

Aberdeenshire Council

Interim Audit Report 2016/17



 AUDIT SCOTLAND

Prepared for Aberdeenshire Council
July 2017

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- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
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Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Aberdeenshire Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We use the results of this testing to determine our approach for the 2016/17 financial statements audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

Conclusion

3. We identified payment of invoices which are not initiated by an electronic purchase order as an area of audit risk and propose to carry out additional sample testing to provide the necessary assurances to support the financial statements. Otherwise, there were no significant key control weaknesses identified from our interim audit work. Exhibit 1 summarises the weaknesses identified and the action agreed by management to strengthen the relevant controls.

Financial Controls



Bank reconciliations



Payroll controls



IT access



Budgets

4. In getting to know the environment in which Aberdeenshire Council operates, we have been gaining an understanding of the key financial systems which impact on the financial statements. Our approach requires us to complete an Initial System Review (ISR) for each of the key financial systems and for this we document our understanding of the system and carry out an assessment of the key internal controls in operation.

5. For 2016/17, the following key financial systems have been identified: General Ledger, Payroll, Accounts Payable, Accounts Receivable and Cash & Banking.

6. Where possible, we are placing reliance on the work of internal audit in respect of key financial controls testing. This was possible in respect of payroll validation and exception reporting, IT access controls and budget monitoring and control.

7. Our assessment of the financial systems based on completed ISRs and controls testing direct the approach we will take for substantive testing. These are the samples of transactions we verify with supporting documentation as part of our overall assurance work on the financial statements.

8. The council uses iProcurement as its electronic purchase ordering system. Officers using the system are given appropriate access rights when their request for access is initially approved. However, there are still a number of invoices received by the council which are not initiated through the iProcurement system and in many instances, those invoices are manually approved by the relevant service.

9. The recently refreshed Financial Regulations (para 5.4.1) requires a central list of authorised signatories to be maintained including specimen signatures, however it is unclear what level of checks on signatures and authorisation limits is expected to be carried out and evidenced in practice. Due to the effort involved in maintaining and checking lists of approved users, it is unlikely they will be up-to-date and therefore we consider the manual approval of invoices to be an area of audit risk. In developing our testing strategy, we therefore propose to increase our sample size in respect of purchases of goods and services (not initiated through iProcurement) to ensure that we gather sufficient assurances to confirm that expenditure in these areas has been appropriately incurred.

10. We note that the council is in the early stages of implementing electronic invoices. This will reduce the volume of documentation physically passing between services and the Accounts Payable section in Finance and will ultimately improve overall controls.

11. Another key financial system is payroll. As set out in our Annual Audit Plan, we will review project management arrangements for the implementation of the new iTrent payroll system as part of next year's audit. With regard to 2016/17, additional resources have been utilised by the service to undertake additional checks and ensure that the payroll is operating correctly. At this stage, we have no material concerns about the accuracy of the figures produced by the system for inclusion in the financial statements.

12. Exhibit 1 summarises the control weaknesses identified from our work. With the exception of the accounts payable matter in respect of invoice authorisation, these are not considered significant risks. As a consequence, other than expenditure invoices, no additional testing is currently proposed.

Wider governance arrangements

13. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Following a governance review, the council implemented a new scheme of governance including standing orders and financial regulations which we reviewed and concluded they were comprehensive and up-to-date.

14. While the council has a strategy for the prevention and detection of fraud, bribery and corruption, it was last updated in 2012. A comparison against CIPFA good practice identified the following areas which could be considered for inclusion:

- explain how the strategy supports the council in meeting its strategic objectives
- identify key fraud and corruption risks and/or provide links with risk registers and the key policies and internal controls in place to mitigate against these risks
- outline data matching exercises such as the National Fraud Initiative and other similar activities adopted by the council to validate data as these are generally acknowledged to be key actions in preventing/minimising fraud.

15. It is common practice for an audit committee to have oversight of a counter fraud strategy and to receive an annual report covering identified fraud activity (or confirm there were no identified cases), the lessons learned and consequent improvements made in internal controls.

16. We noted that the council has a comprehensive whistle blowing policy which was recently updated. The council could however do more to increase awareness of the counter fraud strategy by ensuring that it is easily accessible on the intranet and that arrangements are in place (e.g. team meetings) to remind staff of its existence and content.

17. Risk Registers at both Corporate and Directorate levels were last formally updated and signed off in September 2015. There was a planned intention not to update the registers in 2016 pending the transfer of such activity to the Covalent system but that revised risk registers would be available in March 2017. Up-to-date risk registers are an important element of an organisation's corporate governance arrangements and should be formally reviewed at least on an annual basis to ensure that management has oversight of the priority areas and has allocated resources accordingly.

18. Our observations from attending three audit committees highlighted that officers called to update the committee were not always sufficiently briefed to respond to questions raised which meant that some matters were delayed to a subsequent meeting or handled via a written response. This reduces the effectiveness of scrutiny as the committee is not able to fully consider the matter.

Risks identified

19. The key control and wider governance risks identified during the interim audit are detailed in [Exhibit 1](#).

20. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Aberdeenshire Council.

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

Exhibit 1

Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
Financial Controls		
<p>1.Payroll - Exception Reports</p> <p>A number of reports are taken from the payroll system to be checked as part of the month end payment process - for example exception reports highlighting possible errors. Whilst there is a checklist to confirm reports have been reviewed, it is not signed off as evidence of the checking officer's review.</p> <p>Risk: Incorrect/irregular payments are made without being identified. .</p> <p>Recommendation: The checklist review should be evidenced to confirm that any issues identified have been addressed.</p>	<p>Agreed. The appropriate checklists will be signed off to confirm the accuracy of the information contained in the reports.</p>	<p>Head of HROD 31 July 2017</p>
<p>2.Accounts Payable - Monthly Reconciliation</p> <p>The monthly reconciliation between the Accounts Payable system and the General Ledger is not signed off by a second officer to confirm review.</p> <p>Risk: Issues identified during the reconciliation process are not appropriately followed up leading to explained errors in accounting records.</p> <p>Recommendation: The review of a second officer should be evidenced to confirm issues identified have been appropriately followed up.</p>	<p>Agreed. The reconciliation will be reviewed on a monthly basis by another team leader or the Principal Payments Officer.</p>	<p>Principal Payments Officer 31 July 2017</p>
<p>3.Accounts Payable - invoice authorisation</p> <p>While there are strong controls in operation e.g. use of iProcurement, budget monitoring, new supplier checks and review of payments greater than £50k, there are a number of invoices which require manual authorisation. In these cases, it is unclear what controls are in place.</p> <p>Risk: Irregular expenditure is processed and paid without challenge.</p> <p>Recommendation: There is scope to review and clarify the extent and level of checks expected to be carried out on certified accounts prior to payment.</p>	<p>The iProcurement system is not the only system used to raise purchase orders, orders may also be processed through service specific systems. Staff within the services process invoices relating to these orders and are aware of the authorised signatories within their own Services. Service Directors are required to provide the Head of Finance with an annual Certificate of Assurance stating that there are adequate internal financial controls, which will include the processing of these invoices.</p> <p>Finance is reviewing payment processes across the authority and will consider approval checks as part of this review.</p> <p>Finance is in the process of procuring a replacement Financial Management System for introduction in 2019/20. The interface of</p>	<p>Corporate Finance Manager Ongoing</p>

Issue identified	Management response	Responsible officer and target date
	the service specific systems to allow for all ordering through the Financial Management System thus allowing for electronic authorisation will be explored as part of the procurement process.	
<p>4.Accounts Receivable - debts passed to Sherriff Officer</p> <p>There is no set frequency for a reconciliation to confirm the level of debt passed to the Sheriff Officer for collection is the same as the amount held on the council's debtors ledger. The last such reconciliation was carried out in June 2016, prior to the appointment of a new Sherriff Officer.</p> <p>Risk: the debt recovery process may be delayed, reducing the likelihood of full recovery.</p> <p>Recommendation: A reconciliation to confirm the level of outstanding debt between the council and the Sherriff Officer should be carried out on a regular frequency.</p>	<p>Annual reconciliations were carried out in the past but for several reasons including a change to a new sheriff officer provider, this did not happen at 31 March 2017.</p> <p>The last full reconciliation was carried out in June 2016 as noted but we continue to do sample cases for reconciliation purposes. On a weekly basis, we also receive an exceptions report and, on receipt of the weekly payment files from the sheriff officer, outstanding balances on payment files are compared with the system and a report of differences is produced which are investigated.</p> <p>A reconciliation at 31 March 2017 will be prepared and thereafter, annual reconciliations will be carried out.</p>	<p>Revenues Manager</p> <p>31 December 2017</p>
Wider governance arrangements		
<p>5.Counter fraud strategy</p> <p>As the council's Strategy for the Prevention and Detection of Fraud, Bribery and Corruption was last updated in 2012, there is scope for a refresh by taking CIPFA good practice into consideration. There is also scope to further raise awareness of the strategy through improved visibility on the intranet, reminders at team meetings and by bringing the strategy within the remit of the audit committee.</p> <p>Risk: Lack of awareness of the counter fraud environment may increase the council's exposure to fraud and corruption.</p> <p>Recommendation: The strategy should be refreshed to reflect good practice. Once updated, the strategy should be re-issued, widely promoted and included within the remit of the audit committee.</p>	<p>The counter fraud strategy will be reviewed by the Pro Integrity Panel which is chaired by the Director of Business Services.</p>	<p>Director of Business Services</p> <p>31 March 2018</p>
<p>6.Risk Registers</p> <p>Risk Registers at both Corporate and Directorate levels were last formally updated and signed off in September 2015.</p> <p>Risk: Key risks have not been identified and therefore appropriate action is not being taken in a timely</p>	<p>As part of the process of updating the risk register structure to reflect the revised council structure, risk registers previously held in spreadsheet form are in transition to Covalent as this is felt to be a better process for clarifying ownership of risks and managing risks.</p> <p>Although there has been no formal reporting,</p>	<p>Risk Manager</p> <p>31 December 2017</p> <p>(Covalent to be updated and new reporting arrangements to be agreed)</p>

Issue identified	Management response	Responsible officer and target date
<p><i>manner which could increase the council's reputational risk.</i></p> <p>Recommendation: Risk Registers should be updated and formally signed off at least on an annual basis, to ensure there is a clear plan to address and monitor key risks.</p>	<p>spreadsheets have continued to be updated.</p>	
<p>7. Audit Committee</p> <p>Officers are not always appropriately briefed to respond to the audit committee.</p> <p>Risk: challenge by the committee is not effective if matters are regularly deferred to a subsequent meeting.</p> <p>Recommendation: processes should be in place to ensure there is clear communication and feedback to services on expectations.</p>	<p>All services are committed to ensuring effective input to Audit Committee meetings. Specifically, as the agenda for each committee meeting is formed, services will identify an appropriate representative to attend.</p>	<p>Director of Business Services</p> <p>With immediate effect</p>
<p>Source: Audit Scotland</p>		

22. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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