cutting through complexity

East Lothian Council

Interim management report

Audit: Year ended 31 March 2013

17 April 2013

Contents

This interim management report and audit status summary is presented in connection with our audit for the year ended 31 March 2013 under the terms of our appointment by the Accounts Commission for Scotland.

The contacts at KPMG in connection with this report are:

Stephen Reid
Director, KPMG LLP

Tel: 0131 527 6795
Fax: 0131 527 6666
stephen.reid@kpmg.co.uk

Andy Shaw
Senior Manager, KPMG LLP

Tel: 0131 527 6673
Fax: 0131 527 6666
andrew.shaw@kpmg.co.uk

Sarah Burden
Assistant Manager, KPMG LLP

Tel: 0131 527 6611
Fax: 0131 527 6666
sarah.burden@kpmg.co.uk

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of East Lothian Council and is made available to the Accounts Commission for Scotland and Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Financial position and governance framework

The financial and operating environment in which East Lothian Council ("the Council") operates continues to evolve, with developing priorities and emerging financial and non-financial risks.

Governance and Best Value

Following the 2012 local government elections, the Council's coalition administration has been working with officers to establish strategic priorities and embed them within the council plan and single outcome agreement ("SOA").

The council plan sets out a vision for a prosperous, safe and sustainable East Lothian, with a dynamic and thriving economy. In implementing this plan, the Council recognises it faces significant challenges over the coming years: achieving an underlying sustainable financial position, the impact of the economic recession, the projected growth in population and growing demand for services. The primary focus in the next five years will be to respond to these challenges. The council plan has four key objectives; 'growing our economy, communities, people and the capacity of the Council'.

The Council is refreshing the SOA, with an ongoing review of existing outcomes and indicators. The governance structure of the community partnership board has been reviewed, widening membership to include councillors and other local representatives. There are plans to create three strategic theme groups with responsibility for the economy and environment, people and communities.

How Good Is Your Council? ("HGIOC") continues to be used to perform self-assessments against service plans (which are aligned to the council plan). During 2013, internal audit will perform a follow up review on improvements made to the process. To ensure effective preparation, management has incorporated questions from the Best Value 2 toolkits into the HGIOC process. Management also intend to consider further support and challenge opportunities to the HGIOC process in partnership with the LAN over 2013-14 and beyond. The Council is continuing to working towards Investors In People accreditation. These requirements now also form part of the HGIOC self-evaluation process.

Welfare reforms

Changes to the council tax benefit scheme from 1 April 2013 have been incorporated in the 2013-14 council tax proposals. Detailed reporting on these changes and the evaluated impact of the social welfare fund and discretionary housing payments continue to be reported to, and considered by, members.

Financial strategy

In setting the financial strategy for 2013-14 to 2015-16, the Council recognised the likely increasing demand for both services and service quality. Scottish Government spending plans have identified that local government funding is expected to cumulatively fall by 6.3% by 2014-15. Capital grant funding is anticipated to fall in the three years 2013-14 to 2015-16.

The Council needs to continue to seek efficiency savings through effective business transformation to not only meet the Scottish Government's Best Value regime, but also to ensure continuous improvement and achieve underlying financial balance.

The financial strategy identifies that no more than £2.284 million of general service reserves should be used in 2013-14 and 2014-15. It also identifies that a sustainable general services budget should be developed by 2015-16. The previous three year budget for 2012-13 to 2014-15 indicated no reserves utilisation in 2014-15, however the use of reserves have now been re-profiled to allow the Council to embed efficiency savings and complete the business transformation process.

Annual limits have been set for capital expenditure to 2017-18, which are intended to remove the need for new borrowing after 2013-14. Management has noted that a disciplined approach to implementation of the change programme is needed to deliver financial efficiencies; uncertainty remains in respect of the extent and precise nature of planned changes.

Financial position and governance framework (continued)

Efficiency savings

The 2013-14 to 2015-16 budget identifies that a portion of efficiency savings will be achieved through a voluntary early release scheme ("VERS"). Management project that this could impact around 100 members of staff and will deliver annual savings of £2 million from 2013-14 and a further £1 million from 2014-15.

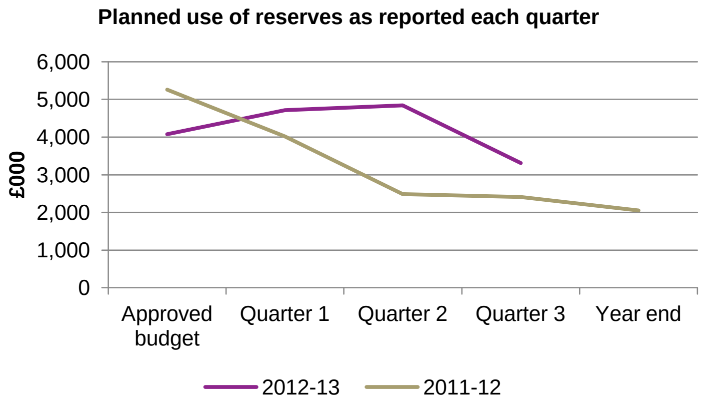
The Council's earmarked cost reduction fund will be used to fund associated costs. It is expected that the VERS scheme will align with further changes to streamline the workforce and facilitate the necessary organisational changes to deliver priority Council services in the most cost efficient way. The Corporate Management Team ("CMT") is reviewing how best to support the implementation of the Council's efficiency savings programmes.

Financial position and governance framework (continued)

As part of our interim audit we have reviewed the current financial position and anticipated outturn to the year end.

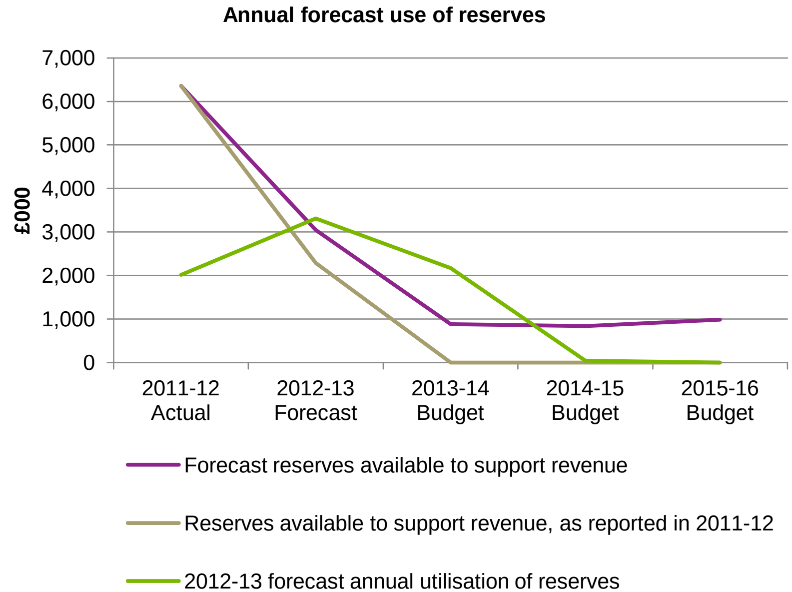
Financial forecast – use of reserves

Ensuring a sustainable financial position is a key area of focus for the Council. A three-year budget was approved on 14 February 2012 and this budget assumed £4 million utilisation of reserves in 2012-13. Management's internal quarter three forecast projects that only £3.3 million utilisation of reserves will be required. The movement in planned use of reserves from the approved budget is summarised in the chart below. In line with the Council's financial strategy, any reduction in the amount of utilisation of reserves originally required will be used to further support the cost reduction fund.



The chart shows that to date there is less fluctuation in planned use of reserves in 2012-13, compared to 2011-12.

The chart opposite illustrates the use of reserves over a five year period, in accordance with the approved council budget for 2013-14 to 2015-16, against reserves available. Due to changing utilisation of reserve balances in 2011-12 and 2012-13, the profile of resources available has changed; the Council is no longer expected to use all available reserves during this period. From 2015-16 it is projected that a small surplus (£149,000) will be generated, resulting in an increase in reserves.



The forecast improvement in financial position will be achieved from a number of different factors, notably:

- under-spends in services for communities (£0.4 million) and support services (£1 million), mainly due to the expected adjustment to the police and fire requisitions;
- lower than expected long-term loan interest on borrowing for capital as a result of a reduced capital plan;
- under-spend in the primary school business group, due to the non-domestic rates credit expected, reduced long term absence / maternity credits and lower than expected pupil roll numbers; and
- offsets in the overspend in the children's service management budget. The practice teams are also expected to exceed budget due to overspends on external provision.

Financial position and governance framework (continued)

Year to date financial position

The quarter three financial position report to cabinet identified a positive variance of £0.8 million against the year to date budget to 31 December 2012. As illustrated in the table below, the significant areas of variance relate to:

- services for communities underspend primarily within transport & waste services (£0.8 million) and community housing (£0.3 million);
- services for people overspend due to children's (£1.1 million) and adult (£0.5 million) wellbeing overspend, offset by an under spend on primary schools (£0.5 million);
- support services reduction, marginally offset by a small overspend by community partnerships; and
- higher than forecast other income (£0.4 million).

Variance from revenue budget

	Full year budget £'000	Year to date budget £'000	Actual to 31/12/12 £'000	Variance £'000
Services for people	138,738	99,996	101,170	1,174
Services for communities	30,739	14,028	12,838	(1,190)
Support services	26,233	19,039	18,804	(235)
Corporate management	(195,710)	(142,368)	(142,873)	(505)
Total	**-**	**(9,305)**	**(10,061)**	**(756)**

Source: *KPMG's analysis of quarter three finance review to cabinet*

Management has made no changes to the financial risk rating assigned to each business group. Eight continue to be assessed as 'high' financial risk. These include children's wellbeing and additional support for learning groups which are forecast to overspend in 2012-13.

Evolving financial position

In our 2012-13 audit strategy overview we noted that while the Council's mid-year financial review was showing a £1.8 million underspend compared to budget, the Council was forecasting an overspend in the second half of the year and that greater utilisation of reserves would be required to balance the budget. Management has confirmed that the improved quarter three financial position is due to cost control measures introduced at the end of quarter one, including their general advice to minimise spending and restrictions in recruitment across the Council.

The current police and fire boards will be wound up at the end of the 2012-13 financial year with their responsibilities transferred to new national bodies. It is anticipated that the Council will receive their share of the reserves of both boards through an adjustment to the 2012-13 requisitions of around £426,000. This has contributed to the improved financial position.

Efficiency savings

Management has reported that the majority of support services and services for communities are expected to be within budget at year end. However, in some areas, management has identified that the progress made towards the required 2012-13 efficiency savings has been slower than planned, resulting in some which will not be realised until 2013-14, such as the delayed janitorial service review. Management expected this service review to generate efficiency savings of £150,000 in both 2011-12 and 2012-13, but work remains ongoing to reach agreement between education and janitorial groups on how to best achieve these savings.

Financial position (continued)

Housing revenue account

At the end of December 2012 management reported the main revenue budgets were £82,000 over budget. Rental income was less than forecast, due to slower delivery of new build affordable homes and those purchased under the open market acquisition scheme.

The Council has purchased 40 homes during the period to December 2012; 16 from the mortgage to rent scheme, and the remainder under the open market acquisition scheme. The gross cost is £4.99 million, against a budget of £7.87 million. The modernisation and leasing buy-back budget has a projected under-spend of £500,000 by the year end due to contract renewals and a review of the Scottish Housing Quality Standard requirements.

Capital plan

As part of the mid-year financial strategy review the Council agreed to a revised capital expenditure limit of £33 million for 2012-13. The total expenditure as at 31 December 2012 was £22.7 million, representing 73% of the budget.

Management expect additional costs on the Ormiston community centre project, although they anticipate that this will be offset against capital projects which have been completed under their budget allocation. However, they note the impact will be reduced by project slippage on the Gullane day centre, the replacement of Peppercraig depot and the North Berwick museum.

The financial strategy highlights that flexibility will be needed within the limits to take account of additional capital income received and any in year transfers as a result of project slippage. It also sets out capital limits for the next five years as detailed in the table opposite.

Year	Capital expenditure limit (£m)
2012-13	33.0
2013-14	28.0
2014-15	20.0
2015-16	21.0
2016-17	18.0
2017-18	18.0
Total	**138.0**

Source: Council capital budget

Audit focus areas

During the planning process we identified key risks for specific consideration during the audit.

We have updated our understanding of the factors impacting on each of these risks to further inform our year end procedures.

We have developed our understanding of your key audit risk areas based on our initial risk assessment procedures, including discussions with management. Key areas identified are detailed below.

Issue	Key risk and implications	Update
Financial position	The 2012-13 budget forecast a £4 million utilisation of reserves. The recent budget monitoring position forecasts a utilisation of £3.3 million of reserves. Further utilisation is budgeted in 2013-14 and a balanced financial position is projected for 2015-16, driven by the benefit of increased efficiency measures.	We have: ▪ updated our understanding of the 2012-13 budget setting process through discussions with key members of staff; ▪ considered the key budget pressures, and the action taken by management to address these; and ▪ inspected a sample of budget monitoring reports. We have commented elsewhere within this report about the Council's financial position, budget setting process and arrangements in respect financial reporting and scrutiny. We will compare the final audited financial position to the forecast figures from quarter three to determine the accuracy of budget monitoring during the year.
Capital programme	The revised 2012-13 general services capital limit is £33 million, being a 14% reduction on the 2011-12 actual spend of £38.3 million. The original capital budget of £37.5 million was revised in October 2012 in order to manage costs. Key capital projects include the Haddington IS / St Mary's Roman Catholic Primary School campus, Brunton Hall refurbishment and Fa'side Care Home. As at 31 December 2012, expenditure incurred to date was 73% (£22.7 million) of the revised annual capital budget.	We have: ▪ monitored the achievement of the capital programme for the year to date; ▪ updated our understanding of the future capital plans of the Council; and ▪ considered the risks associated with the funding of the capital programme. We will review and evaluate year end progress against the capital budget during our financial statement audit in order to consider the appropriateness of capital additions and the implications on Council borrowing levels.

Audit focus areas (continued)

Issue	Key risk and implications	Update
Valuation of property, plant and equipment	Valuation of property, plant and equipment across the Council's portfolio of assets remains a key audit risk area. A revaluation of a substantial element of "other land and buildings" was commissioned as at 1 April 2011. With a proactive capital programme, management will need to consider whether there is any associated impairment of the current carrying value of existing assets on the balance sheet. We recommended in the 2011-12 annual audit report that a review of the valuation policy is performed, addressing the rolling basis of valuations across classes, the date of valuation of assets and documentation of the assessment of appropriateness of the carrying values of assets at balance sheet dates.	Management has performed a review of valuation policies and procedures. during 2012-13. Management prepared a paper for the March audit committee meeting and this set out that they have: ■ identified the rolling basis of valuations of classes of assets; ■ requested valuations are performed as at 31 March, instead of 1 April; and ■ requested annual reports on the appropriateness of market conditions or fair values and their possible impact on carrying values. As part of this review, three buildings were identified as incorrectly categorised and two buildings did not have a current valuation. Valuations will be carried out in 2012-13 and we will consider the results during our financial statement audit. We reviewed the valuation policies and procedures paper and provided some minor comments to enhance the clarity of the paper. Impairment discussions are undertaken by the finance manager in collaboration with the estates department. We will review the results of impairment considerations and any improvements in the process during our financial statement audit.

Governance framework

Organisation-wide controls often have a pervasive impact on control activities, and therefore on our assessment of the risk of significant misstatement within the Council's financial statements.

Our interim audit fieldwork was based on updating our understanding of the strategic and operating culture and framework in which services are delivered. Audit procedures performed to gain an understanding about the design and implementation of relevant controls include inquiring of senior personnel, observing the application of specific controls and inspecting documents and reports.

We have noted improvements in the governance and controls framework from the prior year. Changes to policies and procedures have been made against a backdrop of senior staff restructuring, changes to the administration as a result of the May 2012 elections and ongoing efficiency rationalisation. While management has acted on a number of the recommendations made in our 2011-12 audit reports, which demonstrates a commitment to continuous improvement, a number of areas continue to require attention.

Audit area	Key areas considered	Findings
Financial management	■ Financial analysis ■ Financial reporting	■ The financial strategy sets out the requirements for budget monitoring and reporting, including quarterly reports to the cabinet, and monthly performance reports for all budget holders. ■ Quarterly reports are presented to council or cabinet. This is a development on the prior year, and should facilitate enhanced scrutiny of financial performance. ■ The financial management process could be further strengthened with respect to: - consistency and detail of variance explanations included within quarterly business group reports – some currently provide additional insight into 'forward looking' financial information and risks; and - reporting progress against specific efficiency savings. It is recognised that the CMT is reviewing how best to support the implementation of the Council's efficiency savings programmes. ***Recommendation one***

Governance framework (continued)

Audit area	Key areas considered	Findings
Organisation-wide policies	■ Standing orders of council and scheme of delegation ■ Code of conduct ■ Employee handbook ■ Whistle blowing policy ■ Counter fraud policy	■ Organisation-wide policies are important as they set the tone of the Council, outline expectations of employees, document key processes to be followed by all staff, and communicate the culture of honesty and ethical behaviour. They are easily accessible and available to all staff on the intranet. ■ From our testing we identified that a number of policies have not been updated or at risk of being out of date: - standing orders – management intend to revise the Council standing orders, however this has been delayed. Updates to other organisation-wide policies rely on the standing orders being updated and approved. It is expected these will be approved in June 2013; - whistle blowing policy - the details for relevant contacts are out of date, with seven of the 12 departmental contacts and two of the three council-wide contacts incorrect, some having left the Council; - anti-bribery policy – we noted the Council did not have a policy to cover the new anti-bribery act in our 2011-12 interim management report. This remains outstanding. ■ The council improvement plan 2011-12 identified an action to develop and maintain a methodology for reviewing and updating corporate policies and procedures. In 2011-12 we made a recommendation that management should complete the action in the council improvement plan. The year end review of the council improvement plan identified that "*A database of all Council policies, strategies and guidance is being created and will be reviewed annually as part of the corporate governance self-evaluation. The new database will also allow a systematic review of the policies, strategies and guidance.*" This still needs to be finalised. ***Recommendation two***

Governance framework (continued)

Audit area	Key areas considered	Findings
Related parties	■ Elected members' register of interest ■ Chief officers' register of interest	■ Separate registers of interest exist for chief officers and elected members. Our testing confirmed that both registers were up to date.
Risk management	■ Risk management strategy ■ Corporate risk register ■ Strategic department risk register ■ Operational risk register ■ Risk monitoring	■ The risk management strategy and supporting documentation demonstrate a commitment to good practice and were initially implemented in December 2009. ■ A corporate risk register is in place and is supported by departmental risk registers. The council risk management group meets regularly to discuss risk management and membership includes one member of each local risk group. This ensures emerging risks at the departmental level are fed into the corporate register. ■ The corporate risk register was reviewed and updated following a review by the council risk management group on behalf of, and in consultation with, the council management team. This was approved by cabinet and the audit and governance committee in January 2013. The risk management strategy also underwent a refresh after the risk registers were finalised in October 2012.
Procurement	■ Procurement policies and procedures ■ Tendering limits ■ Use of PECOS ■ New suppliers ■ Off contract spend	■ We undertook a detailed review of procurement in 2011-12, and raised a number of recommendations to assist the Council in its continuous improvement agenda. ■ New procurement policies and procedures have been drafted but not implemented as they require the new standing orders to be approved. Procurement training has been provided to the procurement team and 20 to 30 other members of staff at the Council. ■ Tendering thresholds have been revised in the updated procedures in line with the EU requirements, although will not be implemented until the procurement policy is approved. ■ We have tested new suppliers as part of our expenditure controls testing. New suppliers require an authorised new supplier form, and it is expected that procurement are involved in approval. The procurement team are introducing quarterly reports to heads of service detailing new suppliers used without procurement involvement. ■ Management has noted limited success in increasing the use of PECOS and decreasing the volume of 'off contract' expenditure. The procurement team has identified that significant 'off contract' expenditure is from the social care business group, where spot purchases of residential home places have taken place.

Internal audit

Audit area	Key areas considered	Findings
Internal audit	■ Annual internal audit plan ■ Sample sizes ■ Internal audit reports ■ Investigations ■ Reliance on individual internal audit reviews	■ The annual internal audit plan is aligned to the financial year. Directors are consulted and the risk register considered as part of planning. Input from external audit is requested to facilitate an efficient approach to controls testing. ■ We recommended internal audit implement a methodology to determine sample sizes on a robust and consistent basis. In 2012-13 a standard sample size basis is used for financial system audits, and samples are selected to provide coverage of the full financial year. ■ Internal audit recommendations reported to management and the audit and governance committee are not graded or subject to risk assessment. Prioritising resources to address significant risks are compromised as is distinguishing between areas which are more fundamental in nature, rather than 'housekeeping' or informational. In our experience, the lack of risk assessment is out of line with the majority of other bodies. This is a brought forward recommendation from 2011-12. ■ The IASAB produced a common set of public sector internal audit standards ("PSIAS"), which require to be applied to the public sector from 1 April 2013 and we recommend that internal audit perform a self assessment against them. ***Recommendation three*** ■ Internal audit are conducting an investigation of the processes and procedures over works notices. The work is ongoing and we will consider the implications for our audit opinion and any further work necessary on receipt of the investigation's conclusions. ■ Reports on concluded investigations have not been presented to the audit and governance committee. There is a risk that appropriate scrutiny of the Council's operations is not facilitated. We recommend that reports are presented to the audit and governance committee on a timely basis, when disciplinary matters have been concluded if relevant. ■ Regular progress reports against the annual internal audit plan are not presented, showing status compared to the plan, and this would support the audit and governance committee in their remit to evaluate internal audit's work, and identify where reports are outstanding. ***Recommendation four*** ■ In our audit plan, we reported that we planned to place reliance on internal audit's work on: - council tax revenue; - income collection; - payroll; - purchase cards; and - statutory performance indicators.

Key financial controls

Our testing of the design and operation of controls over significant risk points confirms that, with the exception of weaknesses reported, controls are designed appropriately and operating effectively.

We will assess the impact of control weaknesses on our audit approach and increase our substantive audit testing where required.

Our audit plan identified the classes of transactions, disclosure and account balances that are significant to the financial statements. Where the audit objective has a controls approach, we have obtained an understanding of accounting and reporting activities over each significant account and identified and tested key financial controls. We have evaluated the design and implementation of these controls and, where appropriate, tested the operating effectiveness.

A number of key financial controls are automated or rely on computer or systems based controls; we carried out work on general IT controls and the overarching IT environment and report our findings within this report.

<table>
<tr><th>Audit area</th><th>Key controls</th><th>Findings</th></tr>
<tr><td>Cash at bank</td><td>■ Bank reconciliations</td><td>■ Management has recognised deficiencies within the process of bank reconciliations and are working to resolve the issues so that reconciliations are performed in a timely manner. The table below summarises progress against each account as at 1 March 2013.
<table>
<tr><th>Bank account</th><th>Date of most recent reconciliation</th></tr>
<tr><td>General account</td><td>20 December 2012</td></tr>
<tr><td>Creditors account</td><td>31 December 2012</td></tr>
<tr><td>Revenues account</td><td>14 January 2013</td></tr>
<tr><td>Payroll account</td><td>31 January 2013</td></tr>
<tr><td>Rent allowances account</td><td>31 January 2013</td></tr>
<tr><td>Liquidity/interest account</td><td>31 January 2013</td></tr>
<tr><td>Control account</td><td>31 January 2013</td></tr>
</table>
■ Progress has been made to bring the bank reconciliations up to date, however further work is needed to ensure all year end bank reconciliations are completed in a timely manner.
■ The November 2012 reconciliations were signed as prepared by the treasury and banking officer on 19 February 2013. There was no evidence of review by the corporate finance manager due to annual leave. It is good practice to have the bank reconciliation reviewed and authorised in a timely manner. This will be followed up during our financial statement audit.
Recommendation five</td></tr>
</table>

Key financial controls

Audit area	Key controls	Findings
Reconciliations	■ Reconciliation controls should exist in the majority of financial systems and should be performed periodically, from daily to annually.	■ We note that management has made good progress in improving the documentation of reconciliations and the performance of these on a regular basis. The finance team has introduced reconciliation cover sheets which set out the balances being reconciled, and require to be signed and dated by the person performing the reconciliation and the independent reviewer. This reconciliation process was largely implemented for quarter three. ■ This demonstrates progress from 2011-12, where we reported that a number of reconciliations were not properly documented. In some instances, two reports were filed together (on paper or electronically) but there was no evidence of the reconciliation being performed, or action taken to identify and resolve reconciling items. ■ Appendix two reflects updated details of the identified weaknesses and associated risks. ■ We will review year-end reconciliations as part of our final financial statement audit to ensure they have been prepared effectively and new processes have been fully embedded.
Payroll	■ Staff expenses ■ Councillors' expenses ■ Exception reports ■ Starters, leavers and amendments ■ Pensions data	■ The key controls over changes to payroll data have been designed appropriately. We expect to place reliance on internal audit's testing of the operating effectiveness of these controls. ■ Controls tested over expenses and pensions data have been designed appropriately, implemented and are operating effectively. ■ Recommendations raised in 2011-12 have been addressed.
Income	■ Sales invoice authorisation ■ Cash receipting	■ We consider that the key controls over cash receipting have been designed appropriately. We will place reliance on internal audit's testing of the operating effectiveness of these controls. ■ Some key documentation was missing for sales invoices relating to property maintenance, with authorisation not evidenced for all three selected in our sampling. It appears that authorisation is obtained, however the retention and filing of evidence could be improved.

Key financial controls (continued)

Audit area	Key controls	Findings
Expenditure	■ New supplier authorisation ■ Purchase order, goods received and invoice authorisation ■ Payment run data checks	■ From our testing, we consider that controls over purchase orders, goods received, invoice authorisation and payment runs have been designed appropriately, implemented and are operating effectively. ■ New suppliers should not be added to the system until a supplier request form is received. Our testing identified that there was no supplier authorisation form completed for 13 of the 25 items in our sample. Some had other evidence to support the lack of authorisation, for example the payments were refunds rather than purchases. However, there was no form of any background check or authorisation for 5 of the 25 sampled items. ■ One of these was a foreign supplier for which faster payment was requested. In cases of “faster payment” the form should be completed retrospectively to evidence that the supplier is authorised. ***Recommendation six***
Journals	■ Authorisation of journals	■ We noted in our 2011-12 annual audit report that there was an increased risk of fraudulent or erroneous journals not being identified on a timely basis due to a lack of controls over the authorisation of journals. ■ Management recognised the need to review journals and the finance manager has considered the authorisation process as a result of our recommendation. He is working through the current year journal files using a risk based sample approach to retrospectively authorise a sample of journals. We will perform controls testing over authorisation of journals during our financial statement audit work and will substantively test a sample of journals. ***Recommendation seven***

IT controls

Our testing of the design and operation of controls over significant risk points confirms that, with the exception of weaknesses reported, controls are designed appropriately and operating effectively.

We will assess the impact of control weaknesses on our audit approach and increase our substantive audit testing where required.

IT controls form an essential part of managing the Council's use of technology. There is a balance to be achieved between reducing risk and maximising efficiency. The broad objectives of the review were to perform detailed testing in accordance with our audit methodology. We evaluated the design and implementation of IT general controls relevant to key financial systems. We also tested the operating effectiveness of those controls. Our work assessed the IT general controls covering the following four areas:

- access to programs and data;
- program changes;
- program development; and
- computer operations.

We obtained an understanding of the IT background, systems and risks within the IT control environment through a series of fact finding interviews with staff and management. In the performance of the IT general controls review, our work involved discussions with key staff to help us gain an understanding of the key financial system controls, supplemented by detailed testing as appropriate.

Audit area	Key controls	Findings
IT general controls - policy	■ Disaster recovery tests ■ IT acceptable use policy ■ Super users	■ Applications are physically held in a secure environment and backed up regularly. There is a business continuity plan and disaster recovery is tested annually for high priority systems. ■ New council staff are required to read the IT acceptable use policy and sign a form to evidence that they have read the policy and agree to abide by it. This has a start date and if applicable, an end date. However, four of the 25 acceptance forms in our sample were out of date. This is due to staff being hired on a temporary basis with a fixed end date and contracts being extended but no new form is completed. Therefore these members of staff technically do not have a valid form to state that they have read, understood and agree to abide by the Council's IT acceptable use policy. ***Recommendation eight***
IT general controls – systems management	■ Super-users	■ Ideally, IT systems should have no generic super user accounts. However, the Dynamics Great Plains system has a generic super user account which four members of staff with admin permissions have access to. This is the only account which can be used to add or modify users, however this leaves no audit trail regarding which individual made the changes. The Capita system also has a generic account for which the password is shared but the systems and control team leader states this is only for the release of new software. ***Recommendation nine***

IT controls (continued)

Audit area	Key controls	Findings
IT general controls – systems access	■ New starters ■ Passwords ■ Leavers	■ We noted recommendations in 2011-12 to improve the consistency and robustness of password policies and retention of evidence to demonstrate leavers had been removed from systems. ■ Our testing of systems access controls identified: - One Great Plains new user did not have an appropriate new user form for a temporary additional profile provided under the banking user class to provide support to the banking team. This access had been set up by the corporate development accountant without line manager authorisation. - One new employee in our sample of new network users rejoined the Council on 15/08/2012 and has not since been registered as leaving, however does not appear to have access on the network. This employee is a supply teacher and therefore only requires *ad hoc* access. Two forms were on the system, with access ending on 20/05/12 and 01/07/12. The infrastructure and security team leader has concerns that employees were sharing their passwords with this member of staff rather than arranging access every time. - Passwords for network access, Great Plains and Capita must contain a minimum of six characters, must be changed at least every 90 days and staff are locked out after three false attempts. This is in contrast with the Council's own policy which states passwords should contain at least eight characters, including some numeric and special characters. This is due to be changed and the infrastructure and security team are aware of this discrepancy. - The human resources department provides details of leavers to system administrators. There is a lack of documentation retained to evidence action taken to remove users from the Orchard and Capita systems. ***Recommendation 10***

Performance management

Our audit strategy and plan set out a number of performance management audits that we are required to carry out.

Audit area	Overview	Findings
Statutory performance indicators	During the audit cycle, we develop an understanding of the arrangements and systems that the Council uses to generate performance results and consequent reports. Our testing may require sampling of data to test reliability, but the risk of ensuring accuracy and relevance of performance indicators lies with the Council. As external auditor, our responsibilities extend to understanding arrangements and systems that the Council uses to generate performance results and consequent reports. Our work will include consideration of internal audit's role in testing SPIs and reporting the results.	The Council monitor and report on statutory performance indicators. In 2011-12 internal audit reviewed a sample of performance indicators. A similar piece of work will be undertaken on the 2012-13 performance indicators. We will complete work in this area in July - August 2013 and report our findings to management and the audit committee.
National fraud initiative	NFI helps participating bodies to identify possible cases of fraud, and to detect and correct any under or overpayments. NFI also helps auditors to satisfy their duties to assess bodies' arrangements for preventing, deterring and detecting fraud.	The Council has received matched data for 2012-13. The housing benefit team are reviewing all housing benefit matches, and internal audit are building time into their 2013-14 plan to review all other matches. We will select a sample of resolved matches to test during our final audit and ensure they have been appropriately reviewed and any follow up carried out.
Shared risk assessment, Best Value and the Single Outcome Agreement	Local area networks ("LANs") have been established for each council to bring together local scrutiny representatives in a systematic way. The national scrutiny plan is underpinned by an assurance and improvement plan ("AIP") for individual councils.	As your external auditor, we are a key member of the LAN. We have met with members of the local area network, and will continue to participate and cooperate with other scrutiny bodies. The Council LAN is in the process of updating the AIP for the period 2013-16 and we will review the final document for consistency with our understanding of the Council.

Performance management (continued)

Audit area	Overview	Findings
Local response to national studies	Audit Scotland and the Accounts Commission periodically undertake national studies on topics relevant to the performance of public sector bodies. To ensure that added value is secured through the role of Audit Scotland, the Accounts Commission and its appointed auditors will continue to ensure that audited bodies respond appropriately to reports from the programme of national performance audits.	We have considered the Council's response to the following national report: ■ Commissioning Social Care We have prepared a short return to Audit Scotland for this report. This report was published on 1 March 2012 and was considered by the adult wellbeing senior management team in April 2012. No formal self-assessment was carried out and no action produced, although the recommendations were used as part of the review of the care services commissioning strategy. A recommendation was raised in our 2011-12 interim management report for management to ensure all relevant national reports are considered and self-assessments performed. We understand that management has implemented a review process for future Audit Scotland national studies.

Performance management

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified Scotland's public finances: Addressing the challenges for follow-up in 2012-13.

We carried out follow-up work to consider the Council's response to the report.

Scotland's public finances: Addressing the challenges

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified the *Scotland's public finances: Addressing the challenges* for follow-up by local auditors in 2012-13. The aim of the follow-up work is to assess how public bodies are responding to the challenges of public sector budget constraints and their efforts to achieve financial stability. Set out below are our findings from our follow up work.

1. Do public bodies have sustainable financial plans which reflect a strategic approach to cost reduction?	
Does the organisation have a balanced financial plan for 2012-13 which sets out: ▪ Assumptions about sources of income and cost pressures? ▪ What cost reductions and other efficiency savings will need to be made, and how they are to be delivered? ▪ Risks to service delivery as a consequence of the need to reduce costs and deliver identified efficiency savings?	We have considered the process for the 2013-14 to 2015-16 budget as this has now been set and approved by Council. Each budget change and efficiency measure or saving is identified in the budget proposals, with a brief explanation. Uncertainty remains over the extent and precise nature of changes that will be required and are subject to some uncertainty as a result. The finance strategy 2013-14 to 2015-16 supports the Council budget and sets out assumptions for income and cost pressures. 10 key financial strategy risks are detailed, with mitigating actions. Some of the key risks identified are around efficiency savings not being achieved, wider changes in the economy impacting on costs and a failure to effectively manage the budget.
Does the organisation have a clear budget-setting process which: ▪ Demonstrates a clear understanding of its costs and how costs vary with activity? ▪ Takes into account previous years' service delivery performance and where improvements need to be made? ▪ Takes into account the body's track record on delivering against budgets and analysis of the reasons for previous years' under/over spends? ▪ Allocates resources according to a clear understanding of its priorities, including which services or activities are expected to contribute most and least to the achievement of the organisation's outcomes?	Known corporate commitments, based on identified costs and pressures are used to create a first draft budget. The council management team consider its core priorities and undertake a pro-rata exercise of savings across all business groups to reduce any deficit. Each business group is expected to produce savings proposals. These are considered by the finance team for reasonableness taking account of previous service delivery performance and delivery against budget. Proposals also include validation of savings proposed in previous years.

Performance management (continued)

Is there a clear evidence base to cost reduction plans? If yes: ■ Does the organisation undertake a programme of service reviews designed to identify the scope to reduce costs? ■ Do cost reduction plans provide adequate detail on how savings are to be made and over what timeframe? ■ Do cost reduction plans state who within the organisation is accountable for their delivery? ■ Do cost reduction plans give adequate consideration to the impact of reduced expenditure/ changes to service delivery arrangements on service performance and outcomes? ■ Are clear baselines established against which efficiency savings can be measured?	Each business group has undergone, or will undergo, a service review and is expected to submit savings proposals. Detailed verification work of proposals is undertaken to ensure accurate baselines have been developed. The budget proposal sets out the expected savings in each of the three years and a brief description on how such savings are to be made, although there is an element of uncertainty. These are supported by detailed business group savings proposals. The manager of the business group is accountable for achievement of the savings along with their team. A transformation board is being set up to help implement and monitor savings programs and review the effect of such programs on service delivery. The three year financial plan outlines the baseline savings in 2013-14 and future years against which efficiency savings can be measured. In 2012-13 efficiency savings were detailed within the three year financial plan and these baselines were used to evaluate business groups achievement of savings in 2012-13.
Does the organisation regularly use benchmarking to compare its costs and performance with other organisations, including public bodies in other sectors and other non-public sector bodies? Can the organisation demonstrate real and measurable benefits from its benchmarking activities in terms of cost and/or quality improvements?	Individual services perform benchmarking and market analysis where appropriate. For example, the 'Place To Be' and 'Spark of Genius' programmes are market tested and reviewed to ensure efficiencies and value for money is achieved. Outcomes of these reviews may result in services being put out for tender to obtain cost and quality improvements.
Does the organisation have a longer term financial strategy which: ■ Takes into account planned changes to service delivery arrangements and anticipated changes in demand for services? ■ Sets out how financial resources will be matched to strategic goals? ■ Demonstrates that current cost reductions and efficiency savings are in line with longer term strategic objectives?	The finance strategy 2013-14 to 2015-16 covers the medium term financial position, and is supported by three year budget proposals. These take into account known corporate commitments and anticipated changes in demand for services. The effect of the VERS scheme has been incorporated. The budget proposal covers three years and each of the directorates are fully costed showing how resources are expected to be used in each directorate. The longer term strategic objective is to ensure a sustainable financial position, and the current efficiency measures and savings are key to achievement of this objective.

Performance management (continued)

2. Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?	
Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans: ■ Are high level financial targets and the overall financial position of the organisation discussed regularly at board level meetings? ■ In setting financial plans, do members adequately consider the impact of budget reductions on service quality and outcomes?	Quarterly financial position reports are presented to council or cabinet which summarise high level financial performance against budget for each business group. During the budget setting process, the finance team facilitate weekly meetings with members to identify and evaluate budget proposals. Members are informed of the impact their proposed budget reductions would have on service quality and outcomes.
Do senior officials, elected members and non-executive directors provide: ■ Sufficient focus on strategy and performance? ■ Adequate challenge on longer-term financial plans? ■ Regular consideration of financial risks? ■ Adequate monitoring of the achievement of efficiency targets?	Council and cabinet meetings provide a forum for political debate on the council's strategy and performance. Challenge of longer-term financial plans is facilitated through the weekly budget setting meetings held with the finance team. Consideration of financial risk is included within audit and governance committee scrutiny of risk registers and risk management policies. As part of the budget setting process management and members agree budget savings to close the budget gap. These savings are incorporated into the annual budget which is monitored. The transformation board is intended to further promote ongoing monitoring of the achievement of efficiency savings.
Is there appropriate transparency and accountability of decisions about cost reduction measures and future organisational plans: ■ Is there appropriate consultation with the public and other stakeholders over cost reduction plans which identify various options and their impact on service delivery and outcomes? ■ Do financial and corporate plans adequately spell out the consequences of reduced budgets on the organisation's ability to deliver services and outcomes?	Due to the council elections in May 2012, no public or stakeholder consultation was undertaken in setting the 2013-14 to 2015-16 budget as members considered their manifesto had been approved by election success. Consultation was undertaken in previous years. The council management team intend to encourage members to use a model in future years. Rent proposals underwent the statutory public consultation methods.

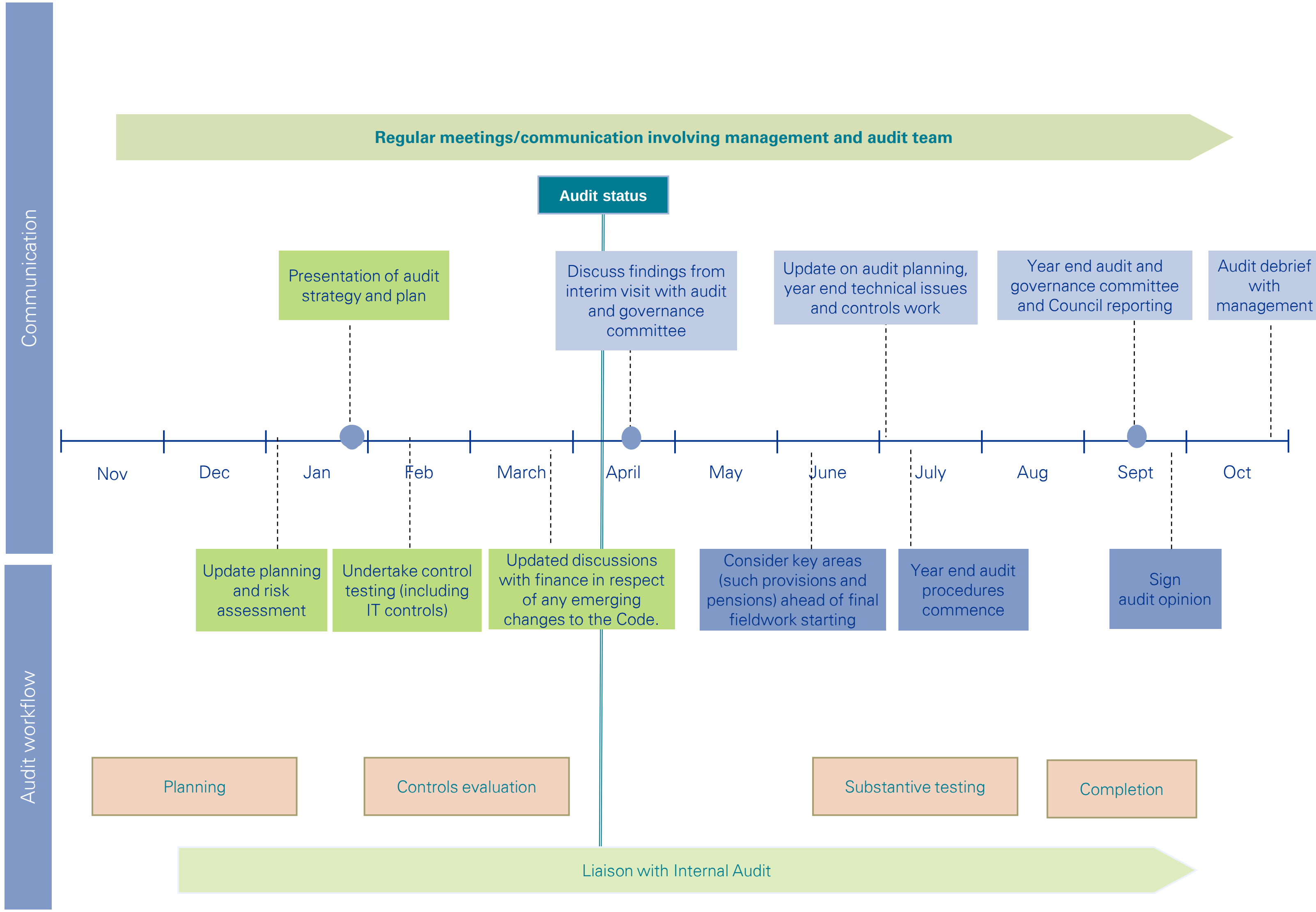
Performance management (continued)

Do finance/resource committees and other scrutiny committees play a suitably prominent role in the consideration of budget plans and risks to service delivery: ■ Are finance/resource and other scrutiny committees sufficiently involved in the consideration of budget plans, including: ■ the impact of budget reductions on service delivery ■ the organisation's track record of delivering against budgets? ■ reasons for previous years' under/over spends against budget? ■ Do finance/resource and other scrutiny committees undertake a regular programme of reviews of business areas to examine issues such as the achievement of value for money and service delivery? ■ Do finance/resource and other scrutiny committees regularly assess areas such as financial risks and efficiency savings? Are reports from finance/resource and other scrutiny committees on budget plans and risks to service delivery given proper consideration by officials, with recommendations being promptly acted upon? ■ Do finance/resource and other scrutiny committees receive reports on the extent to which cost reductions and efficiency savings have impacted on service delivery?	The council does not have a finance / resource committee and the audit and governance committee is not involved in consideration of budget plans and risks to service delivery. After the finance team has verified business group efficiency savings proposals, two working groups are set up; one with the administration and one with the opposition . These scrutinise and develop their budget proposals which are put forward at the council meeting. Quarterly financial position reports are presented to council or cabinet which summarise high level financial performance against budget for each business group. Risk registers are reviewed by the audit and governance committee on an annual basis, as evidenced from the meeting minutes. The transformation board is expected to provide support for delivery of efficiency savings and scrutiny of achievements and impact. Where spending pressures are not containable within business groups there are set processes for reporting such variances against budget. Executive directors have authority to vire budgets between their own business groups. Where this cannot be achieved, council may be asked to reconsider their policies within that group or elsewhere to yield the necessary savings.

Audit timeline

The proposed timetable is largely unchanged from the prior year, but is subject to refinement through discussions with management.

We have now substantially completed the planning and control evaluation phases of our audit.



= Audit and governance committee meetings

Appendices

Action plan

The action plan summarises specific recommendations, together with related risks and management's responses.

We have identified one grade one ('significant') observations; we have identified 9 other recommendations.

KEY

*** Recommendations noted in 2011-12 audit reports.**

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Financial management – operational reporting		**Grade three**
Quarterly reports are presented to council or cabinet. This is an improvement change on the prior year, and facilitates scrutiny of financial results.	The financial management process could be further strengthened with respect to: ▪ consistency and detail of variance explanations included within quarterly business group reports – some currently provide additional insight into 'forward looking' financial information and risks; and ▪ reporting progress against specific efficiency savings. It is recognised that the CMT is reviewing how best to support the implementation of the Council's efficiency savings programmes.	Management accept and will implement appropriate changes within 2013-14 quarterly reporting. **Responsible officer(s):** Business Finance Manager **Implementation :** September 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2 Organisation-wide policies *		**Grade two**
From our testing we identified that a number of policies have not been updated or reviewed or are at risk of being out of date. The council improvement plan 2011-12 identified an action to develop and maintain a methodology for reviewing and updating corporate policies and procedures. In 2011-12 we recommended that management should complete the action in the council improvement plan. The year end review of the council improvement plan identified that "*A database of all Council policies, strategies and guidance is being created and will be reviewed annually as part of the corporate governance self-evaluation. The new database will also allow a systematic review of the policies, strategies and guidance.*" This still needs to be finalised.	Management should complete the action in the corporate improvement plan to develop and maintain a methodology for systematically reviewing and updating corporate policies. For those policies not requiring revision, the new methodology should require that this decision is documented annually.	Management has accepted this recommendation and work has already begun to develop the new methodology. **Responsible officer(s):** Corporate Policy & Improvement Manager **Implementation date:** November 2013
3 Internal audit – reporting *		**Grade two**
Internal audit recommendations reported to management and the audit and governance committee are not graded or subject to risk assessment. It can be difficult for management to prioritise resources to address significant risks and members to distinguish between those areas which are more fundamental in nature, rather than 'housekeeping' or informational. In our experience, the lack of risk assessment is out of line with the majority of other bodies.	Internal audit should implement a grading system for recommendations to support management in prioritising action in response to the most significant risks. The IASAB produced a common set of public sector internal audit standard ("PSIAS"), which require to be applied to the public sector from 1 April 2013 and we recommend that internal audit perform a self assessment against them.	We are in the process of reviewing our compliance against the new standards, for reporting to the audit and governance committee in 2013-14. The grading of recommendations will be implemented if the review of compliance confirms this is appropriate. **Responsible officer(s):** Internal Audit Manager **Implementation date:** September 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
4 Internal audit –reporting		**Grade two**
Reports on concluded investigations have not been presented to the audit and governance committee. There is a risk that appropriate scrutiny of the Council's operations is not facilitated. Regular progress reports against the annual internal audit plan are not presented, showing status compared to the plan, and this would support the audit and governance committee in their remit to evaluate internal audit's work, and identify where reports are outstanding.	We recommend that reports are presented to the audit and governance committee on a timely basis, when disciplinary matters have been concluded if relevant. Regular progress reports against the annual plan, showing status compared to the plan, should be presented to each audit and governance committee meeting.	The annual Controls Assurance Statement ("CAS") presented to the audit and governance committee, highlights key control weaknesses that have arisen from both planned audits and investigations. In future, the CAS will make a distinction between weaknesses identified from planned audit work and those identified from investigatory work. All relevant information will be reported on a timely basis and will not compromise potential disciplinary or appeal hearings, employment tribunals or court cases. **Responsible officer(s):** Internal Audit Manager **Implementation date:** April 2013
5 Financial controls – bank reconciliations *		**Grade two**
Progress has been made to bring the bank reconciliations up to date, however further work is needed to ensure all year end bank reconciliations are completed in a timely manner. The November 2012 reconciliations were signed as prepared by the treasury and banking officer on 19 February 2013. There was no evidence of review by the corporate finance manager due to annual leave. It is good practice to have the bank reconciliation reviewed and authorised in a timely manner. This will be followed up during our financial statement audit.	Management should ensure that there is evidence of preparation and review to demonstrate segregation of duties and that reconciliations are performed and reviewed by staff independent of the records being reconciled. Management should also ensure there is a clear audit trail to demonstrate action taken in respect of reconciling items or to gain assurance that underlying financial records are free from fraud and error. Reconciliations should be brought up to date, so that there are no months outstanding relating to 2012-13.	Agreed. Management will seek to implement appropriate changes to address the recommendations made. **Responsible officer(s):** Corporate Finance Manager **Implementation date:** May 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
6 New supplier authorisation *		**Grade one**
New suppliers should not be added to the system until a supplier request form is received. However, our testing identified that there was no supplier authorisation form for 13 of the 25 items in our sample. Some had other evidence to support the lack of authorisation, for example the payments were refunds rather than purchases. However, there was no form of any background check or authorisation for 5 of the 25 sampled items.	It is recommended that purchases staff do not add suppliers to the system without a completed authorised form. In these cases where faster payment is requested a form should be completed retrospectively to evidence that the supplier is authorised.	Management has decided to introduce a new creditor class in Great Plains called "refunds" that often require faster payment and which will not require a new payee form. For all other "operating creditors" we will fully implement new payee forms before adding any new suppliers. **Responsible officer(s):** Corporate Procurement Manager **Implementation date:** April 2013
7 Journal authorisation		**Grade two**
We noted in our 2011-12 annual audit report that there was an increased risk of fraudulent or erroneous journals not being identified on a timely basis due to a lack of controls over the authorisation of journals. Management recognised the need to review journals and the finance manager has considered the authorisation process as a result of our recommendation. He is working through the current year journal files using a risk based sample approach to retrospectively authorise a sample of journals. We will perform controls testing over authorisation of journals during our financial statement audit work and will substantively test a sample of journals.	Management should ensure that the retrospective review of journals on a risk based sample approach is completed before year end. This process should be implemented for all future journals raised.	The review of journals is progressing as planned and will be completed as part of the year-end closedown. **Responsible officer(s):** Corporate Finance Manager **Implementation date:** June 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
8 IT general controls – IT Acceptable Use Policy		**Grade two**
New council staff are required to read the IT Acceptable Use Policy and sign a form to evidence that they have read the policy and agree to abide by it. This has a start date and if applicable, an end date. However, 4 of the 25 acceptance forms in our sample were out of date. This is due to staff being hired on a temporary basis with a fixed end date and then contracts being extended but no new form being completed. Therefore these members of staff technically do not have a valid form to state that they have read, understood and agree to abide by the Council's IT Acceptable Use Policy.	Line managers should ensure that in cases where temporary staff contracts are extended, this form is re-signed to cover the extended term.	Agreed. A procedure will be put in place to ensure that the IT Applicable Use Policy forms are re-signed when contracts are extended. **Responsible officer(s):** IT Services Manager **Implementation date:** April 2013
9 IT general controls – Super users		**Grade two**
The Dynamics Great Plains system has a generic super user account which four members of staff with 'admin' permissions have access to. This is the only account which can be used to add or modify users, however this leaves no audit trail regarding which individual made the changes. The Capita system also has a generic account for which the password is shared but the systems and control team leader states this is only for the release of new software. IT systems should have no generic super user accounts as there is a lack of accountability over who made the changes and therefore a risk that unauthorised changes are made.	Staff administering the Capita system should review the details of staff with whom the super user account password is shared and ensure only those that require it have access. Super-user access should be restricted to few individuals where it is appropriate for their role. Dynamics Great Plains system administrators should continue to maintain effective paper records of all modifications made so that changes on the system can be traced back to individual users.	Agreed. **Responsible officer(s):** IT Services Manager (Lead) **Implementation date:** May 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
10 IT general controls – systems access *		**Grade two**
We noted recommendations in 2011-12 to improve the consistency and robustness of password policies and retention of evidence to demonstrate leavers had been removed from systems. Our testing of systems access controls identified a number of weaknesses in relation to new starters approval, passwords and leavers.	It is recommended that: ■ Appropriate authorisation is evidenced for every new account created. ■ The discrepancy between the password policy and system requirements is updated as soon as possible ■ On receipt of leavers emails, system administrators should: — check whether the leaver has access to the system(s) that they administer; — arrange to revoke system access at the end of the leaving date, if applicable; and — maintain a record of leaver actions taken for audit purposes.	Procedural changes will be agreed and implemented with relevant service managers where possible but the discrepancy between the Council's password policy and individual system password rules can only be addressed where the systems allow enforcement of complex passwords **Responsible officer(s):** IT Services Manager **Implementation date:** May 2013

Controls testing - reconciliations

The table below summarises reconciliation controls that should operate within key financial and non-financial systems, along with identified weaknesses in the design and operation of these controls. This table is not exhaustive and lists only those controls selected for testing during our interim audit.

Financial system	Reconciliation	Underlying risk	Frequency	Control documented	Control independently reviewed
Income	Cash received reconciliation	Theft or error may not be identified and resolved in a timely manner	Twice daily	✓	×
Council tax	Property valuation reconciliation	Incorrect bills raised against properties	Weekly	✓	✓
	Total properties to total billings reconciliation	Total bills raised under or over stated	Annually	1	1
	Council tax account reconciliation	Inappropriate recognition of council tax transactions	Quarterly	2	2
Non-domestic rates	Rateable properties reconciliation	Incorrect bills raised against properties	Weekly	✓	✓
	Non-domestic rate account reconciliation	Inappropriate recognition of non-domestic rates transactions	Quarterly	✓	✓
Housing revenue account	Housing revenue account reconciliation	Inappropriate recognition of housing revenue account transactions	Monthly	✓	✓
Property, plant and equipment	Asset Manager total NBV to general ledger NBV reconciliation	Incorrect assets uploaded	Annually	1	1

1. We will review the appropriateness of these annual reconciliations during our financial statement audit.
2. At the time of our interim audit, the finance team were in the process of changing this control frequency from annually to quarterly. We will review the progress made during our financial statement audit, and review the year end reconciliation.

cutting through complexity ™