Aberdeenshire Council

Interim Report 2019/20
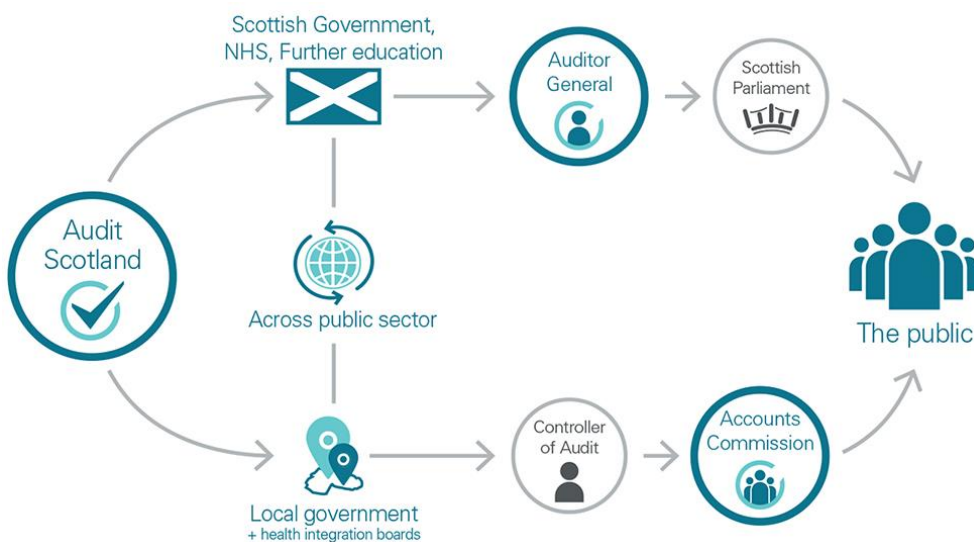
AUDIT SCOTLAND

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.

Contents

Key messages

Introduction

1. This report contains our findings from interim audit work carried out at Aberdeenshire Council.

2. Fieldwork for audit findings contained in this report pre-dates the Covid-19 global pandemic. While we anticipate that the pandemic will largely impact on financial year 2020/21, we are currently reviewing our audit approach for the audit of the 2019/20 financial statements.

3. Our responsibilities under the *Code of Audit Practice* require us to assess the systems 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 annual accounts

   - 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. Also, we carried out wider scope work around the four audit dimensions set out in the Code of Audit Practice. This report contains findings in relation to the financial management and governance dimensions.

5. 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.

6. 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.

Conclusions

7. We identified five key financial systems for the council and the key financial controls within each system. We review key controls on a cyclical basis and for 2019/20, this included controls operating within the payroll and cash and bank systems. In addition, we undertook specific testing on the arrangements for adding new suppliers or amending existing supplier details on the accounts payable system. In all areas tested, we found that controls were operating as expected.

8. We reviewed the new style budget monitoring reports in terms of content, scrutiny and accountability. They provide a sound foundation for further improvement. We have also commented on the new suite of performance reporting against council priorities, and while it provides a wealth of detail, more work is required to demonstrate performance and progress against plans.

9. Appendix 1 summarises the risks identified, and the action agreed by management to make improvements.

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

Financial controls

Financial controls

11. On an annual basis, International Standards on Auditing (ISAs) require us to consider the council's internal financial controls. When conducting our system assessments, we focus on the key financial controls in operation within each key system. Exhibit 1 sets out the systems we regard as key financial systems for the purposes of the council's annual accounts. It also provides a summary of the controls in each system which we have assessed to be key controls.

Exhibit 1: Key financial systems and controls

Key Financial System	Key Controls
General Ledger	- Access to the system and/or amendment to a system role is supported by an authorised request form (this includes accounts payable and accounts receivable). - Journals are appropriately authorised with segregation of duties between creation, authorisation and upload of a journal. - Daily sheets are completed to demonstrate the successful upload of all interfaces to the general ledger.
Payroll	- Access to the system is supported by an authorised request for each user. - Starters and leavers are supported by an authorised request with evidence of checking and input by HR and input by payroll. - Evidence of review of monthly report of changes to superusers' own pay records. - Evidence of checks on exception reports. - Completion of the monthly checklist. - Monthly reconciliation between payroll and general ledger completed and signed off.
Accounts Payable	- Appropriate authorisation of expenditure. - Evidence of a check between the amount on the BACS file and the approved payment. - Monthly reconciliation between accounts payable and the general ledger control account. - Changes to supplier details are supported by an authorised request. The supplier is called to confirm a change to bank details which is followed up by an email confirming the call made. - New supplier details are supported by an authorised request and additional approval is provided by the council's central procurement service.
Accounts Receivable	- The raising of an invoice is supported by an authorised request. - Monthly reconciliation between accounts receivable and the general ledger control account.
Cash and Bank	- Access to the system is supported by an authorised request form. - Daily reconciliation of interfaces and card transactions. - Confirmation from IT of successful interface transfer. - Completion of a monthly bank reconciliation including control check sheet.

Source: Audit Scotland

12. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on an annual assessment of key financial systems supported by a mix of annual testing of controls, reliance on the results of previous years and assurances taken from the work of internal audit.

13. Our annual assessment includes carrying out a walkthrough test of each system to confirm that key controls were operating as expected. Where appropriate, our risk-based audit approach allows us to take a three-year cyclical approach to controls testing. Where we have confirmed that the controls remain unchanged and no other significant issues have arisen, we can place reliance on previous years' audit results.

14. For 2019/20, controls related work was undertaken in the undernoted areas and our findings are set out in subsequent paragraphs.

- cyclical testing of key controls in the payroll, and cash and bank systems

- as a result of vacancies in the accounts processing team, changes in the operation of controls may have been required and consequently, we undertook focused testing in key risk areas.

Approving new suppliers

15. In order to minimise the possibility of erroneous payments, specific controls are in place to check the validity of suppliers before setting them up on the accounts payable system. The council requires all new suppliers to complete an AP06 form to provide bank account details so that payment can be made. Where this form is not returned by the supplier to the council via email, further supporting evidence, such as a letter head or compliments slip, is also required.

16. When undertaking walkthrough testing as part of our annual update of understanding the system, we noted that this additional evidence had not been received by the council. This is a known area of higher risk in public bodies. Several recent high-profile fraud cases across Scotland have arisen as a result of a breakdown in controls when creating new suppliers or changing existing supplier details. Based on further audit work of supplier activity, we confirmed that only one, low value, payment had been made to this supplier.

17. At the time of fieldwork, we noted that the accounts processing team was operating with a number of vacancies (ie four vacancies in an establishment of twelve) but were being supported by staff from other teams. When reviewing the key controls, we considered the impact of potential changes in staff responsibilities due to the vacancies and concluded that the only area of increased risk was in relation to the creation and amendment of supplier details.   We therefore reviewed a further sample of new suppliers and amended supplier details and confirmed that the expected controls were in place and operating correctly.

Risk of management override of controls

18. The more senior an officer is, the more authority and opportunity there is to inappropriately override well-intentioned controls without being detected, for example, by inflating reported figures to boost an officer's reputation. This is therefore an area where auditing standards require us to focus attention each year across all audits.

19. Within our Annual Audit Plan, we set out the significant risks identified in respect of the audit. This included a risk of management override of controls and the potential for senior officers to take advantage of their position. With regard to the annual accounts, we consider the potential for financial results to be manipulated by senior officers and in gathering assurance to mitigate this risk, we consider:

- our assessment of key financial controls

- the level of journal entries posted in the year, from which a sample is examined for unusual adjustments

- who has processed journals and whether these transactions were processed at unusual times (e.g. at weekends, after hours etc).

20. In 2019/20, the council processed around 3,000 journals amounting to £17.6 billion. Exhibit 2 provides an analysis of the number of journals by grade of staff who processed them and the day of the week on which they were processed. This confirmed that senior staff are not directly involved in processing transactions to the general ledger. We also found that 98% of journals are routinely processed during the standard working week. There were a small number of 'automatic' journals which are pre-set to be processed on a certain date and therefore may show up as being processed on a weekend – we considered these to be valid. Overall, we found no evidence of inappropriate management override of controls.

Exhibit 2: Analysis of journals posted by grade per day of the week
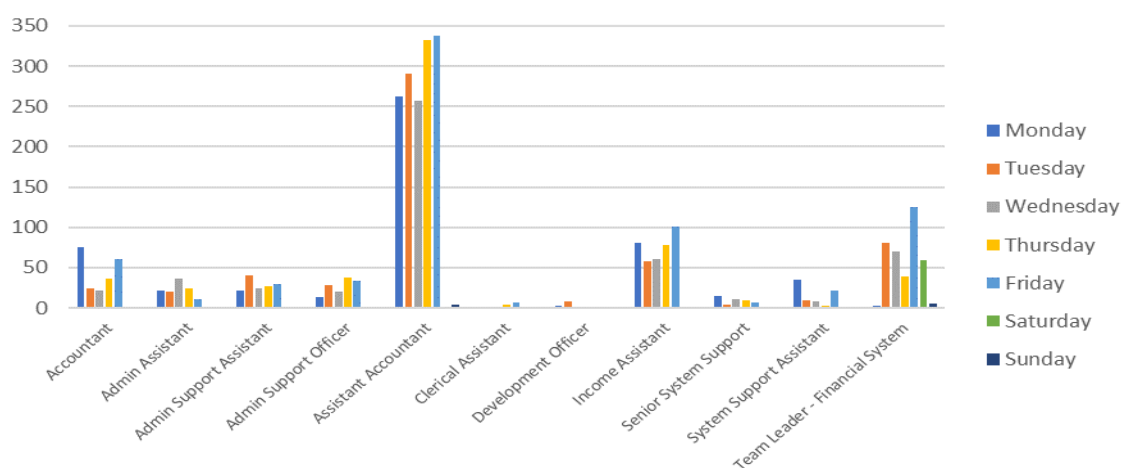
Source: Audit Scotland analysis of Aberdeenshire Council General Ledger

Manual authorisation of invoices for payment

21. For several years, we have identified payment of invoices not initiated by an electronic purchase order as an area of audit risk because of instances where officers approved invoices which exceeded their approved authorisation limits. The council believes the key control occurs when the purchase order is approved, or the overall contract commitment is made. As payments are initiated by invoices, in our opinion, there is still a potential risk of fraud over expenditure because of the time delay between policy committees approving procurement through the work plans and expenditure associated with such contracts being incurred.

22. We selected a sample of 20 payments which were not initiated by an electronic purchase order to confirm that the expenditure had been approved at the commitment stage or that the subsequent invoice had been approved by an officer with the appropriate authority to do so. We found that all invoices selected were for goods or services appropriate to council business and that satisfactory authorisation had been provided.

Wider scope

23. Our audit is based on the four audit dimensions that frame the wider scope of public sector audit as set out in Audit Scotland's Code of Audit Practice. The following paragraphs include our findings from interim audit activity relating to two of those dimensions - financial management, and governance and transparency.

24. In reviewing the dimensions, some of the factors we consider include the effectiveness of scrutiny and the transparency of financial and performance reporting. We also consider the effectiveness of the budgetary control system in communicating accurate and timely financial performance.

Budget monitoring reports

25. For 2019/20, a new format was introduced for budget monitoring reports which are submitted to the council and its policy committees. The decision was taken to move away from reporting 'Budget against Forecast' to 'Budget to date against Actual to date'. By comparing budget to forecast, it was felt that too much emphasis was focused on the potential outturn position and not enough consideration was given to actual spend during the year. Forecasts were highlighting potential year end overspends from as early in the year as the first quarter's monitoring report, and from thereon in, the focus was on bringing the financial position back to one of financial balance.

26. As an alternative, it was decided that profiling the budget over the course of the year would provide a more accurate picture of the financial position at any moment in time. Profiling of the budget requires a detailed understanding of cash flow, knowing when expenditure is likely to occur throughout the year, and understanding that expenditure patterns do not generally remain the same each month.

27. To assist in the production of the new style of reporting, the council adopted the PowerBI software analysis tool. This enables the budget monitoring report template to be matched with the financial ledger so that budget monitoring reports can be extracted at any time and through use of the tool, drill down facilities permit account balances to be investigated or compared with relative ease.

28. The new style was implemented for financial year 2019/20. Reports follow a standard template which include:

- a narrative section setting out reasons for significant variances
- detailed figures showing the position against the budget both by expenditure type (e.g. staff costs) and by service (e.g. Finance)
- details of any proposed changes to the base budget to be approved
- information on capital expenditure
- progress in achieving agreed savings using a Red/Amber/Green (RAG) assessment.

29. In reviewing the new format of reporting, we considered the following three key areas:

- the robustness of the assumptions used in profiling budget lines

- the adequacy of the reports in terms of improving accountability and transparency for the wider public

- whether the revised budget monitoring reports have increased the level of scrutiny and engagement by elected members.

Budget profiling

30. Having analysed quarter three's monitoring reports for each of the four policy committees, budgets have largely been profiled based on last year's time elapsed expenditure. This has hampered some discussions at policy committees as several significant variances reported have been linked with profiling rather than anything unusual. While plans are in place to develop profiling based on expected cashflows, this is some way away.

31. Officers have indicated that it will take some time to accurately profile the budgets. Data will be required over a number of financial years to allow officers to clearly identify spending patterns. In the meantime, whilst some profiling of budgets has been undertaken, this remains a work in progress with a target date of 2021/22 for a clearer picture. We will continue to monitor developments in this area.

Adequacy of reports

32. Each policy committee is responsible for scrutinising financial information in respect of their respective services. In addition, full council receives a higher level summary of the financial position of the council as a whole. Having considered the new style budget monitoring reports, we made the following observations:

- the new format is stream-lined and less cluttered

- the use of bar charts and other exhibits is likely to be easier understood by lay readers and non-financial people

- the analysis by expenditure type may help to identify the key factors behind significant variances

- a summary savings position is provided using a RAG rating to assess likelihood of achievement. This is clear and concise and has implemented a recommendation we made as part of the 2017/18 audit

- the level of narrative provided within the reports has improved over the year. The identification of 'emerging messages' is effective in drawing attention to the key points. Although more explanation of the reasons for significant variances is now provided, the narrative tends to concentrate on overspends with little attention devoted to underspends.

Reporting cycle

33. We have previously commented on the number of budget monitoring reports made available to elected members as 'Bulletin Reports' because of the timing differences between the timetable for producing budget monitoring reports and the deadlines for committee cycles. While Bulletin Reports have not been used in this way during 2019/20, there has been a delay in the submission of budget monitoring information to committee. Full council and policy committees each received two monitoring reports in 2019/20:

- the first in the October/November 2019 cycle which covered April to September 2019 (6 Months)

- the second in the January/March 2020 cycle which covered October to December 2019 (3 months).

34. We acknowledge that the implementation of the new reporting process has affected the timetable in 2019/20 and now that the system is in place, reports should be more regular going forward. Due to the lead in time for committees, there is still the potential for information on agendas to be over two months old. With Power BI allowing real-time access to data, it may be that the reporting can cover shorter periods where this would assist a better fit with committee cycles and ensure that elected members have the most up-to-date information to consider.

Scrutiny and engagement

35. We understood that PowerBI was to be used more widely both in providing up-to-date information by way of discussion at committees and for elected members to have direct access to the system to carry out further investigation as required. We noted that updates from the live system have not yet formed part of the discussion at policy committees. Awareness training was provided to elected members and further workshops are planned. We would agree that more training is required. While elected members have access to the system, there is mixed understanding on how to access the system and the data.

36. An analysis of expenditure by service is provided within budget monitoring reports. The level of analysis provided however varies quite significantly across policy committees. Education and Children's Services has only 13 service categories while Infrastructure Services has around 40. While the use of the traditional nursery/primary/secondary/etc classifications would seem sensible, they are significant budgets at that level and it is therefore likely that there will be a range of over- and underspends within those headings which could each merit further review. The opportunity for detailed scrutiny is therefore lost because different issues may be netted together and when reported at such a high level, relevant issues may be hidden.

37. From our observations of committee meetings, the level of public scrutiny undertaken varied across committees. It may be that scrutiny is limited because of the lack of detail provided in committee reports and therefore less information is available on which to challenge and raise questions.

38. The scheme of governance sets out that it is the duty of policy committees to undertake scrutiny of financial information for their services. It is therefore important that these committees have sufficient information to enable them to properly fulfil this duty and if not, they should be proactive in seeking the information they require to do their job.

39. Full council receives a report setting out the overall position for each service and for the council as a whole. To improve the robustness of the overall scrutiny and challenge undertaken, there is scope for policy committees to provide assurance back to council (e.g. by committee chairs reporting back) that scrutiny has been robustly undertaken and where necessary, to highlight any specific areas of concern.

40. In overall terms, the new reports are a good development and provide a sound foundation for further improvement. They have evolved over the year and should continue to do so. Either through the reports or through direct system access, there is scope to:

- provide more service analysis to policy committees to ensure there is sufficient information provided to support a challenge process

- start to combine financial performance and non-financial performance information together in key areas to provide a more rounded view of services and assist improved scrutiny

- involve elected members in deciding what information is needed to assist them scrutinise and better understand the services their policy committee oversee

- on an ad hoc basis, report after two months rather than await the standard quarterly report, where this is a better fit with a committee cycle to enable more timely discussion on financial information

- improve the effectiveness of overall scrutiny of financial information at full council through policy committee chairs providing assurance on the robustness of the scrutiny undertaken at committee.

Refer Action Plan, number 1

Counter fraud strategy

41. The council has a good framework of policies supporting counter fraud activity but lacked a counter fraud strategy and policy. A revised policy had been in development for some time and was finally approved by the Business Services Committee in February 2020. Such a policy is intended to develop a culture to increase resilience to fraud by bringing together an overall framework for managing risks to minimise fraud.

42. The new counter fraud strategy is based on CIPFA's 'Code of Practice on managing the risk of fraud and corruption' and CIPFA's strategy on 'Fighting Fraud and Corruption Locally (FFCL) 2016-2019'. Due to the period of time the strategy was in development, a number of the actions in the associated action plan are no longer relevant and would merit a refresh. In addition, the opportunity should be taken to reflect the changes introduced in CIPFA's revised FFCL strategy published in 2020 and the increased risks around cybercrime.

Refer Action Plan, number 2

Performance monitoring reports

43. The council's first suite of performance reporting against council priorities commenced in respect of 2018/19 and six monthly reporting was introduced from November/December 2019. Reports follow a similar format with 3the following three sections:

- highlights: a high level summary of the priority including four key performance indicators and a short narrative section

- indicators: a set of detailed performance indicators for each priority. Information includes the target level for the indicator, and the actual results over time with the RAG assessment of performance

- actions: narrative summary of progress with each agreed action to be completed as part of the priority. These link to the actions agreed by committees in 2019 to address the priorities.

44. Having reviewed the format and content of performance monitoring reports, we found that they are comprehensive, have taken time to produce and provide a lot of information about services. In terms of measuring and demonstrating performance however, progress is not clear. For example:

- it is unclear from the highlights summary whether the council is making progress in meeting its priorities. For example, in respect of the priority '*Have the best possible transport and digital links across our communities'*, the highlights summary simply provides narrative on ongoing projects, rather than actual performance measures

- it is not always clear how performance measures clearly link to the priority. For example, the priority '*Support a strong, sustainable, diverse and successful economy'* includes a performance measure *'percentage of domestic noise complaints settled without attendance'*. More could be done to ensure that performance measures closely link to the priority

- each action includes a RAG status indicating whether the action will be completed by the due date and an assessment of percentage progress towards completion. There is no clear rationale to justify these assessments. For example, a Business Services action on '*Empowering managers to lead and manage their teams in the most effective way by ensuring responsibilities and accountabilities are clear and unambiguous for all concerned'* has a due date of March 2020 and a status of Green, but progress was only assessed at 25%

- from December 2019, area committees began receiving six monthly performance reports. In total, this will mean four reports, one from each of the policy committees. The reports follow the same format as the policy committees, but there are differences in the level at which information is available. Some of the information is area specific, while other data is simply the council wide data as previously presented to the policy committee. It is recognised that performance reporting at area level is at an early stage and work is ongoing to agree the content of future reports.

Refer Action Plan, number 3

Appendix 1

Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
1.Budget monitoring While the new budget monitoring reports are an improvement, more information should be provided to support and enable effective scrutiny by policy committees and provide for assurances back to full council**.**	The following planned actions will be undertaken over the period to 31 March 2021: • Budget pages and cost allocation headings are being reviewed to ensure they are reflective of how services operate. • It is intended that one Head of Service will be responsible for each budget page, so that the relevant committee can challenge the budget holder as part of the financial monitoring discussions at committee. • To link financial information with service non-financial performance information. • Service explanations for variances will be provided on a monthly basis and included in the live PowerBi information available to elected members. Health and social care have agreed to be the service to trial this. • The option to report by priorities is being explored. Committees are each holding a priorities workshop which will include reporting requirements (Education and Children's Services - September, Communities - November, Business Services - December) • There has been initial engagement between Finance and Education and Children's Services Committee on future reporting. A programme of engagement with other committees will follow.	Strategic Finance Manager 31 March 2021
2. Counter fraud strategy The counter fraud strategy and action plan should be reviewed and refreshed.	The counter fraud strategy was approved by the Business Services Committee in February 2020. Regular updates will be carried out to reflect good practice.	Head of Finance As required
3. Performance monitoring A review of the performance reporting framework should be undertaken to include the identification of milestones and targets against which progress can be effectively measured and demonstrated.	The council is currently reviewing its priorities which will include a refresh of the associated performance reporting framework. New reporting arrangements to be in place from April 2021.	Director of Business Services 31 March 2021

Source: Audit Scotland

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