

Fife Council

Management Report 2017/18



 AUDIT SCOTLAND

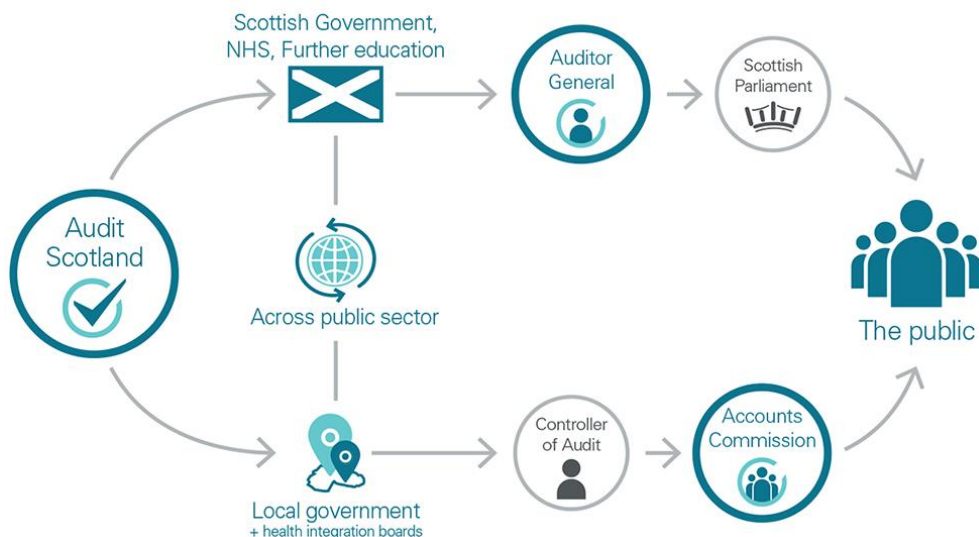
Prepared for Fife Council

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

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Fife 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.
3. Under the Code of Audit Practice, we also carried out work on the wider dimension audit - financial management, financial sustainability and governance and transparency. Fife Council's Best Value and Assurance Report, published in May 2018, also contains the results of our wider work.

Conclusion

4. Overall, we found the key controls in place within Fife Council's main financial systems operate satisfactorily. We identified several control weaknesses covering the timely completion of reconciliations, changes to supplier bank details and access to the council tax system. These are detailed in [Exhibit 3](#) and we will be carrying out additional work in response to these findings as part of our audit of the 2017/18 financial statements.
5. We have highlighted some required improvements to Governance and Transparency, as set out in in [Exhibit 3](#).
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 Fife 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.

Work summary

9. 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. We also looked at the council's participation in the national fraud initiative and its procedures for maintaining a register of interests.



Bank reconciliations



Payroll controls



IT access



Budgets

10. 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. In our Annual Audit Plan we had proposed placing formal reliance on the work of internal audit in the following areas:

- Valuation Roll
- Children Services Payments

11. We used the work on the Valuation roll to support our understanding of the control arrangements for Non Domestic Rates transactions. We will use the review of Children Services Payments to reduce our testing of expenditure items during final accounts.

12. We have also relied on internal audit testing on aspects covered under the Procure to Pay work completed by internal audit this year. This enabled us to reduce our own testing in these areas.

National Fraud Initiative

13. 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 Fife Council is summarised in Exhibit 1.

Exhibit 1

National Fraud Initiative

Total number of matches



10,083

Completed/closed investigations



1,619

Total number of recommended matches



1,552

Completed/closed recommended matches



974

Source: NFI website

14. Overall our review of the council's NFI processes found that good progress had been made with the 2016/17 NFI exercise. The council focused on recommended matches and used a sampling approach where there were many other (non recommended) matches, which we considered an acceptable approach. A total of 38 errors were found, with a cumulative value of £71,245. Of this total, £59,804 is being recovered. Most of the errors relate to housing benefit claimants and pension payments.

15. The results of the 2016/17 NFI exercise were reported to the Standards & Audit Committee in April 2018.

Register of Interests

16. In our 2016/17 Annual Audit Report, we concluded that their register of interests met basic requirements in all areas, with some areas of good practice and made the following recommendations:

- members have a responsibility to update the register when a potential conflict emerges, but there is no annual return that provides positive confirmation that no changes have occurred
- once a member declares an interest there is no action plan in place, setting out how the conflict should be handled.
- members returns should also consider potential conflicts involving business interests, family members and close friends as part of the council's process for identifying registerable interests. These interests also inform the related party disclosures in the annual financial statements.

17. Following the council's response to these recommendations we have reviewed our assessment, and can confirm that members are asked to provide a return every six months and that this should cover potential conflicts involving friends and family members. Officers do not feel it is appropriate to put plans in place to manage conflicts, as responsibility rests with the members, but provide advice on what appropriate action to take when asked. Current processes are in line with current guidance from the Standards Commission.

18. Our review of procedures in place to manage potential conflicts of interest for officers (rather than members) is ongoing at this stage. We will report on this in our Annual Audit Report.

Budget monitoring and reporting

19. [Exhibit 2](#) below, compares the arrangements for in year budget monitoring reporting to committees' for 2016-17 and 2017-18. The revised committee structure

introduced in June 2017 has in some cases reduced the frequency and timeliness of reporting to committee. Reducing the frequency of financial reporting decreases members ability to scrutinise the council's financial position and scrutinise corrective action.

Exhibit 2

Budget monitoring arrangements

2016-17

Period (Month) End	Executive Committee	Scrutiny committees
3 (June)	20th September 2016	4th October 2016
5 (August)	15th November 2016	29th November 2016
7 (October)	24th January 2017	14th February 2017
9 (December)	28th February 2017	14th March 2017

2017-18

	Policy & Coordination Committee	Strategic Policy committees
3 (June)	13th September 2017	17 th August – 7 th September 2017 (all)
6 (September)	23 rd November 2017	11 th January – 1 st February (all)
9 (December)	26 th March 2018 (15 th February meeting cancelled)	Not provided *

* A monitoring report covering up to end of period 8 (November) was presented to the Education & Children's Services Committee 23rd January 2018

20. The council's financial and budgeting arrangements are complex. Officers must track spending decisions across a multi-year period alongside frequent adjustments to funding. Presenting this information in a clear and easily understood way is challenging. As an example, the General Fund Revenue Budget 2018-21 paper presented to the Policy & Coordination Committee in January 2018 provided an updated budget position for 2018-19 setting out a budget gap of £7.2 million. It then suggested that a cumulative budget reduction of £28.8 million was needed. We found the presentation of these two figures confusing and required the support of finance officers to understand the relationship between them. There is a risk that scrutiny of the financial position is ineffective if reports are not clearly set out.

21. Our Best Value Assurance Report (May 2018) contains further commentary on the council's long and medium term financial modelling and strategy and current financial position

Risks identified

22. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 3](#). These findings will inform our approach to the financial statements audit where relevant.

23. 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 insert Fife Council

Exhibit 3**Key findings and action plan 2017/18**

Issue identified	Management response, responsible officer and target date	Further Audit Procedures
Audit findings		
<p>Reconciliations of bank accounts and of feeder systems</p> <p>The reconciliations for the Special Interest Bearing (SIBA) bank account and the accounts receivable feeder systems have not been completed timeously in 2017/18, with some completed more than six months after the period end.</p> <p>Seven of the ten General Fund bank account reconciliations we tested were not reviewed by a manager on a timely basis.</p> <p>Due to restructuring in the Revenues team, reconciliations of the debtors' system to the ledger were not completed in a timely manner although we noted that these are currently being brought up to date.</p> <p>None of the reconciliations for the debtors, housing and council tax feeder systems are being reviewed by a manager/second officer.</p> <p>There is a risk that reconciling items are not investigated and frauds or errors are not identified in a timely manner.</p>	<p>Procedures have been implemented to evidence that supervisory checks are undertaken.</p> <p>Finance Operations Manager Already Actioned</p> <p>Following the re-structure, training was still embedding, there was also delays with the feeds from ASH to carry the appropriate reconciliation from system to ledger, this has all been resolved and the reconciliations have been brought up to date for 2017/18.</p> <p>The Reconciliation and Control Teams within Revenues and Shared Services have amalgamated from the 1 April 2018. A consistent process for reviewing the reconciliations every month has been implemented immediately. E-Copy will be introduced as part of the review process.</p> <p>Team Manager, Revenue & Shared Service Centre Already Actioned</p> <p>Further regular reconciliation monitoring statements will be submitted to Head of Finance for review</p> <p>Finance Operations Manager 31 July 2018</p>	<p>We will review the year end reconciliation and sample test any significant reconciling items</p>
<p>Controls over changes to supplier bank details</p> <p>Procedures include a check to confirm the validity of any changes to supplier bank details. We reported last year that there was no formal recording of this check and it was agreed that use of checklists by staff would provide assurance that these checks were being carried out on a consistent basis. Audit testing this year found that checklists were not being used.</p> <p>Ineffective controls over changes to supplier details increase the risk of fraudulent payments.</p>	<p>To evidence the validity of change of bank details, the notes tab will be updated to confirm the telephone number, who they spoke to and the date they telephoned. Procedures have been updated to reflect this change.</p> <p>Team Manager, Revenue & Shared Service Centre End May 2018</p>	<p>Our substantive testing of expenditure will include checks on in year changes to supplier details</p>

Issue identified	Management response, responsible officer and target date	Further Audit Procedures
<p>Access Controls</p> <p>There are no controls in place to review the validity of ongoing access rights to the Northgate council tax system</p> <p>There is a risk that employees may gain inappropriate access to the Council Tax system</p>	<p>All “new users” have to be requested and approved before they are given access to system. Every year all “live” users are sent a security and confidentiality agreement regarding appropriate use of systems. However, we are currently reviewing the whole process to ensure only live users have access to system.</p> <p>Head of Revenue and Commercial Services</p> <p>December 2018</p>	<p>We will review a sample of the users and confirm that only appropriate staff have access.</p>

Audit dimensions – Governance & Transparency

<p>Frequency of Budget Monitoring</p> <p>In 2016/17, the Executive Committee and scrutiny committees received four budget monitoring reports during the year. In 2017/18, this has reduced to three reports to Policy and Coordination Committee and two to the Strategic Committees (apart from Education and Children's Services, which received three).</p> <p>Reducing the frequency of financial reporting reduces members ability to scrutinise the council's financial position and take effective corrective action. Ideally, the period being reviewed should be as up to date as possible.</p> <p>There is a risk that the scrutiny, openness and transparency of the council's financial performance is diminished by infrequent reporting.</p>	<p>The new committee structure, frequency of meetings and reporting timescales, does cause difficulties in providing information that is timely and up to date.</p> <p>This is recognised and as such Finance staff are in discussion with Democratic Services re committee deadlines and are preparing the timetable, attempting to schedule at least 4 reports per annum.</p> <p>Head of Finance</p> <p>End July 2018</p>	<p>No further revision to our planned audit procedures in 2017/18.</p>
<p>Clarity of Financial Reports</p> <p>Council finances are complex and reporting progress on budgets in a clear and easily understood way can be difficult. For example, we found it challenging to follow the 2018-19 revenue budget report and determine the council's financial situation.</p> <p>There is a risk that the scrutiny, openness and transparency of the council's financial performance is diminished by over complicated reporting.</p>	<p>When the revenue budget was agreed in February 2017 high level figures were agreed for later years in relation to Enabling Change Programme and Health and Social Care Partnership Funding.</p> <p>The impact of these items was to reduce the budget gap. Resource envelopes were subsequently issued to Directorates which reflected that budget reductions needed to be made to cover these items. This was to ensure that when more detailed decisions were taken that they were transparent to members and they were part of the political decision making process. It was recognised that the use of budget gap and budget reduction required confused matters.</p> <p>Therefore future year savings for items that still require more detail will not be incorporated in budget decisions. This relates to the corporate change programme</p>	<p>No further revision to our planned audit procedures in 2017/18.</p>

Issue identified	Management response, responsible officer and target date	Further Audit Procedures
	<p>and future Health and Social Care adjustments. These will be reflected on an annual basis rather than based on 3 year high level estimates.</p> <p><i>Executive Director Finance and Corporate Services</i></p> <p><i>January 2019</i></p>	

Source: Audit Scotland

Fife Council

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