

Aberdeen City Council

Continuous Financial Controls Report

Period 1 October 2014 to 31 March 2015

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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.

Introduction

Purpose of this report

This report summarises the work that Internal Audit has undertaken on continuous financial auditing for the six months to 31 March 2015. This work has been undertaken as part of the 2014/15 Internal Audit programme approved by the Audit, Risk and Scrutiny 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.

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. Our testing over financial controls is undertaken on a six monthly basis, allowing for the identification and reporting of trends over a longer period of time, 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.

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 April 2014 to 30 September 2014 (reported to the Audit, Risk and Scrutiny Committee in February 2015)

Period 2: 1 October 2014 to 31 March 2015 (as reported in this report)

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

| System | Rating to 30 September 2014 (Red, Amber, Green) | Rating to 31 March 2015 (Red, Amber, Green) | Direction of Travel/Trend (↓↔↑) |
|----------------------------|--|--|--|
| Fixed Assets | Green | Red | ↓ |
| Accounts Receivable | Red | Amber | ↑ |
| NDR | Amber | Green | ↑ |
| Payroll | Green | Amber | ↓ |
| Treasury Management | Green | Green | ↔ |
| Cash | Green | Green | ↔ |
| Accounts Payable | Green | Amber | ↓ |
| Council Tax | Green | Green | ↔ |
| Housing Benefits | Green | Green | ↔ |

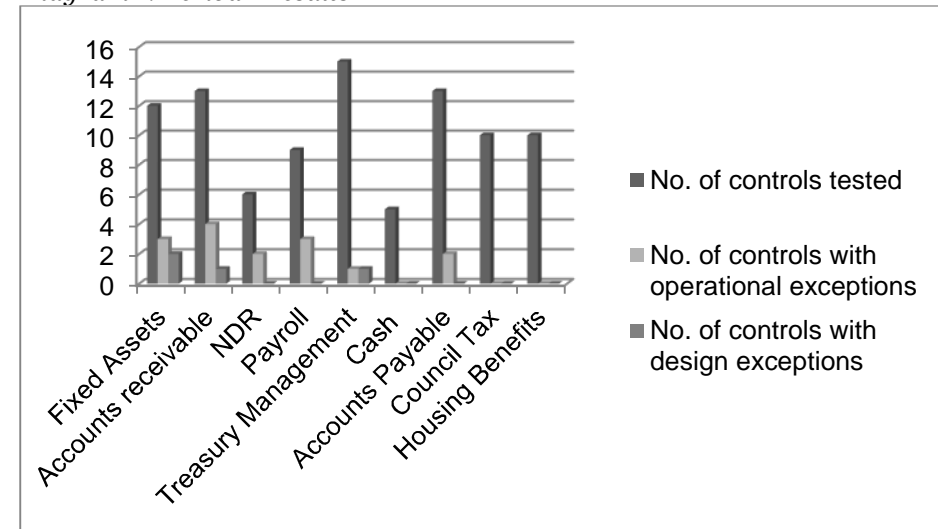
Period 2 results (1 October 2014 to 31 March 2015)

The results of our Period 2 testing are summarised below. A detailed breakdown of results is documented in **Section 3**.

Table 2: Period 2 results

| System | Number of controls tested | Number of controls where operational exceptions were found | Number of controls where design exceptions were found |
|---------------------|---------------------------|--|---|
| Fixed Assets | 12 | 3 | 2 |
| Accounts Receivable | 13 | 4 | 1 |
| NDR | 6 | 2 | 0 |
| Payroll | 9 | 3 | 0 |
| Treasury Management | 15 | 1 | 1 |
| Cash | 5 | 0 | 0 |
| Accounts Payable | 13 | 2 | 0 |
| Council Tax | 10 | 0 | 0 |
| Housing Benefits | 10 | 0 | 0 |
| Total | 93 | 15 | 4 |

Diagram 1: Period 2 results



A percentage breakdown of control exceptions against the total number of controls tested is provided on the next page.

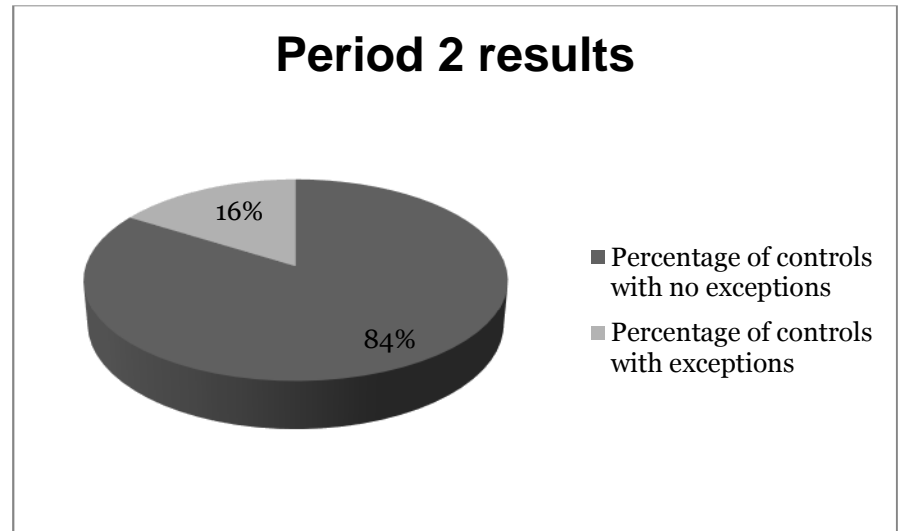
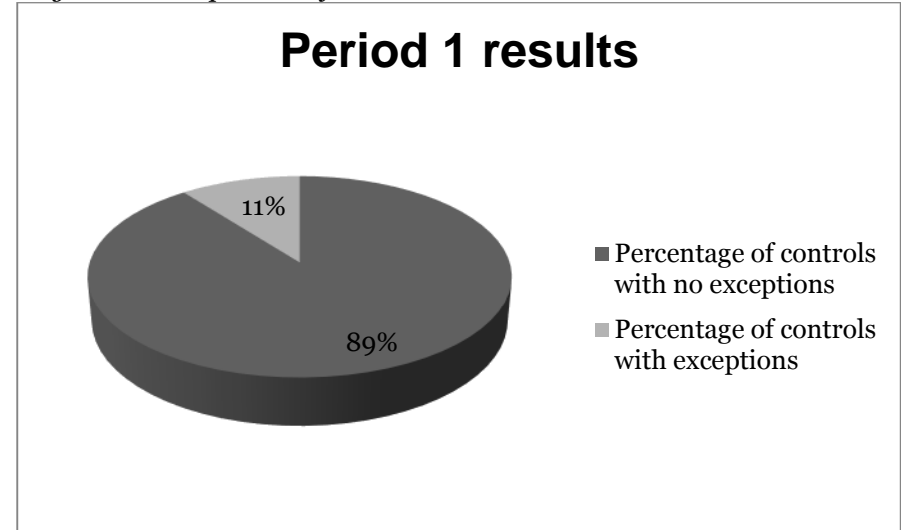
Comparison of Period 1 results with Period 2

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 risen from 11% to 16% from period 1 to period 2.

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 | 14 | 12 | 1 | 5 |
| Accounts receivable | 13 | 13 | 6 | 5 |
| NDR | 6 | 6 | 2 | 2 |
| Payroll | 9 | 9 | 0 | 3 |
| Treasury Management | 15 | 15 | 2 | 2 |
| Cash | 5 | 5 | 1 | 0 |
| Accounts Payable | 13 | 13 | 0 | 2 |
| Council Tax | 10 | 10 | 1 | 0 |
| Housing Benefits | 10 | 10 | 1 | 0 |
| Total | 95 | 93 | 14 | 19 |

Diagram 2: Comparison of P1 and P2



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

3. System summaries

Fixed Assets

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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 | |
| 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 | |
| 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. | 0 | 0 | |

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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. | 0 | 0 | |
| 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. | 0 | 0 | |
| Depreciation | | | | |
| FA6 | Useful life for Property, Plant and Equipment is identified, reviewed and approved on an ongoing basis. | 0 | N/A | Control operates annually in April; therefore it had not operated at the time of our Phase Two fieldwork. This control was tested with no exceptions during our Phase One work. |
| FA7 | All assets are automatically depreciated through the FAR system (AIRS) in accordance with the predetermined useful lives. | 0 | 0 | |
| Disposals | | | | |

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | Notes on exceptions and areas not applicable |
|-------------------|---|---|---|--|
| 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 | 1 | <p>Finding Rating: Low</p> <p>In 1 out of 2 disposals sampled, the correct authorisation per the Schedule of Authority had not been obtained by the Head of Finance. This concerned the sale of Balgowrie Primary School for £1.4m in February 2015. The risk is somewhat mitigated however as the sale was approved by the Head of Asset Management, the Head of Legal and the Property Sub-Committee.</p> |
| FA9 | Disposals of vehicles are made through auction. The Fleet Manager must approve all vehicle disposals. | N/A | 1 | <p>Finding Rating: High</p> <p>In our 'Fleet Asset Verification' report to the Audit, Risk and Scrutiny Committee on 11 May 2015, we reported the results of our physical verification of the Council's fleet assets. This process identified 229 assets that were recorded on Tranman but that could not be physically verified. Our further investigations with fleet management have identified significant failings in the control around recording of the acquisition and disposal of fleet assets in the Council's fleet management systems. As a result we have concluded that controls are not designed or operating effectively for vehicle disposals. However, it is noted, as of the last Audit, Risk and Scrutiny Committee, that management are focused on this area and are implementing new controls over the Tranman system to address the issues identified.</p> |

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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. | 0 | 1 | Finding Rating: Low See exception at FA8. |
| FA11 | Disposal forms are sent from the Fleet Department to the Finance Team who update the FAR. | 1 | 1 | Finding Rating: High See exception at FA9. |
| 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. | 1 | 1 | Finding Rating: High See exception at FA9. |
| 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. | 0 | N/A | Control operates annually in April; therefore it had not operated at the time of our Phase Two fieldwork. This control was tested with no exceptions during our Phase One work. |

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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. | 0 | N/A | Control operates annually in April; therefore it had not operated at the time of our Phase Two fieldwork. This control was tested with no exceptions during our Phase One work. |
| Total | | 1 | 5 | |

Accounts Receivable

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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 | 0 | 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. | 3 | 2 | <p>Finding Rating: Low</p> <p>From a sample of 45 tested, three instances were identified where a Customer Invoice Control form could not be found to evidence that authorisation had been given to create a new customer on the system.</p> |
| Cash Receipts | | | | |
| AR3 | Unidentified receipts are posted to a dedicated suspense account which is regularly examined and cleared. | 1 | 1 | <p>Finding Rating: Medium</p> <p>Unidentified receipts are not being regularly examined in order to clear customer invoices.</p> |
| Bad debts | | | | |

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | Notes on exceptions and areas not applicable |
|---|---|---|---|---|
| AR4 | Disputed customer balances are monitored monthly and followed-up with Services to identify status of balance. | 24 | 29 | Finding Rating: Medium From a sample of 45 tested, 29 instances were identified where no evidence was available to verify whether disputed customer balances had been followed-up with the relevant Service. |
| 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. | 35 | 45 | Finding Rating: Medium In relation to debt recovery procedures: <ul style="list-style-type: none"> • For 34 out of 45 tested the reminder letter was issued late (after 31 days); • For 19 out of 45 tested the final notice was issued late (after 17); and • For 45 out of 45 tested the debt had been sent to the Sheriff Officer late. 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. |
| AR6 | The Head of Finance approves all write offs on a quarterly basis. | 0 | 0 | |
| 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. | 4 | 2 | Finding Rating: Low For 2 from a sample of 25 credit notes tested, the Credit Note Authorisation form could not be found to evidence approval by a service line manager for the credit note to be issued. |

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | Notes on exceptions and areas not applicable |
|--------------------------|---|--|--|--|
| | | | | The authorised signatory list for credit note approval is in the process of being updated as a number of signatories are no longer applicable. |
| AR8 | The accounts receivable sub-ledger is reconciled to the general ledger every month. | 0 | 0 | |
| Total | | 67 | 80 | |

Accounts Receivable – CAATs

| Control Reference | Title | Description | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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. | 0 | 0 | |
| AR CAAT 4 | Credit > Limit | A list of invoices that were authorised by somebody where the total value exceeds their authoriser limit. | 0 | 0 | |
| AR CAAT 5 | Self-Authorised Credit Notes | An extract of users who have raised self-authorised credit notes on the system | 0 | 0 | |
| Total | | | 0 | 0 | |

NDR

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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 30 September 2014 | Exceptions from six months to 31 March 2015 | 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 | <p>Risk Rating: Low</p> <p>For 1 out of 20 refunds tested it was identified that the refund had been actioned and approved by the same person.</p> |
| 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. | 4 | 3 | <p>Risk Rating: Low</p> <p>3 users were identified with access to the Northgate system that no longer require access. However, all three users were identified as having not logged in to their accounts in the last six months.</p> |
| Total | | 5 | 4 | |

Payroll

| Control Reference | Control | Exceptions from six months to 30 September 2015 | Exceptions from six months to 31 March 2015 | Notes on exceptions and areas not applicable |
|----------------------------------|---|---|---|---|
| Time Recording | | | | |
| PR1 | Services provide an approved Excel spreadsheet of employee timesheets to payroll for manual entry. | 0 | 0 | |
| Payroll Calculations | | | | |
| PR2 | All salaries greater than £4.5k are investigated as part of exception reporting performed | 0 | 0 | |
| PR3 | Monthly staff monitoring reports are distributed to budget holders for review. | 0 | 3 | Risk Rating: Low For 3 out of 25 tested, evidence could not be provided to verify that monthly staff monitoring reports had been distributed to budget holders for review. |
| 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 | 3 | Risk Rating: Medium For 3 out of 25 new employees tested, the notification of appointment form had not been authorised by HR prior to the employee being input into the Payroll system. |

| Control Reference | Control | Exceptions from six months to 30 September 2015 | Exceptions from six months to 31 March 2015 | Notes on exceptions and areas not applicable |
|---|--|---|---|--|
| PR6 | Leavers require a notification of termination form to be completed and authorised by HR prior to being input into the Payroll system | 0 | 4 | <p>Risk Rating: Low</p> <p>For 4 out of 25 tested, the notification of termination form could not be found to verify that a leaver had been properly authorised by HR before being removed from the Payroll system.</p> |
| 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. | 0 | 0 | |
| Total | | 0 | 10 | |

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. | 0 | 0 | |
| TR4 | The Finance, Policy and Resources Committee (FPR) approve all changes to the deposit takers list and the investment limits for each counterparty. | 0 | 0 | |
| TR5 | There is a clear segregation of duties between officers responsible for dealing, recording and receiving confirmation of transactions | 0 | 1 | Risk Rating: Medium See Control 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 | |

| | | | | |
|---|---|----------|----------|--|
| 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. | 0 | 0 | |
| 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). | 0 | 0 | |
| TR11 | All changes to borrower bank details must be accompanied by a signed letterhead from the external party. | 0 | 0 | |
| TR12 | All payments require authorisation by someone separate from who raises the payment within the online banking system. | 0 | 0 | |
| TR13 | All ledger posting slips for payment are prepared and authorised prior to input into the ledger. | 6 | 2 | Risk Rating: Medium For 2 out of 20 posting slips for payment tested, evidence could not be obtained of appropriate authorisation signature. |
| 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. | 0 | 0 | |

| | | | |
|--------------|----------|----------|--|
| Total | 6 | 2 | |
|--------------|----------|----------|--|

Cash

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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 reconciliation team are responsible for maintaining the cash book. There is a separate cashier office who is responsible for handling cash. | 0 | 0 | |
| C3 | Most bank accounts are reconciled on a monthly basis after month end. Reconciliations are reviewed and signed off by a more senior team member. The general account is now reconciled on a daily basis. The current plan is to move all bank accounts to daily reconciliations. | 25 | 0 | |
| C4 | Unallocated payments are reviewed in to attempt to clear transactions. The bank rec team also have responsibility for the debtor's suspense account. | 0 | 0 | |
| C5 | Access to online banking is restricted by username and password and a security fob. Access to the Bank Rec system is restricted by username and password. Access to the Icon system (income transactions) is restricted by username and password. | 0 | 0 | |
| Total | | 25 | 0 | |

Accounts Payable

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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. | 0 | 2 | Risk Rating: Medium For 2 out of 25 tested, the review and approval by management could not be evidenced prior to the vendor being created in the vendor master file. |
| 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. | 0 | 0 | |
| 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. | 0 | 0 | |
| 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. | 0 | 0 | |

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | Notes on exceptions and areas not applicable |
|----------------------------------|--|---|---|--|
| Standing Data Maintenance | | | | |
| AP6 | On a weekly basis, a member of the Accounts 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. | 0 | 2 | <p>Risk Rating: Medium</p> <p>For 2 weeks out of a sample tested of 5, evidence could not be provided to verify that the weekly audit review had been performed of changes to Accounts Payable standing data.</p> |
| Total | | 2 | 4 | |

Accounts Payable – CAATs

| Control Reference | Title | Description | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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. | 0 | 0 | |
| AP CAAT 5 | Suppliers with the same bank details as Employees | A list of suppliers and employees with matching bank details | 0 | 0 | |
| AP CAAT 6 | Employees that have Duplicate Bank Accounts in the system | A list of duplicate bank details in the system. | 0 | 0 | |
| 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. | 0 | 0 | |
| Total | | | 0 | 0 | |

Council Tax

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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. | 5 | 0 | |
| 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. | 0 | 0 | |
| 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 | |
| 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 | |

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | Notes on exceptions and areas not applicable |
|--------------------------|--|--|--|---|
| 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. | N/A | 0 | |
| 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. | 0 | 0 | |
| Total | | 5 | 0 | |

Housing Benefits

| Control Reference | Control | Exceptions from six months to 30 September 2014 | Exceptions from six months to 31 March 2015 | 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. | 0 | 0 | |
| HB4 | The rent rebate elements of the benefit system are regularly reconciled with the rent accounting system for council tenants. | 0 | 0 | |
| HB5 | Rent allowance payment runs are examined for reasonableness of amounts and correct ledger coding, and are authorised by a senior officer | 0 | 0 | |
| HB7 | Adequate security exists over payments made by cheque and the circumstances behind lost, stolen, or uncashed cheques are followed up. | 0 | 0 | |
| HB8 | A formal policy exists to cover approach to recovering overpayments and the Council has instituted procedures for its implementation. | 0 | 0 | |
| 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 | |
| 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. | 4 | 0 | |
| Total | | 4 | 0 | |

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.

Accounts Receivable

| | |
|--|---------------------|
| 1. Unidentified receipts are not being reviewed to clear customer invoices – Medium Risk | |
| Matters arising | |
| There continues to be no control in place to ensure unidentified cash receipts are allocated to invoices. | |
| Risk | |
| Where receipts are not matched to invoices there is a risk that the Council does not have full visibility over the amounts owed to the Council by debtors. | |
| Recommendation | |
| <ul style="list-style-type: none"> • Finance should review the unidentified cash receipts to allocate these to unpaid invoices in the Accounts Receivable system. • A control should be implemented to regularly review unallocated payments and to match these to outstanding debtors accounts. | |
| Responsible Officer: | Target Date: |
| Billing and Collection Manager | June 2015 |

NDR

1. User access to Northgate is not being regularly reviewed – Low Risk

Matters arising

Our review of user access to Northgate identified three active user accounts that no longer required access to the system. All three accounts had been identified as having not logged in in the last six months. This is systematic of the fact that there is no review taking place to check whether users who have been granted access to this system still require that access.

Risk

Inappropriate access to systems can undermine segregation of duties controls and exposes the Council to the risk of fraud or error where users have access that is not commensurate with their job role and responsibilities.

Recommendation

- A quarterly review of user access to Northgate should be implemented with the Systems and Billing Manager signing off access as appropriate.

Responsible Officer:

Systems and Billing Manager

Target Date:

September 2015

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 October 2014 to 31 March 2015. 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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