

Clackmannanshire Council

Management Report 2017/18



 **AUDIT SCOTLAND**

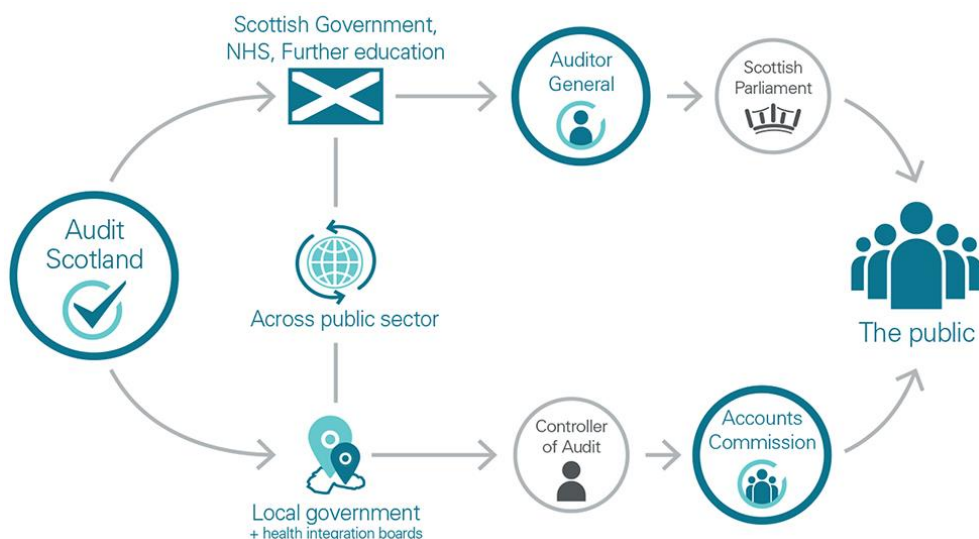
Prepared for Clackmannanshire Council

April 2018

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.
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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 Clackmannanshire Council (the council). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. We will consider the results of this testing when determining our approach to the audit of the 2017/18 annual accounts.

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 some control weaknesses as summarised in [Exhibit 1](#) overleaf. We will carry out additional work in response to these findings to gain the assurance we require for our audit of the council's 2017/18 annual accounts.

Work summary

4. Our 2017/18 testing covered key controls in a number of areas including:

- bank reconciliations
- authorisation of journals
- change of supplier bank details
- IT access controls
- feeder systems
- prevention and detection of fraud.

5. 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.

6. We have placed reliance on internal audit's review of controls in the council's payroll system. Internal audit reported limited assurance in the controls over the processing, checking and authorising of payroll related changes. This includes the verification process and storage of records for new starts, leavers and changes.

We are reviewing our planned approach to the financial statements audit to take account of these weaknesses.

7. At the time of reporting we had not received all the information required to complete our programme of interim testing. We will carry out further testing and report any significant matters in our Annual Audit Report.

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 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.

Follow-up work

11. We followed up the council's progress in addressing the recommendations of our 2016/17 management report. Three of these recommendations are now complete and one is partially complete. Progress on the outstanding issue is detailed in [Exhibit 1](#).

Exhibit 1

Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
Audit findings		
Changes to supplier bank details		
<p>Finance staff are aware of the importance of ensuring changes to a supplier's bank details are genuine. Staff verify requests for changes in bank details by contacting the supplier by telephone using the number already held by council. Officers do not however retain any evidence that this check has been carried out.</p>	<p>Staff now record a note of the verification against the supplier file in the system and attach a back up of the new details received.</p>	<p>April 2018 Corporate Accounting Team Leader</p>
Without evidence supporting changes to supplier bank details officers cannot be sure that the proper process has been followed.		
Housing rents reconciliations		
<p>The housing rents system has not been regularly reconciled to the financial ledger during the 2017/18 financial year. The housing rents system has also not been reconciled to the fixed asset register since the last council house revaluation in 2014/15.</p>	<p>Reconciliations have been carried out up to January 2018. Reconciling differences are being investigated. Full year reconciliations will be completed and available for audit.</p>	<p>June 2018 Management Accounting Team Leader</p>
<p>The purpose of regular accounting reconciliations is to identify errors or unknown items close to the time they occur. A delay in performing reconciliations leads to a risk that potential frauds or errors are not identified timeously or investigated effectively.</p>	<p>Fixed Assets – there is an annual high level reconciliation to reflect sales and purchases in the year. Full detailed reconciliations are undertaken in the 5 yearly valuation.</p>	<p>June 2019 Chief Accountant</p>
Prior year issues		
Financial management		
<p>In our 2016/17 interim audit report we reported that several documents which set out the council's financial management and governance arrangements are out of date and contain references to previous structures and roles. These are:</p>	<p>Revised Financial Regulations were approved by Council in April 2018.</p>	<p>April 2018 Head of Resources & Governance</p>
<ul style="list-style-type: none"> • Financial Regulations (last updated 2008) • Scheme of Delegation (last reviewed 2014) • Corporate Debt Write-off Policy (last reviewed 2012). 	<p>Plans are in place to review the Scheme of Delegation in line with the new Council Structure approved in the 2018/19 Budget Paper.</p>	<p>March 2019 Chief Executive</p>
	<p>A full refresh of the Policy will be submitted to June Council.</p>	<p>June 2018 Revenues Manager</p>

Issue identified	Management response	Responsible officer and target date
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Update: Updated financial regulations were submitted to the council in April 2018. The other documents have not been updated.

There is a risk that differences between written procedures and actual processes and structures leads to key controls not being complied with.

Source: Audit Scotland

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

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