Moray Council

Interim Audit Report 2016/17
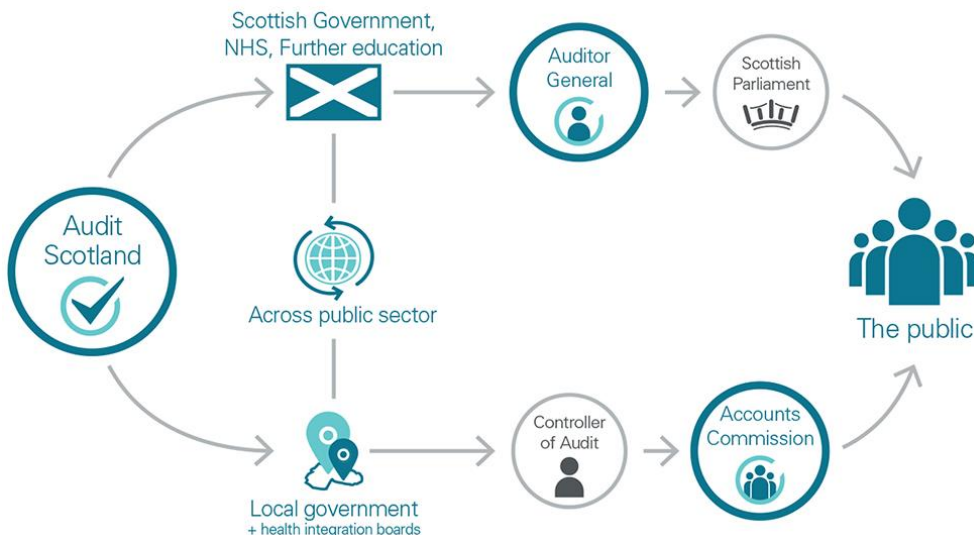
VAUDIT SCOTLAND

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- 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.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

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 Moray 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 will use the results of this testing to determine our approach during 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.

3. Also, under the Code of Audit Practice (2016) we have carried out work on the wider dimension audit. This focussed on governance and transparency, financial management and financial sustainability.

Conclusion

4. We identified a number of control weaknesses as summarised in Exhibit 2 and we will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.

5. In terms of our wider dimension audit work we also identified areas where the council could improve current arrangements. These are summarised in Exhibit 3 and will inform our Annual Audit Report which will be issued in September 2017.

6. 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 Moray Council.

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

8. 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.

Internal controls systems and action plan

9. 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 will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

10. Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims. We also performed early substantive testing on income, expenditure and payroll transactions.

11. To enable us to provide the assurances required for the audit of the Moray Integration Joint Board (MIJB) we also assessed the control environment within social work services and completed some early substantive testing.

Bank reconciliations	Payroll controls	IT access	Budgets

Exhibit 1
Key systems reviewed and tested 2016/17

System	Initial Systems Review	Controls Testing	Early Substantive Testing
General Ledger	✔	✔	
Payroll	✔	✔	✔
Accounts Receivable	✔	✔	✔
Accounts Payable	✔	✔	✔
Cash & Bank	✔	✔	
Care First	✔	✔	✔
Housing Rents	✔	✔	
Council Tax	✔	✔	✔
Non-Domestic Rates	✔	✔	✔

12. The key control risks identified during the interim audit are detailed Exhibit 2. These findings will inform our approach to the financial statements audit as detailed in the final column.

Exhibit 2
Key findings and action plan 2016/17

Issue identified	Management response, responsible officer and target date	Additional audit procedures
Audit findings		
Authorisation of Journals There is no authorisation of journals posted to the ledger. There is a risk that incorrect or fraudulent changes could be processed within the ledger system. Management should review the current procedure and consider journal authorisation procedures.	In the opinion of management there is no risk of fraud as journals are used to amend coding or make internal recharges within the general ledger and cannot result in cash payments. However journal types and processes will be reviewed to ensure that this is the case and consideration given to authorisation procedures. **Responsible officer:** Head of Financial Services **Target date:** January 2018	We will extend our substantive sample testing of journals to ensure these are valid (occurrence/ classification) and accurate. This will be achieved through larger sample sizes or by data analytics over the whole population of journals to identify and test any high risk journals.
Payment of Invoices Invoices are paid automatically after 20 days following receipt of the invoice. The current procedure assumes that the goods/ services are received within this period. Should the goods/ services not be received within this period, departments are required to notify the payments team who will prevent the transfer of payment. There is a risk that payments are made for goods/ services which are not received. Management should revise their current arrangements to ensure that confirmation is received for all goods/ services prior to payment.	This procedure applies only to around 20% (by volume) of all invoices processed and aids efficient administration. Goods ordered under this process are generally delivered within a week of ordering allowing a further two weeks for services to notify the Payments section in the event of goods not being delivered The process been in place for around five years and works well. No actions proposed.	We will substantively test a sample of payments to ensure they were made following receipt of the goods. We will confirm that the goods were received through confirmation to other records / management response.
Payroll Validation The Council send out establishment lists to budget holders three times per year. However, budget holders are only required to report by exception and do not provide positive confirmation that all employees listed are still employed by the Council. Without positive confirmation, there is a risk that employees who have left the organisation remain on the payroll system. Positive confirmation should be sought from budget holders when carrying out the payroll validation exercise.	This is accepted in principle however generally budget managers notify changes in staffing promptly to avoid the budgets they are responsible for being charged with the costs of employees who have left or moved to another establishment. No change is proposed meantime. The council's recently introduced replacement payroll system has a 'people manager' module. The adoption of this module is not an immediate priority but its use as an alternative means of providing information to budget managers will be considered in due course.	We will substantively test a sample of paid employees to ensure they exist as current employees of the council, through confirmation to other records / management response.

Issue identified	Management response, responsible officer and target date	Additional audit procedures
	Responsible officer: Acting Corporate Director (Corporate Services) **Target date:** March 2018	
Reconciliations As part of our initial systems review, it was established that a reconciliation between the General Ledger and the Housing Rents System is only performed at the year end. There is a risk that errors are not identified with appropriate action taken where necessary and the ledger becomes inconsistent with feeder systems. Management should undertake regular reconciliations between the General Ledger and the Housing Rents System.	The housing rents system was in the past reconciled to the General Ledger on a quarterly basis but this took considerable staff resource due to timing differences and did not disclose anything substantive. Thus management concluded that quarterly reconciliations could be dispensed with and a focus given to the year-end reconciliation which is more readily completed. No actions proposed.	We will examine the year end reconciliation to assess whether there is any significant concern/ doubt on the accuracy/ completeness of the ledger.
Changes to Supplier Bank Details All changes to supplier bank details require to be verified prior to processing. However, during our interim testing we identified instances whereby changes had not been verified in line with council procedures. If procedures are not followed, there is a risk that unauthorised payments are made to third parties. Management should reinforce the procedures to staff.	The council recognises the risk of fraud occasioned by processing fictitious requests to change bank details and has instigated a policy which involves validating such requests before they are actioned. It is accepted that the recording of the validation steps could be improved and staff will be reminded of the importance of evidencing that agreed procedures have been followed **Responsible officer:** Payments Manager **Target date:** August 2017	We will substantively test a sample of supplier bank details to ensure that they have been verified in line with council procedures.
Refunds Prior to issuing refunds, the Council does not check other systems to identify whether the taxpayer or tenant has any outstanding debts. Checks of prior year accounts are made within individual systems. There is a risk that the Council does not receive all income due for the services provided. Management should consider checking for offsetting of refunds against any other outstanding debts prior to issuing refunds.	This has been considered in terms of the council's ability to legally set off credit balances against various sums that may be payable to the council. This is reflected in the council's Debt Management Policy approved by Policy and Resources Committee in 2015. The council intends to investigate the use of a corporate debt module within the Financial Management System. This would provide linked enquiries for debt across all services.	We will substantively test a sample of refunds and identify whether there are any outstanding debts that this should have been offset against.

Issue identified	Management response, responsible officer and target date	Additional audit procedures
	Responsible officer: Head of Financial Services **Target date:** November 2017	
Changes to the Chart of Accounts The Council does not have a formal process in place for recording new/ amended ledger codes requests. Changes are made by the accountancy section following correspondence with the relevant department requesting the change but audit trails of changes were not evident. There is an increased risk of misclassification of transactions if there is no audit trail evidencing the basis for changes. Management should consider introducing a standard procedure for requesting changes to the Chart of Accounts.	Nominals can only be created with the permission of a principal accountant and audit trail reports are available from the financial system This issue is considered to be low risk for the council however management will consider developing a procedure for review of amendments made to the chart of accounts and impact on disclosure **Responsible officer:** Head of Financial Services **Target date:** March 2018	We will review the mapping of balance sheet codes from the ledger to the financial statements to identify any significant changes this year and to confirm that mapping for the balance sheet is accurate and complete. This will confirm the overall net income/ expenditure position.

Wider dimension audit

Governance and transparency

13. As outlined in our 2016/17 Annual Audit Plan, we planned to carry out a follow up of Audit Scotland's 'Role of Boards' report. This audit work was carried out in May 2017 and concluded that, overall, the council's arrangements were satisfactory. The council has acknowledged that there is a need to develop arrangements to support elected members performance by making available personal development and training opportunities and encouraging attendance at these events.

14. During 2016/17, we reviewed the council's register of interests and concluded that it complies with basic practice as set out in statutory guidance for member's interests although the registers of interest published on the website were not always up to date. Arrangements for council staff are less well developed with only a register of gifts and hospitality being maintained. We noted that each year the Chief Executive and all directors are required to complete a return to support the related party disclosures in the financial statements but this information is not consolidated into a register of interests for senior staff nor made available on the council's website.

Exhibit 3 - point 1

15. We also reviewed the council's risk management arrangements and concluded that appropriate arrangements were in place. A risk management strategy, and risk management policy are in place which outline the council's approach to managing risk. A corporate risk register is maintained and this is reported to the Policy & Resources Committee twice a year.

Financial sustainability

16. As outlined in our 2016/17 Annual Audit Plan, the council has acknowledged that its current level of service provision is not financially sustainable. Reserve funds were used to maintain services at previous levels during 2016/17 and continue to be used to support service provision in 2017/18.

17. We have been advised that the new administration is working with officers to establish a sustainable financial plan with effect from 2018/19. In order to achieve this, members will be required to make difficult decisions about which services (and at what level) the council can afford to deliver in the future.   These decisions will need to be made quickly as officers have projected that the council's reserves will be exhausted by 31 March 2019.

18. We will continue to monitor the council's progress in developing a sustainable model for service delivery over the summer and report our findings in our Annual Report on the Audit in September 2017.

Exhibit 3 - point 2

Financial management

19. The council prepares an annual budget and a high level forecast for the following year. This forecast assumes that all desirable outcomes are achieved in the current year's budget. In February 2016 the council approved a balanced 2016/17 revenue budget of £206 million, including the use of £6.8 million of reserves to balance the budget. A further £3.3 million of financial savings were also required. This includes non-recurring savings of £0.6m and recurring savings of £2.7m. Each savings option was specific with detail as to how these would be achieved and what financial impact they would have. Savings options are clearly embedded within the budget setting process.

20. Financial monitoring reports (revenue and capital) are included in a comprehensive financial reports monitoring pack and discussed at the Policy and Resources Committee on a quarterly basis. The information presented in the pack is appropriate and sufficiently detailed to support effective scrutiny. In addition, budget monitoring reports are reviewed by budget holders on a monthly basis and reports are provided to the Corporate Management Team on a quarterly basis.

21. The council reported a year-end underspend for 2016/17 of £2.6 million, in the final Revenue Outturn report, considered at the Moray Council meeting on 29 June 2017, and that £4.8 million of reserves was used to deliver this position. Management have advised that £3.3 million (100%) of the identified savings were achieved with additional savings identified and achieved during the financial year of £0.3 million.

22. We will continue to keep the council's budget monitoring process under review.

Wider dimension action plan

23. The wider dimension risks identified in the previous paragraphs are detailed in Exhibit 3. These findings will inform our Annual Audit Report conclusions in each of the wider dimension audit areas.

Exhibit 3
Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
Audit findings		
1. Register of Interests The Council's current arrangements for recording member interests comply with basic practice as set out in statutory guidance. However, this doesn't extend to staff where arrangements are less well developed. The council could make improvements to these arrangements by: • asking all directors, and other key staff, to complete a register of interest return • including a requirement to disclose family members interests as part of register of interest returns • ensuring that registers of interest for members are refreshed and updated on the website and that this incudes "nil returns". There is a risk that registerable interests of members and staff are not adequately identified in the interests of openness and transparency. The Council should review its current arrangements for registers of interest.	This has been considered by the council's Integrity Group. The Group intends to make recommendations to the Corporate Management Team on this matter to enable a position on this to be agreed. This is being done following May council elections.	**Responsible officer:** Monitoring Officer **Target date:** October 2017.
2. Financial Sustainability The current level of service provision is not financially sustainable and the council are currently using their reserves to maintain services at previous levels. There is a risk that the council will be unable to agree and implement a sustainable model for service delivery before its reserves are exhausted. Members need to make difficult decisions about which services (and at what level) the council can afford to deliver in the future. These decisions need to be made quickly as officers have projected that the council's reserves will be exhausted by 31 March 2019.	The Council has formed a new Corporate Plan Steering Group which will focus on the financial sustainability of the Council over the next two years as a priority.	**Responsible officer:** Corporate Management Team and Heads of Service. **Target date:** Work to progress with the aim of securing sustainable budget for 2018/19.

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