

# Comhairle nan Eilean Siar

Management Report 2017/18



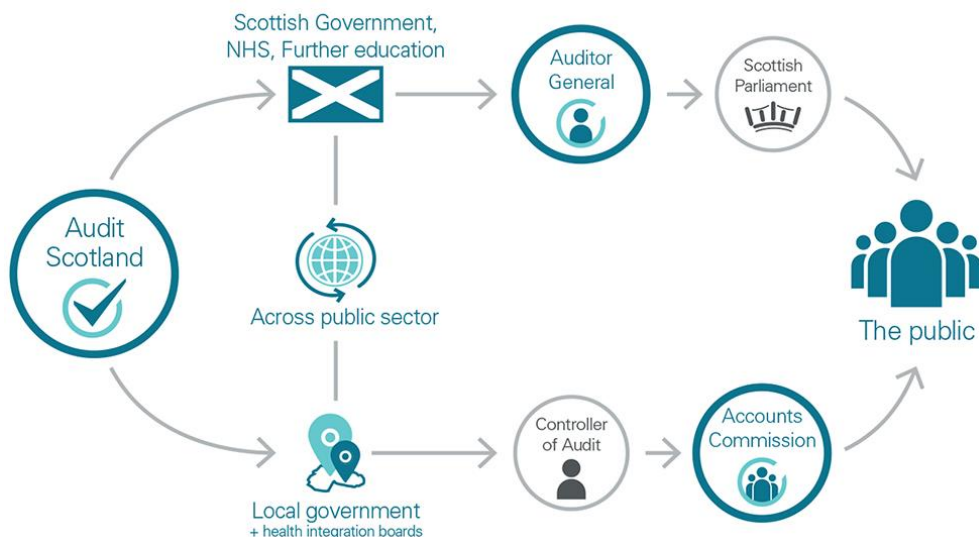
 AUDIT SCOTLAND

Prepared for Comhairle nan Eilean Siar  
June 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.
- 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

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Comhairle nan Eilean Siar. 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.
3. Also, we carried out work on the audit dimensions as required by the [Code of Audit Practice](#). This focussed on financial management, financial sustainability, workforce planning and equality. Further work on these areas will be included in our annual audit report.

## Conclusion

4. We identified several significant control weaknesses from our interim audit work as summarised in [Exhibit 2](#). This will impact on our audit approach and will require us to complete additional audit testing to obtain the required assurances for our audit of the 2017/18 annual accounts.
5. In terms of our wider dimension audit work, this is ongoing and will inform our Annual Audit Report which will be issued in September 2018.
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 the Comhairle.
7. All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://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.

## Work summary

9. 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.

- 10.** Internal audit services are provided by a team of Comhairle staff overseen by a Chief Internal Auditor. This year we placed reliance on their Payroll and Non Domestic Rates work. In respect of our wider dimension audit responsibilities we placed reliance on aspects of the following internal audit reviews: Budget setting arrangements; Data security registers / information security; Disaster recovery; Corporate asset management; and Computer audit.
- 11.** Our 2017/18 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, we tested controls in the following areas: 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. Details are shown in [Exhibit 1](#).



Bank reconciliations



Payroll controls



IT access



Budgets

## Exhibit 1

### Key systems reviewed and tested 2017/18

System	Initial Systems Review	Controls Testing	Substantive Testing
General Ledger	✓	✓	
Payroll	✓	✓	✓
Accounts Receivable	✓	✓	✓
Accounts Payable	✓	✓	✓
Cash & Bank	✓	✓	✓
Treasury Management	✓	✓	
Council Tax	✓	✓	✓
Non-Domestic Rates	✓	✓	✓

- 12.** To enable us to provide the assurances required for the audit of the Curam is Slainte nan Eilean Siar (Western Isles Integration Joint Board) we also assessed the control environment within social work services and plan to carry out some early substantive testing.

## Risks identified and additional follow-up work

13. We identified a number of financial control weaknesses as summarised in [Exhibit 2](#), particularly in relation to payroll and revenues systems. From our discussions with staff involved in the operation of key financial controls we have been advised that staffing shortages, as well as the implementation of the new Capita revenues system, are impacting on their ability to implement some of the expected controls. This will impact on our audit approach and will require us to complete additional audit testing to obtain the required assurances for our audit of the 2017/18 annual accounts.
14. The key control risks identified during the interim audit are detailed in [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 2017/18

Issue identified	Management response, responsible officer and target date	Additional audit procedures
<b>Audit findings</b>		
<p><b>Payroll validation</b></p> <p>The payroll department do not regularly undertake a validation exercise to verify the existence of employees on the payroll system.</p> <p>Management should ensure that a validation exercise is carried out at least once per year with positive confirmation sought from departments. This issue was also raised in our 2016/17 management report.</p> <p><b>Without confirmation, there is a risk that payments are made to employees who are no longer employed by the Comhairle.</b></p>	<p>Heads of service have signed off the base doc as part of the 2018/19 budget setting process. This document provides details of all employees and posts that are set up and paid on from a service budget on an individual basis. This means a validation exercise has been carried out.</p> <p>During 2018/19 this sign off process will be increased to twice per annum. Work has been commissioned from the system provider to streamline the production of the base doc report.</p> <p><b>Officer:</b> Helen Mackenzie <b>Target date:</b> September 2018</p>	<p>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.</p>
<p><b>Starter and leaver notification</b></p> <p>Internal audit highlighted in their April 2018 payroll review that starter and leaver notifications were not always being provided to the central payroll team by departments in a timely manner. This has resulted in necessary changes not being made at the appropriate time resulting in underpayments and overpayments to current or ex-employees.</p> <p>Although a performance log is kept by payroll staff to monitor the value of all overpayments identified, the process for starter and leaver notification results in unnecessary time and resource to maintain and correct payroll payments. There is also a risk</p>	<p>A full scale programme of training is underway to ensure all managers are fully aware of procedures. Performance information in relation to over/under payments is being reported to each meeting of the Audit and Scrutiny Committee from June 2018 onwards.</p> <p><b>Officer:</b> Helen Mackenzie <b>Target date:</b> September 2018</p>	<p>In line with our normal procedures, we would usually have relied on prior year testing for assurance. However, we required to carry out additional starter and leaver testing this year and will test a further sample to ensure first/final payments have been calculated from the correct date.</p>

Issue identified	Management response, responsible officer and target date	Additional audit procedures
<p>of financial loss to the Comhairle where all overpayments may not be recovered.</p> <p><b>There is a risk of financial loss to the Comhairle due to ineffective processes around system data amendments.</b></p>		
<p><b>Control account reconciliations</b></p> <p>During 2017/18, the Comhairle completed migration from Northgate Revenues and Benefits system to Capita. Although the migration was completed satisfactorily, changing the operating system has put additional pressure on both management and staff to get the new system operating efficiently and effectively. As a result, there is evidence of key controls not being applied during the year. The council tax and NDR control account reconciliations reviewed had not been completed or authorised within a reasonable timeframe after each period end. This issue was also raised in our 2016/17 management report.</p> <p><b>There is a risk of errors or irregularities not being identified on a timely basis, resulting in inaccuracies in revenue accounts.</b></p>	<p>Deadlines and timescales are now being adhered to.</p> <p><b>Officer:</b> Helen Mackenzie</p> <p><b>Implemented</b></p>	<p>We will review the year end reconciliation and sample test any significant reconciling items.</p>
<p><b>Council tax/NDR system access</b></p> <p>The introduction of the Capita billing and collection system has resulted in a loss of controls over access permissions in relation to roles and responsibilities. Management were not able to demonstrate specific access profiles in place in relation to read/write access to areas of the system, including discounts and reliefs.</p> <p>Access to data held on the revenues system should be managed and restricted dependant on role and responsibility. The comhairle should work with the supplier to ensure access permissions can be effectively controlled.</p> <p><b>There is a risk of fraud or error where users have inappropriate or unrestricted access to the revenues system.</b></p>	<p>The Capita system does provide a report on access that is broken down, per user, to specific functions within the system as was the case with the Northgate system.</p> <p>Access to the system has been built on the basis of permissions that were applied in Northgate including those relating to read/write.</p> <p>When users profiles were set up on the system, access permissions were built on the same basis as the Northgate system with assistance from Capita. This means that access in the new system has replicated that of the old system. The issue highlighted relates to reporting rather than the way the system has been built.</p> <p>It is possible for External Audit to undertake sample tests to demonstrate that this is the case.</p> <p><b>Officer:</b> Helen Mackenzie</p> <p><b>Target date:</b> June 2018</p>	<p>To confirm this, and for assurance over the figures within the financial statements, we will extend our substantive testing of non-domestic rates and council tax income to ensure discounts and reliefs are correctly awarded in line with appropriate access rights. We will also test a sample of write offs to ensure these have been approved in line with the appropriate policy.</p>

## Emerging Risk

- 15.** Until 2015 the financial assessment of residential care charges was undertaken by a team based in the social care service. All cases and reviews including those in a significant backlog were transferred to the Revenues and Benefits section on 1 April 2016. For 2016/17 and years prior, accruals were made on a minimum income assumption (e.g. pension per week). Most of these backlog cases have been fully financially assessed in 2017/18 when all financial information was received, including ownership of property confirmation, and invoices have been raised. This has resulted in an increase in previous year residential income of around £1.5m, mainly as a result of capital assessments
- 16.** The collectability of the debt has been assessed by the comhairle however there is a risk that it may not be collected in full. We will review the work undertaken by the comhairle in this area.

## Governance and transparency

### National Fraud Initiative

- 17.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. The latest position for Comhairle nan Eilean Siar is summarised in [Exhibit 3](#).

### Exhibit 3

#### National Fraud Initiative

Total number of matches



1,368

Completed/closed investigations



264  
(20%)

Total number of recommended matches



234

Completed/closed recommended matches



100  
(43%)

Source: NFI website

- 18.** The Comhairle recognises that the NFI is an important tool in allowing investigative resources to be targeted at risk areas. To date, the Comhairle has investigated 100 of the recommended 234 matches (43%). As at February 2018, management had not prioritised NFI investigation due to staff shortages and had suggested that there should be resource to address this in the coming months. The Comhairle have therefore made insufficient progress with its NFI matches.
- 19.** The responsible officer for NFI at the Comhairle is the Head of Procurement and Exchequer Services. Updates in relation to NFI are presented to the Policy and Resources Committee on a quarterly basis. However, these are



not sufficiently detailed and do not show numbers of matches/recommended matches. These reports should provide a clearer picture to committee of the comhairle's position relating to NFI.

20. We noted that 13 matches were identified as errors and none were identified as fraud. These errors related to housing benefit overpayments due to non-processing of student loan information and a duplicate payment to a supplier.

## 2016/17 risks and action plan update

21. Our 2016/17 interim audit identified several significant control weaknesses which were reported to the Audit & Scrutiny Committee in June 2017. [Exhibit 4](#) outlines the progress made by management where planned action was agreed in response to the audit recommendations made.

### Exhibit 4

#### Key findings and action plan 2016/17

Issue identified	Management response, responsible officer and target date	Progress
<b>Audit findings – key controls</b>		
<p><b>Payroll validation</b></p> <p>Our systems testing has identified that there is no formal control in place to regularly validate payroll standing data. This was reported in our 2016/17 Annual Audit Plan.</p> <p>There is a risk of employee overpayments occurring.</p>	<p>A process will be implemented to ensure Heads of Service sign off on the employees which should be live on the system each year as part of the budget setting process. This process is in place for FCR at present. This was produced for External Audit to review. A checklist is in place to review all parameters set up in the system to ensure these are correct, for example pension deduction rates.</p> <p><b>Officer:</b> Helen Mackenzie</p> <p><b>Target date:</b> November 2017</p>	<p>Payroll reports are provided to each Head of Service annually detailing employees for validation as part of the budget setting process. However, testing confirmed that overpayments are still occurring. A performance log is held in the payroll department.</p> <p><b>Recommendation not implemented.</b></p>
<p><b>Authorised signatory lists</b></p> <p>An authorised signatory list is in place within the payroll department. The list is sent to departments annually to confirm it is up to date. However, only Finance and Corporate Services responded to Payroll's latest request in August 2016. As a result, Payroll are still working from previous, out of date authorised signatory lists.</p> <p>There is a risk of unauthorised changes to payroll data.</p>	<p>A review of authorised signatories being carried out by Purchase to Pay will result in an up to date and comprehensive list for all departments being put in place. This review is scheduled for completion by the end of June 2017. The list can then be shared for viewing by all relevant teams who need to check for authorisation.</p> <p><b>Officer:</b> Helen Mackenzie</p>	<p>The review was completed in March 2018 and there is a central spreadsheet held for departments to refer to containing all authorised signatories for departments. Completed forms with sample signatures are held in hard copy folders in creditors.</p> <p>A further review is being undertaken to further refine this and to scan in the sample signatures so that these can be linked to the central</p>

Issue identified	Management response, responsible officer and target date	Progress
		<p>spreadsheet for ease of reference.</p> <p><b>Recommendation partly implemented.</b></p>
<p><b>Council tax reconciliations</b></p> <p>A review of reconciliations between the ledger and key financial feeder systems was carried out. For all systems there is clear evidence of follow up and of management review. However, for a number of the council tax reconciliations (control account and reliefs), preparation and review of the reconciliations had not been carried out in a timely manner.</p> <p>There is a risk of errors or irregularities not being identified on a timely basis, resulting in inaccuracies in council tax accounts.</p>	<p>Whilst the new Revenues and Benefits IT system was being implemented decisions were made by the Head of Procurement and Exchequer Services as to what work tasks could be put on hold in order to prioritise new system testing and training. Whilst recognising there could be a risk relating to a delay in monthly reconciliations, she determined that this was lower than the risk to project delay.</p> <p>Reconciliations have subsequently been brought up to date and performance in previous years demonstrates that this was a planned delay rather than systemic failure in getting this work done.</p> <p><b>Officer:</b> Helen Mackenzie</p>	<p>Testing established that monthly council tax reconciliations had not been completed or authorised within a reasonable timeframe after each period end. Again, these were brought up to date at the year end. However, there is a risk of errors or irregularities not being identified on a timely basis, resulting in inaccuracies in council tax accounts.</p> <p><b>Recommendation not implemented.</b></p>
<p><b>Change to suppliers' details</b></p> <p>When receiving details from a supplier regarding change of bank details, an important control would be to contact the supplier directly using contact details from an independent source to confirm the change. This control guards against fraudulent changes.</p> <p>Sample testing of 10 changes to supplier bank detail forms identified that three did not have any evidence of a confirmation check of the details with the supplier.</p> <p>There is a risk of exposure to fraud as not all requests to change bank details are verified from an independent source.</p>	<p>The wording of the Creditor Request Form is being reviewed to ensure relevant checks are documented when carried out by the Purchase to Pay Section.</p> <p><b>Officer:</b> Helen Mackenzie</p> <p><b>Target date:</b> July 2017</p>	<p>Testing established that a new process and updated forms are in place. The department requesting the change sign the form and Purchase to Pay (P2P) staff detail the process of contacting the supplier to confirm the change before signing the form. A second Purchase to Pay officer then authorises the form. Training has been provided to P2P officers on the new process and forms.</p> <p><b>Recommendation implemented.</b></p>

# Comhairle nan Eilean Siar

## Management Report 2017/18

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