	
Collection				
NDR3	Arrears letters are automatically sent by the Northgate system in accordance with a pre-defined calendar. The letters are extracted from the system in a file which is spot checked by the Team Leader. The file is then sent to Aberdeenshire Council who print the letters. The letters are once again checked prior to being sent to businesses by the NDR Team.	0	0	
Monitoring and adjustments				

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
NDR4	Write offs and refunds will not be processed until the relevant form has been completed by a member of the team and approved by another member of the team.	2	1	In 2 out of 45 cases, documents which evidence the preparer and reviewer sign off could not be located at the time of testing. Management understand this is due to capacity issues within the scanning team and expect the documents to be available once the backlog is cleared. In March 2014 testing, 1 refund request form not found.
Standing Data Maintenance				
NDR 5	General NDR policies and procedures surrounding NDR processes and associated legislation are available to all staff via Robohelp.	0	0	
NDR 6	Access to the NDR system is restricted to select members of staff by way of password protection. All users except a team of 5 and the Systems and Billing Manager have read only access. Passwords are prompted to be changed every 90 days.	0	4	In 4 of 5 items tested user active on system despite not requiring access. There is the expectation that in the next PwC review that users with no requirement for access will be removed from 'active' category.
Total		2	5	

Payroll

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
Time Recording				
PR1	Services provide an approved Excel spreadsheet of employee timesheets to payroll for manual entry.	N/A	0	New control tested in 6 months to 31 March 2014
Payroll Calculations				
PR2	All salaries greater than £4.5k are investigated as part of exception reporting performed	0	0	
PR 3	Monthly staff monitoring reports are distributed to budget holders for review.	0	0	
Standing Data Maintenance				
PR4	Procedures are documented which detail day to day operation of the payroll system and roles and responsibilities.	0	0	
PR5	New starts require a notification of appointment form to be completed and authorised by HR prior to being input into the Payroll system	0	0	
PR6	Leavers require a notification of termination form to be completed and authorised by HR prior to being input into the Payroll system	1	0	

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
PR7	Changes to bank details processed by the Payroll team are only actioned on receipt of written notification from employees.	0	0	
Adjustments and period end close				
PR8	Access to the payroll system is restricted to appropriate staff. Management review access on a quarterly basis for appropriateness.	0	0	
PR9	Reconciliations are performed between the payrun, to payroll totals and the general ledger.	2	0	
Total		3	0	

Treasury Management

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
Process Wide Considerations				
TR1	A Treasury Management Manual has been prepared to provide a comprehensive guide to all aspects of the duties involved in Treasury Management for ACC.	0	0	
TR2	Staff receive treasury training and refresher training on a regular basis.	0	0	
Investment Transactions				
TR3	Treasury review the weekly credit ratings produced by Capita. These are then used to update the approved list of deposit takers.	N/A	0	New control tested in 6 months to 31 March 2014
TR4	The Finance, Policy and Resources Committee (FPR) approve all changes to the deposit takers list and the investment limits for each counterparty.	N/A	0	New control tested in 6 months to 31 March 2014
TR5	There is a clear segregation of duties between officers responsible for dealing, recording and receiving confirmation of transactions	0	0	Note: See exceptions noted in TR13
TR6	Interest Rates and Bank Balances sheets (DRIBB) are completed daily and authorised	0	0	
TR7	The investment system (PSTM) is configured so that investment deposits cannot exceed the limits set by the FPR on the counterparty list.	0	0	New control tested in 6 months to 31 March 2014

TR8	All dealer receipts of new borrowings are retained and cannot exceed Prudential Code limits as set annually. In addition, all external loan providers are issued with an ACC letter signed as authorised.	0	0	
TR9	PSTM calculates repayments and interest. The Treasury Officer sense checks all calculations before payment.	N/A	0	New control tested in 6 months to 31 March 2014
TR10	A register maintained to account for all fixed term loans. This is produced electronically to show the principal amount of loan, interest rate, interest payment date as well as the fee payable to the broker for arranging the loan (1/10th% of the loan amount and period - prorated if less than 12 months).	N/A	0	New control tested in 6 months to 31 March 2014
TR11	All changes to borrower bank details must be accompanied by a signed letterhead from the external party.	N/A	0	New control tested in 6 months to 31 March 2014
TR12	All payments require authorisation by someone separate from who raises the payment within the online banking system.	N/A	0	New control tested in 6 months to 31 March 2014
TR13	All ledger posting slips for payment are prepared and authorised prior to input into the ledger.	11	6	<p>While some of the testing may be deemed an exception, there are only two individuals who are capable of being able to approve the journals. When either is absent there is nobody else who would have the required knowledge to replace them in their absence.</p> <p>A design exception has been noted that the control should include a delegation of authority to allow a nominated individual to sign off posting slips during their absence.</p>
TR14	All broker payments are authorised by the Chief Accountant prior to payment and agreed to broker statements.	0	0	

Adjustments and period end close				
TR15	A monthly reconciliation is completed when all ledger entries for the period have been posted (should be 7 days after the end of each period). The Treasury Officer produces a report covering interest payments and expenses, loans (long and short term) through use of an analyser report writing tool for information downloaded from efinancials. The Treasury Officer submits the report to the Chief Accountant who checks a sample of entries on the report against supporting spreadsheet records.	N/A	0	New control tested in 6 months to 31 March 2014
Total		11	6	

Cash

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
C1	There are a number of documents in place containing procedural guidance for cash. These are available within a shared file on the system and are reviewed and updated regularly.	0	0	
C2	The bank rec team are responsible for maintaining the cash book. There is a separate cashier office who are responsible for handling cash.	0	0	
C3	<p>Most bank accounts are reconciled on a monthly basis after month end. Reconciliations are reviewed and signed off by a more senior team member.</p> <p>The general account is now reconciled on a daily basis. The current plan is to move all bank accounts to daily reconciliations.</p>	1	25	<p>There is no evidence of review and sign off of the daily general account reconciliation. Management have since asked for advice on how to evidence this electronically and will implement as a matter of priority. Testing did not highlight any exceptions in the preparation of the reconciliation.</p> <p>In March 2014 testing review by senior member was not timely for some bank recs due to this being a recent implementation and so there was catch up involved in getting bank recs reviewed for the period.</p> <p>For bank reconciliation to the 30st September the review took place on the 1st October. This is not a timely review and an exception has been raised for each.</p>
C4	Unallocated payments are reviewed in to attempt to clear transactions. The bank rec team also have responsibility for the debtors suspense account.	0	0	

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
C5	<p>Access to online banking is restricted by username and password and a security fob.</p> <p>Access to the Bank Rec system is restricted by username and password.</p> <p>Access to the Icon system (income transactions) is restricted by username and password.</p>	0	0	
Total		1	25	

Accounts Payable

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
Ordering				
AP1	Purchase orders with new vendors require review and approval from management and update to the vendor master file by Procurement.	N/A	0	New control tested in 6 months to 31 March 2014
AP2	AP forensics software is used to scan the payments file for duplicate payments and fraud indicators. Items flagged by the software are stopped from payment until investigated.	N/A	0	New control tested in 6 months to 31 March 2014
AP3	The release of cheques for printing and signing or release of electronic funds is carried out by individuals separate from those who give approval for invoices.	N/A	0	New control tested in 6 months to 31 March 2014
AP4	Access to process disbursements is segregated from vendor maintenance, purchasing, goods receipts, and accounts payable.. The disbursement approval functions and the disbursement preparation functions are segregated. The recording of cash disbursements is segregated from the general ledger function.	N/A	0	New control tested in 6 months to 31 March 2014

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
Adjustments				
AP5	Sub-ledgers are reconciled to the general ledger on a monthly basis. Reconciling items are investigated and resolved on a timely manner.	N/A	0	March 14 - This control is undertaken by accountants outside of the AP function. This cannot be tested at PwC's present site.
Standing Data Maintenance				
AP6	On a weekly basis, a member of the Account's payable team runs a report showing all changes to standing data. A sample is then selected from these changes (typically a sample of 5) and traced to some form of backup. This team member then performs a general overall check for reasonableness of all changes.	N/A	0	
Total		N/A	0	

Accounts Payable – CAATs

Control Reference	Title	Description	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
AP CAAT 1	GL authoriser not in user table	A list of users who have transactions in the Purchase Ledger but no entry in the User tables	0	0	
AP CAAT 2	Credit limits > limit	A list of credit purchases that were authorised by somebody where the total value exceeds their authoriser limit.	0	0	
AP CAAT 3	Purchase Invoices > Limit	A list of purchase invoices that were authorised by somebody where the total value exceeds their authoriser limit.	0	0	
AP CAAT 4	Suppliers with No bank details	A list of suppliers that do not have any details.	N/A	0	New control tested in 6 months to 31 March 2014
AP CAAT 5	Suppliers with the same bank details as Employees	A list of suppliers and employees with matching bank details	N/A	0	New control tested in 6 months to 31 March 2014
AP CAAT 6	Employees that have Duplicate Bank Accounts in the system	A list of duplicate bank details in the system.	N/A	0	New control tested in 6 months to 31 March 2014
AP CAAT 7	Suppliers with Duplicate entries	A list of suppliers with duplicate entries in the supplier table (based on the account number and sort code). The risk here is duplicate payments.	N/A	0	New control tested in 6 months to 31 March 2014
Total			0	0	

Council Tax

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
CT1	Weekly assessor reports are received and information is updated into the Council Tax system manually. Reports are signed once updated and stored within the department.	0	5	5 exceptions noted. This is due to the lack of the timely approval of the report.
CT2	A bi-annual reconciliation is performed between a full listing of properties and bands received from the assessor and a report run from the Academy system. Any variances are flagged and investigated.	NA	0	March 14 - Reconciliation not performed due to data transfer issues noted by Assessors Office. Method of transfer used by Aberdeen City Council no longer meets security standard required. Both parties are working to resolve the issue and a solution is expected by July 2014. Reconciliation will be performed at earliest opportunity.
CT3	The Academy system automatically calculates council tax bills based on information within the system. System parameters entered at the start of each year, are independently checked and are in line with decisions taken by the Council.	0	0	
CT4	Capability to make changes to system parameters is restricted to the appropriate people.	0	0	

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
CT5	Discounts are calculated automatically based on system parameters within Academy.	0	0	
CT6	Discounts are only awarded following review of relevant supporting documentation (i.e. Evidence of student matriculation)	0	0	
CT7	The Academy system automatically generates a letter if payments are overdue. Reminder letters and final reminder letters are also automatically generated.	0	0	
CT8	Council tax procedures are contained within a central document library (Robohelp). Robohelp is updated regularly in line with statutory regulations.	0	N/A	Annual Control that operates in May
CT9	Refunds must be authorised by the team leader prior to being processed.	0	0	
CT10	The Head of Finance must approve write-offs of £10,000 and over. An annual report is submitted to the Finance and Resources Committee indicating the totals written off.	1	0	In 1 out of 5 write offs of £10,000 and above, there was no approval by the Head of Finance.
Total		1	5	

Housing Benefits

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
HB1	Awards are processed only on receipt of a properly completed claim form signed by the claimant with appropriate supporting documentation and, in the case of income support cases, support from the Benefits Agency.	0	0	
HB2	Claimant's tenancy details are verified against housing records (local authority tenants) or tenancy agreements (private sector tenants).	0	0	
HB3	The rent allowance elements of the benefit system are regularly reconciled with the rent accounting system for council tenants.	N/A	0	New control tested in 6 months to 31 March 2014
HB4	The rent rebate elements of the benefit system are regularly reconciled with the rent accounting system for council tenants.	N/A	0	New control tested in 6 months to 31 March 2014
HB5	Rent allowance payment runs are examined for reasonableness of amounts and correct ledger coding, and are authorised by a senior officer	N/A	0	New control tested in 6 months to 31 March 2014
HB7	Adequate security exists over payments made by cheque and the circumstances behind lost, stolen, or uncashed cheques are followed up.	N/A	0	New control tested in 6 months to 31 March 2014
HB8	A formal policy exists to cover approach to recovering overpayments and the Council has instituted procedures for its implementation.	N/A	0	New control tested in 6 months to 31 March 2014
HB8	Procedures exist to ensure the correct classification of overpayments between LA error, claimant error, fraudulent, other error, and technical.	0	0	
HB9	Overpayments to be written off or listed as non-recoverable must be authorised by the team leader.	0	0	

Control Reference	Control	Exceptions from six months to 31 March 2014	Exceptions from six months to 30 September 2014	Notes on exceptions and areas not applicable
HB10	Issues of fraud are passed to the fraud investigation team. The decision to investigate the fraud or not is noted within the system as is the outcome.	32	4	In March 2014 testing, control was updated to state the fraud investigation team are expected to take first action within 10 working days of receiving the referral. 4 exceptions were noted - of those, 2 were due to no date being on file.
	Total	32	4	

4. Control design improvements identified

We have noted below where the design of controls could be improved to further enhance the control environment or to improve efficiency.

Fixed Assets

1. There are a large number of vehicles listed as overdue for service – Low Risk

Matters arising

We inquired with management as to why there were a large number of vehicles overdue for service. It was explained that these are likely to have either been disposed of or put off road and the system has not been updated to reflect this.

Risk

There is a risk that if ACC can't know what has happened to these vehicles then they may still be on the road and unserviced.

Recommendation

- Steps should be taken to update the system to ensure that all vehicles that are not eligible for servicing are removed until this can be done a regular review should be implemented to ensure that all these vehicles are indeed off road or disposed of.

Responsible Officer:

Fleet Manager

Target Date:

Ongoing as part of wider service review

Accounts Receivable

1. The folder containing the authorized signatures to reverse an invoice is out of date – Low Risk

Matters arising

We reviewed the folder of authorized signatures for the reversal of invoices. We found that this was significantly out of date and contained signatures of people who have left.

Risk

There is a risk that people who are not currently authorized to reverse invoices might do so.

Recommendation

- The folder of authorized signatures should be reviewed annually to ensure that all those signatures within it are still appropriate

Responsible Officer:

Billing and Collection Manager

Target Date:

March 2015

2. No review of the unidentified receipts took place during the period – Low Risk

Matters arising

We asked to inspect evidence of unidentified receipt reviews. However, no evidence could be provided as no such review took place during the period. This review was not performed because Accounts Receivable considered that they had no way to identify these receipts until a customer claimed them.

Risk

There is a risk that receipts are not matched to the appropriate customer and this leads to customers being chased for payments they have already made.

Recommendation

- A review should take place with reference to the list of unpaid invoices .

Responsible Officer:

Billing and Collection Manager

Target Date:

May 2015

Treasury management

1. SoD in posting to ledger does not operate when one of the reviewers is on holiday – Medium Risk

Matters arising

When items are posted to the ledger a ledger posting slip is prepared. This must be signed by one person and reviewed by a second. The current arrangement is that there are only two people who can do this. When one of these two is on holiday or absent there is no review and the posting is authorised by just the one signatory.

Risk

There is a risk that:

- Items may be incorrectly posted;
- Items may inaccurately posted; and
- Items may be fraudulently posted.

Recommendation

- A Delegation of Authority should be put in place to cover an absence. This should delegate authority for the posting to another individual for the duration of the absence.

Responsible Officer:

Treasury Officer

Target Date:

Immediate

Appendix 1: Assessment criteria

Priority ratings used for the control design improvements.

Critical	Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation's objectives in relation to: The efficient and effective use of resources The safeguarding of assets The preparation of reliable financial and operational information Compliance with laws and regulations.
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
Medium	Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Ratings used for assessing each system:

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
Low risk/Green	6 points or less
Medium risk/Amber	7– 15 points
High risk/Red	16– 39 points
Critical risk/Red	40 points and over

Appendix 2: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of continuous financial controls, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of continuous financial controls is for the period 1 April 2013 to 30 September 2013. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
 - the degree of compliance with policies and procedures may deteriorate.
- disclose fraud, defalcations or other irregularities which may exist.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

In the event that, pursuant to a request which Aberdeen City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), Aberdeen City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Aberdeen City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation. If, following consultation with PwC, Aberdeen City Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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