Stirling Council

Interim Audit Report 2016/17

AUDIT SCOTLAND

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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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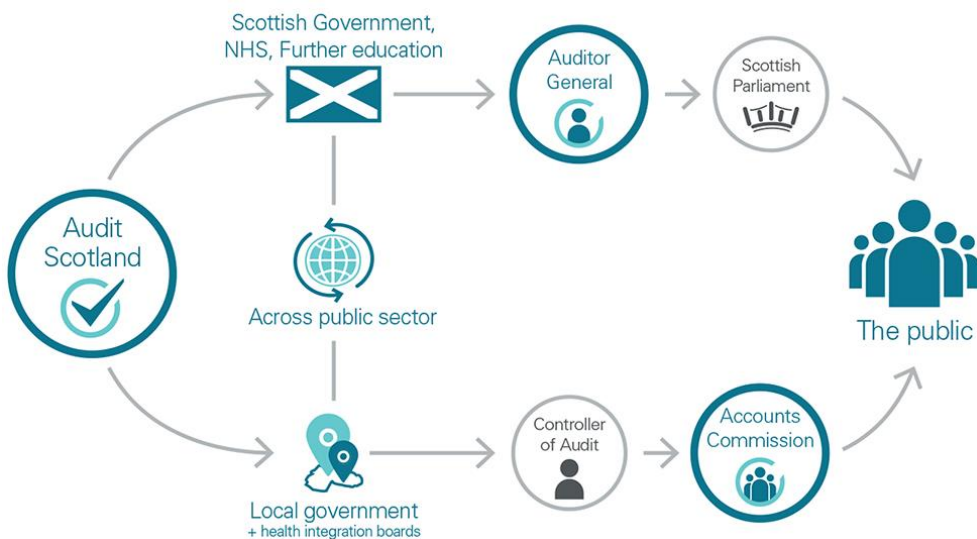
About us

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 Stirling 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 focusses on financial management and financial sustainability.

Conclusion

4. In our review of the council's internal control systems for 2016/17 we concluded that most of the key controls tested are operating as intended. We did, however, identify some areas where controls were not operating as expected or where improvements could be made. These are summarised in Exhibit 1 overleaf. Where appropriate 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 are currently reviewing the council's financial planning and resource management arrangements. We are also currently reviewing the council's governance and accountability arrangements based on the recommendations in the Auditor General 2010 report on the "Role of Boards", tailored to include all public sector bodies. Our findings from this work will be shared with officers and will be reported within our Annual Audit Report which will be presented to the council in August 2017.

Work summary

6. 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.

Bank reconciliations	Payroll controls	IT access	Budgets

7. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

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.

Risks identified

9. The key control risks identified during the interim audit are detailed in Exhibit 1. These findings will inform our approach to the financial statements audit, including any necessary additional substantive testing where relevant.

10. 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 the council.

Exhibit 1
Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
Audit findings		
Bank reconciliations		
There are two parts to the monthly bank reconciliation. The second part, between the bank account in the ledger and the cashbook, is not subject to second officer review.	The Accounting Operations Manager will undertake the review of the ledger bank / cashbook reconciliation going forward. As part of a general review of authorisation requirements, the review of the bank statement / cashbook reconciliation has now been delegated to the Accounting Operations Manager.	Accounting Operations Manager 31 May 2017
The initial part of the reconciliation between the bank statement and the cashbook is reviewed by the Chief Finance Officer. It would be beneficial for management to review both parts of the reconciliation to provide further assurance that the ledger is correct.		
There is a risk that unexplained variances are not investigated and resolved promptly.		
Access to the ledger		
We carried out testing of employee access to e-financials to ensure that this is kept up to date and is commensurate with employee duties. We noted	The current process is that the Corporate Accounting Team conduct a 6 monthly review of all	Senior Accountant Corporate

Issue identified	Management response	Responsible officer and target date
that the process for gaining access to the ledger is well defined and is adhered to. However, leavers are not always quickly removed when they leave the council as this is dependant on the system administration staff being notified by services. Controls would be enhanced if the council had a defined process to follow to ensure that leavers are removed from the system on a timely basis. **There is a risk that inappropriate access to the ledger is granted and fraudulent transactions may be processed.**	leavers per the payroll system and check these to corresponding ledger access rights. Going forward the Corporate Accounting Team will work closely with Payroll to ensure that all leavers are notified to the Corporate Accounting Team as and when notified to Payroll.	Accounting May 2017
Payroll validation exercise The council is currently undertaking an exercise to confirm the existence and validity of each employee on the Payroll system. This involves the Payroll department requesting details from every manager employed by the council to confirm the details of employees currently working within their teams. Although this type of review has occasionally taken place in the past, the current exercise is being carried out as part of the on-going implementation of the new HR/Payroll system. Requests have been sent out to managers to confirm their employee listings, however, not all have provided a response. This validity check is therefore still incomplete, and hampers the council's ability to directly confirm the existence of all employees on the payroll. **There is a risk of invalid employees being paid through the payroll.**	Having up to date establishment records which we can easily maintain and check was one of the drivers for the procurement of our new HR & Payroll system, iTrent from MHR. This has a "people manager" facility which managers should sign into each day and it will display information about their current team members such as Grade and hours worked and will also immediately alert them to employees who have left or are not in their team so we can fix this almost in real time. The system will also have the functionality to generate an automatic email to any generic email address advising of staff leavers.	Team Leader - Workforce HR & Payroll October 2017
Trade Receivables reconciliation Sample testing identified that reconciliations between the sundry debtor account balance within e-financials and the cash receipting system are not always prepared on a timely basis within the month after the period they are reconciling. For example, the reconciliations that we sample checked were not prepared until two to three months after the period end. Reconciliation controls would be enhanced through timely completion and review to better demonstrate that reconciling items are valid and that they are identified and resolved timeously. **There is a risk that financial discrepancies are not identified and resolved timeously.**	The delay was due to other work priorities, and in particular, the implementation of the Pecos system. The Accounting Officer will ensure that future reconciliations will be carried out within the recommended timescales.	Accounting Officer Creditors June 2017
NDR income reconciliation The reconciliation of payments received through the Orbis NDR system to the cashbook is not evidenced by the preparer to demonstrate that the reconciliation is in order, nor is it subject to second officer review. There is therefore no audit trail to support the reconciliation or subsequent	The Accounting Officer will ensure that appropriate reconciliation documentation is evidenced and reviewed, and that future reconciliations will be carried out within the	Accounting Officer Creditors June 2017

Issue identified	Management response	Responsible officer and target date
checking process. Sample testing of the control also identified that this reconciliation is not always prepared on a timely basis. **There is a risk that financial discrepancies are not identified and resolved timeously.**	recommended timescales.	
Non-Domestic Rates reliefs checks Relief awards should be reviewed periodically in accordance with the rates team's relief review timetable. However, sample testing identified that not all reliefs are supported by an up to date claim form. Our audit testing identified that some reliefs (notably, mandatory charitable relief cases) were supported by application forms from 2010, even though these should have been subject to review in 2015. The council should monitor this review timetable to ensure that all required claim forms have been submitted by the appropriate deadline. **There is a risk that discounts are being awarded to those who do not meet the requirements.**	The Rates Team will move to more frequent reviews of relief awards. Potential claimants will be required to return completed claim forms within one month of receipt, otherwise discounts will be cancelled.	Supervisor Payments June 2017

Source: Audit Scotland

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