

Renfrewshire Council

Management Report 2017/18



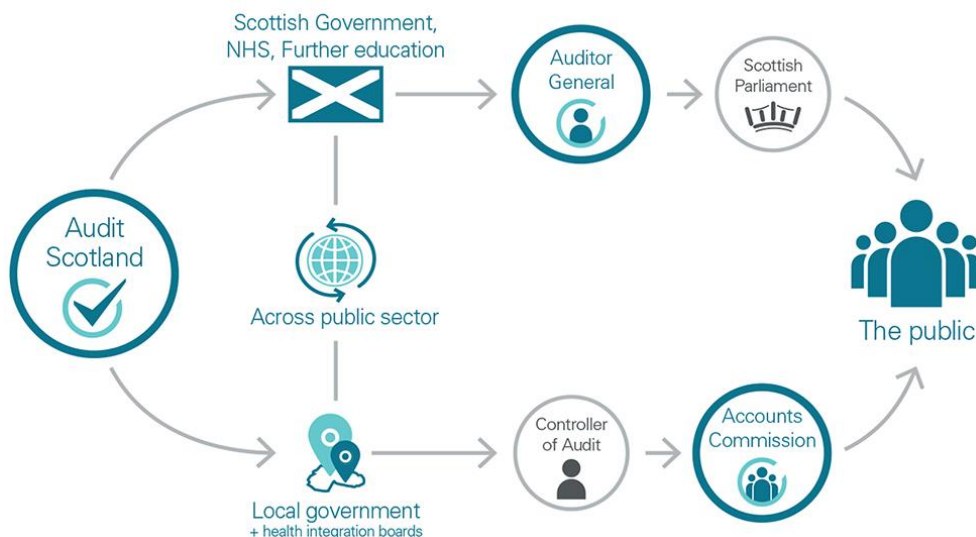
 AUDIT SCOTLAND

Prepared for Renfrewshire Council
May 2018

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

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- 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 Renfrewshire 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 Renfrewshire Council:
 - 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. In general, appropriate and effective arrangements were in place for accounts receivable, accounts payable and bank reconciliations. We identified some areas in other systems where there is scope for improvement as set out in Appendix 1.

Work summary

4. 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.
5. 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

6. The key control risks identified during the interim audit are detailed in [Appendix 1](#). These findings will inform our approach to the financial statements audit where relevant.
7. 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 Renfrewshire Council.

Additional follow-up work

8. As a result of the weaknesses identified in relation to payroll we will undertake additional substantive testing as part of our final accounts audit work. This will enable us to take planned assurance for our audit of the 2017/18 annual accounts.
9. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Audit risks

Payroll

10. In our 2016/17 Annual Audit Report we highlighted that our review of payroll noted that 96 staff members who left during 2016/17 (approximately 10% of total leavers) were incorrectly overpaid after their employment ceased. The total value of these overpayments was £0.133 million.
11. We recommended that a process should be put in place to ensure that leavers are removed from the payroll immediately when they cease to be employed by the council. Management agreed that regular reports analysing overpayments would be discussed with service managers with a view to a targeted process redesign and management action where required. The action date to put this in place was December 2017.
12. As part of our 2017/18 payroll systems review we undertook specific audit work to review the controls in place to prevent payroll overpayments. We obtained an overpayment monitoring spreadsheet maintained by payroll services. This provided details of payroll overpayments as at March 2018 and covered the period between April 2015 and February 2018.
13. The information in the spreadsheet was incomplete which meant there were cases where we could not conclude the overall status of the overpayment. As part of the audit we selected a sample of overpayments to verify the accuracy of the data included within the overpayment monitoring spreadsheet. Due to competing pressures at the time of the audit, payroll services were not able to provide the requested information prior to us issuing our management report. Therefore, we are unable to provide independent assurance on the overall accuracy of the figures included within the report.

Overpayments

14. As part of our analysis of the data provided we have summarised our findings as outlined below:

Exhibit 1: Total overpayments

Narrative	Number of cases	Amount £
Overpayments to current employees	475	424,743
Overpayment to former employees	331	387,512
Total overpayments	806	812,255

15. As shown at exhibit 1 above a total of 806 overpayments were made between April 2015 and February 2018. The overpayments were made to both current and former council employees. During the period 2,604 employees left the council. Therefore, the number of overpayments to former employees as a percentage of total leavers is 12.4 per cent. Appendix 2 provides further analysis of the overpayments by financial year.

16. Our audit identified that there were a number of high value overpayments included within the overpayments monitoring spreadsheet. A total of 6 cases were recorded where the overpayment was more than £10,000, the highest overpayment being £15,487.
17. Service departments are required to notify the payroll services when an employee leaves the council or when there is a change to an employee's conditions of service. Any delay in notifying the payroll services may result in an overpayment. From our review of the data this is the most common reason for overpayments being made (see appendix 2). There is a risk that the current controls are not effective in identifying when staff leave the council or when there is a change to an employee's conditions of service and overpayments continue to be made.

Appendix 1 Risk 1

Overpayment recovery

18. As part of our audit we reviewed how successful the council has been in recovering overpayment of salaries and wages. As outlined at exhibit 2 below, a total of £351,448 of overpayments had been fully recovered at the time the audit work was undertaken, a full recovery rate of 43 per cent. The recovery rate from current employees is higher at 58 per cent compared to a recovery rate of 27 per cent from former employees. Appendix 2 provides a more detailed analysis of overpayment recovery.

Exhibit 2: Overpayment recovery (£)

Narrative	Total overpayment £	Amount recovered £	Amount outstanding £	Amount written off £
Current employees	424,743	244,907	162,207*	17,629
Former employees	387,512	106,541	277,646	3,325
Total	812,255	351,448	439,853	20,954

***this total may include an element where payment has been partially recovered, however this was not separately identified within the information provided.**

19. Exhibit 3 summarises the recovery rate by caseload. A full recovery of the overpayment has been made in 442 cases. Of this total the council has fully recovered 347 of the 475 cases where an overpayment has been made to a current employee (73 per cent) compared to 95 of the 331 overpayment cases to former employees (29 per cent).

Exhibit 3: Overpayment recovery (number of cases)

Narrative	Total	Current employees	Former employees
Fully recovered	442	347	95
Recovery plans in place	134	56	78
Recovery plans not yet underway	97	54	43
Overpayment written off	36	18	18
Data incomplete – status not known	97	-	97
Total	806	475	331

20. Recovering overpayments from current and former employees will present a range of challenges to any organisation. As part of the audit we analysed the data to calculate the length of time taken by the council to recover overpayments made. Based on the available data the time taken to fully recover an overpayment from the date the error was detected to the overpayment being settled is as follows:

- average time taken: 101 days
- longest time taken: 5 years (ongoing)

21. The overpayment monitoring spreadsheet that is maintained by payroll services should include details of the department where the employee works. The information was incomplete however where this was provided our analysis showed the following breakdown:

Exhibit 4: Overpayments by department

Department	Number of cases	Value £
Education and Leisure	349	402,409
Adult Services	80	108,682
Development and Housing	78	67,404
Finance	65	50,640
Community resources	58	60,937
Not recorded	176*	122,183
Total overpayments	806	812,255

***procedures have been in place from August 2017 to record the department where the overpayment was generated.**

22. At the time of our audit work we confirmed that there was no written guidance which documented the procedures in place to prevent or recover payroll overpayments. In March 2018 payroll services issued a Payroll Overpayment Process Guide. The guide outlines the steps that payroll services will take to recover any overpayments of salaries/wages. In April 2018, in conjunction with HR, payroll services also issued procedural guidance to managers on how to avoid salary overpayments.

Appendix 1 Risk 2

Monitoring and recording

23. As noted above there are a number of examples where the information provided by payroll services has been incomplete or the information has been incorrectly recorded. There is a risk that this may impact on the effectiveness in the recovery of overpayments.

Appendix 1 Risk 3

Budget Monitoring

24. As part of the audit we reviewed the budget monitoring procedures that operate within the council. The annual budget is presented to and approved by the council at its spring meeting each year.
25. Revenue budget monitoring council overview reports are considered by the Finance, Resources and Customer Service Policy Board (FRSSPB) at each meeting and these summarise budget movements for all departments in the council. The FRCSPB council wide overview paper reports on the budget movements at a board level, however there are five boards that monitor budget movements at an operational level. These are:
- Communities, Housing and Planning Policy Board
 - Education and Children's Services Policy Board
 - Finance, Resources and Customer Service Policy Board
 - Infrastructure, Land and Environment Policy Board.
 - Leadership Board.
26. The council overview report is prepared on the same basis as the annual budget. However, the board level reports present financial information on the basis of the decision-making remit of each board.
27. As part of our audit of the council budget monitoring procedures, we reviewed a sample of reports. As shown in exhibit 4, there were significant budget movements between three consecutive budget overview reports.

Exhibit 4: Budget overview reports

	Budget	Council Wide Report to FRCSPB		
	16-Feb-17	23-Jun-17	15-Sep-17	10-Nov-17
	£000's	£000's	£000's	£000's
Education and Children	204,811	203,045	208,911	204,811
Environment and communities	56,958	55,501	43,686	56,246
Corporate Landlord	n/a	3,905	16,439	4,172

28. The movements between the June and September budget overview reports were due to an error in the preparation of the budget figures which was subsequently corrected in the November report. However, there is no reference to these movements within the narrative to the report to explain these changes. We also reviewed the board level reports and confirmed budget movements were not consistently identified or reported.
29. The above error was not identified as individual finance reports (overview and policy board) summarise spend against the revised budget; they do not consistently report changes in budget from one report to the next.
30. To ensure more transparent reporting the council should outline budget changes from the prior period in each finance report so any changes in the projected year end spend against budget are clearly identified. In addition, the council should provide sufficient narrative within both the overview and policy board reports to explain any budget movements in the period.

Treasury Management

31. The council's Treasury Management Practices (TMP) set out the processes to be followed to allow the council to comply with treasury management requirements. The TMP has been in draft since January 2017. Officers had advised this would be completed by May 2017 but our follow up audit confirmed the document is still in draft.
32. There have been further changes which have not yet been reflected in the document (e.g. change in treasury management consultant from Capita to Arlingclose).
33. As a result, there is a risk that without up to date and approved practice notes in place, the processes being followed are not in line with treasury management requirements.

Appendix 1 Risk 5

Journal authorisation

34. As part of our audit work we reviewed the controls in place to create and authorise journal entries for input into the main financial systems. It was noted that some members of staff are able to create and post self-authorised journals.
35. From discussions with officers this practice is to allow staff to work more efficiently during busy periods. The lack of journal authorisation is a control weakness that increases the risk of erroneous or fraudulent journals being posted.

Appendix 1 Risk 6

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
7	<p>1. Overpayments</p> <p>We noted that between April 2015 and February 2018 there has been 806 cases of overpayment to employees with a value of £812,876.</p> <p>There is a risk that the current controls are not effective in identifying when staff leave the council or there is a change to an employee's conditions of service and overpayments continue to be made.</p>	<p>The current procedures should be reviewed to ensure that</p> <ul style="list-style-type: none"> the risk of leavers not being removed from the payroll immediately when they cease to be employed by the council is minimised. changes to an employee's conditions of service are updated on a timely basis. 	<p>The issue highlights the need to ensure that all managers across the council provide payroll with information on leavers and changes to an employee's conditions of service as soon as possible after a change to avoid overpayments occurring.</p> <p>The procedures have been reviewed and new guidance developed. The guidance was issued to all managers at the end of April 2018.</p> <p>Payroll and HR management will monitor the management information on a monthly basis to measure the effect of the new guidance, and if necessary, target specific areas/services where further support or guidance is required.</p>
8	<p>2. Overpayment recovery</p> <p>The recovery of overpayments takes on average more than 3 months, with some repayment plans currently lasting up to 5 years.</p> <p>The guidance issued in March 2018 states that an overpayment should normally be repaid over the same time period in which it occurred.</p> <p>There is a risk that recovery plans are not in line with guidance and repayment is not made on a timely basis.</p>	<p>The council should ensure that future recovery plans are in line with new council procedures.</p>	<p>The issue highlights the need to ensure that recovery action is timely and is equitable for the employee and the council.</p> <p>New recovery procedures have been in place since 5 March 2018 and provide the payroll team with guidance on ensuring a reasonable rate of recovery, taking account of individual circumstances, the value, and period of the overpayment.</p>



**Page
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

8	<p>3. Monitoring and recording of overpayments</p> <p>Our analysis identified a number of errors and omissions in the payroll data provided.</p> <p>There is a risk that overpayments are not being properly recorded, monitored and actioned. This may impact on the effectiveness in the recovery of overpayments.</p>	<p>Payroll services should put appropriate controls in place to ensure that data is accurately recorded.</p>	<p>By the end of June 2018, the data extracted to monitor and review the effectiveness of overpayment recovery will be reviewed and updated to provide enhanced management oversight.</p> <p>Processes, procedures and management information will be reviewed in line with the implementation of Business World ERP system, due to go live in September 2018.</p> <p>In line with the actions outlined in relation to risk number 2, Management Information will continue to be tracked and monitored following the implementation of the new system.</p>
9	<p>4. Budget monitoring and reporting</p> <p>The current budget monitoring reports do not provide sufficient analysis and explanation of budget variances during the year.</p> <p>The need to improve the level of transparency in reporting was highlighted by large budget movements during the year not being highlighted within budget monitoring reports.</p> <p>There is a risk that the information provided to elected members is not sufficiently transparent to support effective scrutiny.</p>	<p>The council should ensure budget monitoring reports identify and report budget movements.</p>	<p>The issue highlighted relates to an error within the revenue budget monitoring overview report to the Board in November 2017; which was subsequently corrected in the following report. Reports to individual Policy Boards were correct at each reporting cycle.</p> <p>Budget movements should be included within revenue budget monitoring reports to each Policy Board, however these have not been included consistently. Future revenue budget monitoring reports will include net budget movement information. The overview report will not include budget movement information as this will be reported to each individual Policy Board in line with their budget scrutiny obligations.</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing
10	<p>5. Treasury Management Practices</p> <p>The TMP has been in draft since January 2017 and further changes to the procedures are not reflected in the document.</p> <p>There is a risk that without up to date approved practice notes in place, procedures will not be properly followed.</p>	<p>The council should update and approve the TMP.</p>	<p>No substantive changes to the TMPs are anticipated, however they will be updated and approved by end May 2018 to incorporate any update required from the revised Treasury Management Code of Practice which was published early in 2018.</p>
10	<p>6. Journal authorisation</p> <p>Some members of staff are able to create and post self-authorised journals.</p> <p>The current arrangement increases the risk of erroneous or fraudulent journals.</p>	<p>The council should review the current arrangements of self-authorisation of journals.</p>	<p>Officers have considered the processes in place with regards journal authorisation and have concluded that the control measures in place are sufficient to mitigate the risk from the small number of journals which are self-authorised.</p>

Appendix 2

Number of overpayments by year

Narrative	2015/16	2016/17	2017/18 (to February 2018)	Total Cases
Overpayments to current employees	200	125	135	460
Overpayment to former employees	113	115	95	323
Total overpayments	313	240	230	783*

Value of overpayments by year

Narrative	2015/16 £	2016/17 £	2017/18 (to February 2018) £	Total Value £
Overpayments to current employees	114,752	117,628	161,334	393,714
Overpayment to former employees	106,300	171,283	101,116	378,698
Total overpayments	221,052	288,911	262,450	772,413*

*the total excludes those cases where we were unable to confirm the correct year.

Reason for overpayment

Narrative	Number of cases
Late notification to payroll	602
Due to payroll error	134
Not recorded	70
Total overpayments	806

Overpayment recovery from current employees

Narrative	Number of cases	Amount recovered £	Amount outstanding £	Amount written off £
Fully recovered	347	244,907	-	
Recovery plans in place	56	-	97,700	
No recovery plans in place	54	-	64,507	
Overpayment written off	18	-	-	17,629
Total	475	244,907	162,207	17,629

Overpayment recovery from former employees

Narrative	Number of cases	Amount recovered £	Amount outstanding £	Amount written off £
Fully recovered	95	106,541		
Invoice sent – recovery started	42		91,230	
Invoice sent – no recovery to date	36		36,055	
No recovery plans in place	43		38,776	
Overpayment written off	18			3,325
Data incomplete – status not known	97		111,585	
Total	331	106,541	277,646	3,325

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