

Scottish Borders Council

Management Report 2017/18



 AUDIT SCOTLAND

Prepared for Scottish Borders 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 our interim audit work carried out at Scottish Borders Council (“the council”). This work included

- testing of key controls within financial systems (including using the work of internal audit) to gain assurance over the processes and systems used in preparing the financial statements
- early substantive testing of a sample of income and expenditure transactions
- a review of the council’s progress with the National Fraud Initiative (NFI) exercise.

2. We will use the results of this work, where required, to determine our approach during the 2017/18 financial statements audit.

3. 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 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.

4. We have also, under the [Code of Audit Practice](#), carried out work on the wider dimension audit from our reviews of NFI investigation work, General Data Protection Regulation (GDPR) preparation and arrangements for monitoring performance and outcomes which we will report on in our Annual Audit Report.

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.

Conclusion

6. Our work, and the work of internal audit, identified several control weaknesses as summarised in [Exhibit 2](#). We will therefore be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2017/18 financial statements.

7. In terms of our wider dimension audit work we concluded that appropriate investigation work has been carried out for the NFI exercise and initial plans are in place for the implementation of GDPR.

Work summary

8. [Exhibit 1](#) summarises the key systems and controls that were tested in 2017/18.

Exhibit 1

Work summary

Key system	Key controls tested (including testing performed by internal audit)
Payroll	Exception reporting Review of key payroll processes (new starters/ leavers/ payroll amendments) Changes to standing data
General Ledger	Journal authorisation Changes to standing data
Trade Payables	Changes to supplier bank details Authorisation of purchase orders and invoices Budget monitoring of revenue expenditure Approval of grant payments
Trade Receivables	Authorisation of debtors requests and invoices
Cash and Banking	Bank reconciliations
Fixed Assets	Budget monitoring of capital expenditure
Council Tax and Non Domestic Rates	Awards of discounts / reliefs User access
Pensions Administration	Arrangements for using custodian information Monitoring of contributions

Source: Audit Scotland

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.

10. Where possible we use the work of internal audit to avoid duplication of effort. During 2017/18 internal audit carried out a significant amount of work on the new financial system in place at the council, Business World ERP. We considered this work as part of our audit, including reperformance of parts of the work in accordance with the requirements of *ISA 610: using the work of internal auditors*.

11. The internal audit report included 18 recommendations to address identified weaknesses in the ERP system which covers 4 main areas:- procurement and payments (5 recommendations); accounts receivable (2 recommendations); payroll (1 recommendation); financial ledger (8 recommendations); and two recommendations covering all modules. The main issues included:

- Further training on the operation of the system should be provided to staff and updated processes documentation reflecting changes to the system since go live should be prepared

- processes for maintenance of the audit trail in the system should be reviewed so that there is a clear record of the person making and authorising changes
- reconciliations of feeder systems should be independently reviewed
- journals should have an enforced segregation of duties for preparing and authorising.

12. The report was considered by the Audit and Scrutiny committee on 14 May and Council officers have agreed an action plan to address the recommendations made in the report.

13. In addition to the agreed recommendations, it was also noted in the internal audit report that it has not been possible to fully test system user access due to limitations in system reports and insufficient documentation regarding user roles and access. A role review is underway to ensure that appropriate access is in place for users.

14. There are also elements of Business World that are not yet operational, such as fixed asset registers and self-service budgetary information. In these areas previous systems and processes from before the introduction of Business World are being used.

15. We also considered the internal audit report on Council Tax (Revenues) as part of our testing. This report was produced in November 2017 and concluded that substantial assurance could be provided regarding the processes in place.

16. GDPR came into force on 25 May 2018. The regulations include significant changes to data protection requirements, including new rights for individuals and increased penalties for breaches. Internal audit commented on the council's preparations for the implementation of these new requirements as part of their report 'Information Governance & GDPR Interim Review' which was issued in March 2018. The report highlighted that the council had largely satisfactory arrangements in place for preparing for the new regulations, with a GDPR Project Board set up that was meeting monthly and overseeing preparations for the new requirements. The report did note that work on completing information asset registers (IARs) was a key element of the GDPR preparation and that many IARs still needed to be completed. We will provide an update on the arrangements in our Annual Audit Report in September.

Risks identified

17. The key control and wider dimension risks identified during our interim audit are summarised in [Exhibit 2](#). These findings will inform our approach to the financial statements audit where relevant.

18. 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 Scottish Borders Council.

19. Audit Scotland's methodology is to provide recommendations for areas of risk found during our audit work. We consider that it is the responsibility of management to assess the extent of these risks and to take action where necessary to mitigate these risks. Therefore, our audit approach does not attach any 'risk rating' to the issues included in the action plan below, as we consider all issues we have raised to be of significance to the council.

Exhibit 2**Key findings and action plan 2017/18**

Issue identified	Management response	Responsible officer and target date
Audit findings		
<p>Business World</p> <p>Results of testing from our audit work, and the work carried out by internal audit, has identified that there are significant weaknesses in the control environment following the implementation of the new financial system. In addition, there is planned functionality within the system that is not yet in place.</p> <p>There is a risk that errors or fraud may not be identified timeously due to weaknesses in controls.</p>	<p>The control weaknesses identified are being addressed through an agreed action plan. Work is ongoing with CGI to ensure these are rectified.</p> <p>The plan agreed with CGI at Go Live should ensure that outstanding functionality relating to fixed assets and self-service reporting are encompassed in the CGI Contract.</p>	<p>Chief Financial Officer</p> <p>31/9/2018</p>
<p>Access to Revenue Systems</p> <p>We reviewed the list of users with access to the Council Tax and Non Domestic Rates revenues system for appropriateness. We identified eight users with inappropriate access to the system due to changes in their role or no longer working for the council.</p> <p>There is a risk that individuals could have inappropriate access to revenues systems.</p>	<p>This has been reviewed and addressed. A revised process to ensure system access is updated when user roles changes or people leave has been developed; however, it should be noted there is no evidence that inappropriate access has occurred with regards to corporate systems.</p> <p>A further communication to ensure managers update records will be issued.</p>	<p>Service Director Customer Services</p> <p>30/06/18</p>
<p>Payroll Audit Reports</p> <p>In previous years, payroll staff used a daily 'audit report' of changes made to the system the previous day to check that all changes were supported by appropriate documentation. The new system does not allow an equivalent report to be produced. There is therefore no system generated report of changes available to allow payroll staff to check changes made to the payroll.</p> <p>There is a risk that unauthorised changes to payroll data may not be identified timeously.</p>	<p>This is a known outstanding deliverable with the ERP system the requirements for which are scoped and which is fully captured within the post go live rectification plan.</p> <p>Again it should be noted that there is no evidence that any unauthorised changes to the ERP payroll have been made.</p>	<p>Service Director HR</p> <p>30/6/18</p>

Source: Audit Scotland

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