

Angus Council

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Angus Council

17 August 2020

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Angus 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 consider the results of this testing when determining our approach to the audit of the 2019/20 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. We have carried out work on the wider audit dimensions as required by the [Code of Audit Practice](#). As part of our interim work we reviewed Angus Council's engagement with the National Fraud Initiative (NFI). Further wider dimension work on financial management, financial sustainability, governance and transparency and value for money will be reported in our Annual Audit Report.

4. In common with all public bodies, Angus Council has had to respond to the global coronavirus pandemic. This impacted on the final month of the year, including a move to remote working, the suspension of some services due to lockdown restrictions and considerable activity to support local businesses and residents.

5. Our planned audit work has had to adapt to these changing circumstances as they relate to the audit of the financial statements and the wider dimensions of audit. Planned work to assess the risk of fraud in relation to procurement and the effectiveness of Angus Council's arrangements for addressing this risk has been postponed, to be revisited in our 2020/21 audit. Our controls work was delayed as some of the required evidence was held in the council's offices; most of that work is now complete, with the findings reported below.

6. As a result of the impact of Covid-19 the Scottish Government extended the deadline for submission of local government audited annual accounts from 30 September 2020 to 30 November 2020. The revised timescale for our audit is in accordance with the revised Scottish Government timescales, aiming to sign off Angus Council and the two charities accounts by the end of October 2020.

Conclusion

7. We identified several control weaknesses from our interim audit work as summarised in [Exhibit 1](#) overleaf. We will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2019/20 annual accounts.

8. In terms of our wider dimension audit work we concluded that Angus Council continues to engage positively with the National Fraud Initiative and that appropriate risk-based arrangements are in place for NFI data match investigations.

Work summary

9. Our 2019/20 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. Our testing of controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims has been delayed and is still in progress.

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.

National Fraud Initiative (NFI)

11. The National Fraud Initiative in Scotland is a counter-fraud exercise coordinated 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 irregularity.

12. Each NFI exercise lasts for two years and we report in both years on Angus Council's engagement with NFI and progress of its data match investigations. Angus Council continues to engage positively with the NFI exercise and applies an appropriate risk-based approach to investigation. The Counter Fraud team reports on the outcomes of the NFI exercise to the Scrutiny and Audit Committee on a regular basis.

13. In the latest 2018/19 NFI exercise six errors were identified, with a value of £30,679. This amount is being recovered through the council's debt recovery procedures.

14. Angus Council was also one of seven councils who participated in a pilot exercise to help identify businesses inappropriately claiming Small Business Bonus Scheme (SBBS) relief. The SBBS assists small businesses in Scotland to pay their rates. Four Angus Council cases were identified as errors, with a value of £10,921. The pilot identified incorrect awards of £412,974 across the seven councils. Due to the success of this pilot, the Scottish Government is considering a national roll-out of this data matching exercise across all Scottish councils.

15. The national NFI report on the 2018/19 exercise has been [published](#). Fraud and errors totalling £15.3 million were identified since the last report in 2018. This figure includes an estimate for prevented future losses. The Covid-19 pandemic has brought additional fraud risks. They include public-sector staff working remotely under extreme pressure, and potentially less scrutiny of applications for government stimulus packages for individuals and businesses.

16. The national report includes a [self-appraisal checklist](#). We recommend that Scrutiny and Audit Committee members, and staff leading on NFI, use this checklist to ensure they are fully informed of the council's planning and progress in the 2020/21 NFI exercise.

Risks identified

17. The key control risks identified during the interim audit are detailed in [Exhibit 1](#). 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 Angus Council.

Exhibit 1

Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>1. Changes to supplier bank details</p> <p>As reported previously, we consider that the council is exposed to the risk of fraud in relation to its procedures for confirming the validity of requests to change a supplier's bank details (for suppliers where the council's annual spend is below a specific value). For changes below this value there is no direct check with these suppliers, using existing contact details held, to confirm that the request is genuine. Officers discussed and accepted that level of risk in prior years and the council continues to accept that risk in 2019/20. This is a common area of attempted fraud.</p> <p>There is a risk that a fraudulent request to amend supplier bank details would not be identified until the supplier reported non-payment of an invoice.</p>	<p>A review of internal controls was undertaken when the supplier bank details issue first arose as a significant issue. A risk assessment was undertaken, and Report 126/11 was submitted to committee with proposals of the additional controls to be put in place. The £(redacted) de minimis was suggested and approved. It is not considered that risks have changed significantly subsequently that would necessitate an alternative approach.</p>	<p>Not applicable</p>
<p>2. Bank reconciliations</p> <p>Bank reconciliations are prepared on a monthly basis, with review evidenced by a second officer. However, our 2019/20 audit work has identified delays in this key control process.</p> <p>Bank reconciliations for June, July and August 2019 were all prepared in September 2019.</p> <p>The June 2019 reconciliation was not confirmed as approved by the reviewer until March 2020.</p> <p>There is a risk that discrepancies in the bank account are not identified in a timely manner, especially as no bank reconciliation is prepared in April or May due to the accounts preparation workload.</p>	<p>We can confirm that bank reconciliations are performed monthly from the month of June, by a qualified accountant and these are then reviewed by a team leader and discussed as a standing item at the accountants 1-2-1 with any discrepancies being dealt with. The bank reconciliations should then be signed off. Although the reconciliations for the months in question were discussed it was discovered that the reconciliation had not been officially signed off. We will therefore ensure that as a matter of course bank reconciliations are signed off as part of the monthly 1-2-1 discussions.</p>	<p>Team Leader (Corporate Support Team)</p> <p>Implementation from August 2020 onwards</p>

Issue identified	Management response	Responsible officer / target date
<p>3. Payroll exception reports</p> <p>Exception reports are generated from the payroll system prior to processing the payment run. The reports are checked by the Payroll Assistants, who annotate the report to evidence investigation of all highlighted payments. The annotated report is then authorised by the Team Leader or Senior Payroll Officer. However, the annotated reports which evidence this key control check are not retained after any exceptions are cleared.</p> <p>Without evidence of its exception reports checks, the council cannot demonstrate that it is effectively investigating and clearing any unusual transactions highlighted by exception reports.</p> <p>Evidence should be retained to demonstrate that key controls operate as intended throughout the year.</p>	<p>Since the start of financial year 2020/21 these are now being retained which includes detail of how these have been dealt with.</p>	<p>Senior Payroll Officer Implementation from 1 April 2020</p>
<p>4. Employee validation checks</p> <p>As part of the annual budget setting process, a payroll system download listing employees, posts and salary details is discussed between each service manager and the service's finance contact, to match the staff establishment and budget for the following year. This forms an annual employee validation check, as services confirm that employees listed in the payroll report for their service exist and are appropriately included, although it's not the primary purpose of the process.</p> <p>There is no written evidence retained to demonstrate that each service has confirmed that the listed employees exist, and their payroll costs are appropriately charged to the service.</p> <p>Without evidence being retained to show that this check is carried out, we cannot rely on this check as confirmation of employee existence and need to get assurance over the completeness and accuracy of payroll expenditure through further audit testing.</p> <p>Evidence should be retained to demonstrate that key controls operate as intended throughout the year.</p>	<p>Guidance will be issued to Service support teams within Finance around the evidence which should be retained to demonstrate that checks have been undertaken.</p>	<p>Team Leader (Corporate Support Team) Implementation from August 2020</p>

19. We also noted a continuing risk from an internal audit recommendation that has still to be implemented: “A review of Integra user access levels should be performed by line managers within services to ensure that they remain aligned to the user’s role and responsibilities. This should be re-performed annually.” This action has been delayed while developments in business support and purchase to pay (P2P) systems are concluded. The need for annual reviews of user access is now being added to the action plan for completion of the P2P project. We have reviewed user access controls to ensure that access for new starts is appropriately controlled and removal of system access for leavers is actioned promptly. Implementation of internal audit’s recommendation will provide assurance over user access for existing system users. Until this action is implemented, a risk remains that Integra user access levels are not appropriate for users’ current roles.

20. 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.

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

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