

Comhairle nan Eilean Siar

Management report 2019/20



 AUDIT SCOTLAND

Prepared for members of Comhairle nan Eilean Siar

June 2020

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Comhairle nan Eilean Siar. 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 use the results of this testing to determine 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. Also, we carried out work on the audit dimensions as required by the [Code of Audit Practice](#). This focused on financial sustainability, governance and transparency and value for money.

COVID-19

4. The audit work contained in this report largely pre-dates the COVID-19 global pandemic. Our audit approach may require further revision once we are clearer about the accounting and auditing frameworks that will apply to the audit of the 2019/20 financial year.

Conclusion

No significant key control weaknesses were identified

5. No significant key control weaknesses were identified from our interim audit work that impact on our audit approach. However, we did find two instances of changes to supplier bank details being processed without the checks undertaken being correctly documented. We are assured that the checks had taken place in both instances and that only the documentation of the check was missing. This matter is detailed in Exhibit 1 where we recommend that officers are reminded of the importance of carrying out and recording supplier detail checks and that these are approved prior to changes being approved.
6. A consequence of the Covid-19 pandemic has been that we were unable to fully test all of the key controls we identified through our system reviews. Outstanding testing of the process of valuation of heritage assets and payroll exception reporting will be completed in the next few months. Any significant findings will be reported in our 2019/20 Annual Audit Report.
7. In terms our wider dimension audit work we concluded that appropriate arrangements were in place for financial management, financial sustainability, governance, and value for money although with some areas for improvement as set out in Exhibit 4.

Work summary

8. 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 and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.

9. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls. 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.

10. 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.

11. 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 Comhairle.

Exhibit 1

Internal Controls Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>Change to Supplier Bank Details</p> <p>Requests to change supplier bank details require officers to independently verify that the request is genuine. Officers document the verification process undertaken prior to bank detail changes being approved.</p> <p>In two instances we found changes to a supplier's bank details that had been approved without the completed documentation.</p> <p>We are assured that in both cases the process would have been followed to verify the new bank details.</p> <p>In the absence of documented checks being carried out there is a risk that payments to suppliers may be subject to fraud. Independent checks should be carried out and fully recorded prior to bank detail changes being approved.</p>	<p>There are established procedure in place and management are confident that these have been followed. However, staff have been reminded of the importance of evidencing that checks have been carried out.</p>	<p>Senior Purchase to Pay Officer</p> <p>15 May 2020</p>

2018/19 risks and action plan update

12. Our 2018/19 management report identified two control weakness (both of which related to system access) which were reported to the Audit and Scrutiny Committee in May 2019. Exhibit 2 outlines the progress made by management where planned action was agreed in response to the audit recommendations made.

Exhibit 2

Internal Controls Key findings and action plan 2018/19

Issue identified	Management response	Progress
<p>System Access – access authorisation and annual reviews</p> <p>In 2018/19 we identified several cases of users with access to systems that were not supported by approved user-access authorisation forms. We further noted that no formal access request process was in place with the revenues and benefits team.</p> <p>Annual reviews of system access are undertaken by section managers. Managers only report required changes by exception and therefore there is limited evidence of the operation of this control.</p>	<p>Following on from the restructuring of the Comhairle Departments a review of user access and authorisation levels is underway. The bulk of this work will be completed over June –July 2019.</p> <p>Access to the CT/NDR System is restricted to staff within the team so risk is not significant. However, a more formal process has been put in place and forms have now been completed for all staff.</p>	<p>Complete</p> <p>We confirmed the review of user access was completed in 2018-19 and arrangements are in place for on-going annual reviews across financial systems to be carried out.</p> <p>The formal process for approving access to the CT and NDR system has been implemented and operates effectively.</p>

Source: Audit Scotland: Comhairle nan Eilean Siar Management Report 2018/19

Wider Code Audit Work

Financial Management – procurement

Procurement risks are recognised in risk registers, but the procurement risk register needs to be developed

13. The Comhairle recognises procurement risk at strategic and operational levels in risk registers. The strategic risk register included a risk that the Comhairle incurs ineligible expenditure. Responsibility for managing this risk lies in part with the Comhairle's procurement team. The team is responsible for ensuring that all procurement exercises are carried out in line with approved policy.

14. The Procurement Manager in conjunction with the Comhairle's Risk Officer carried out a self-assessment exercise in February 2020 to assess the operational effectiveness of existing controls and to identify any gaps. A Procurement Risk Register is currently being drafted, that captures the findings from the self-assessment. This risk register should be formally approved by members and subsequently monitored on a regular basis.



Exhibit 4 - Recommendation 1

The Procurement risk register should be approved and monitored regularly.

Some procurement exercises are undertaken out with approved processes, but are appropriately disclosed

15. In December 2019 the Comhairle published its annual procurement report. The report confirmed that 21 of the 24 regulated procurements carried out were undertaken in line with the approved process. This includes forming a procurement strategy for approval by the steering group. In three cases, a procurement strategy was not considered necessary. One contract was an extension to a pre-existing arrangement and a second was where there was deemed to be a single source of supply. In the third case, although procurement strategy document was not developed, the contract was published as an open contract on the PCS portal in line with the Comhairle's contract regulations.

Policies cover the receipt of gifts and hospitality and registers are maintained

16. The Comhairle has policies that support openness and transparency that cover procurement activity. The employee handbook sets out policy in respect of receipt of gifts and hospitality and requires that any small gifts received are declared. For members, the councillors code of conduct also makes clear that members cannot accept gifts from any party seeking to do business with the Comhairle. The Comhairle maintain a register of employee interests that is updated on an annual basis and a register of gifts and hospitality to record any such gifts received.

17. Internal Audit support the Comhairle's procurement arrangements through frequent assessments. In 2019, Internal Audit undertook a review of commissioned external services and made several recommendations that are being implemented. Internal Audit's 2020-23 Plan includes a review of Strategic procurement to be carried out in 2021/22.

The Comhairle's procurement controls are effective but training should be refreshed

18. Training for staff is recognised as a key control in ensuring that procurement exercises comply with the Comhairle's policies. New members of staff receive training upon appointment, but refresher training has not been undertaken for several years. Regular training ensures that officers involved in procurement activity remain familiar with changes in policy and guidelines at strategic and operational levels.



Exhibit 4 - Recommendation 2

Refresher training should be provided to procurement officers to support compliance with policies.

19. Our planned work included further testing of a sample of procurement exercises during 2019/20 to establish whether the correct procedures had been followed throughout the process and the required authorisation obtained. The Covid-19 pandemic has impacted on this work and we will attempt to complete this aspect of our audit work over the next few months and include any findings in our 2019/20 Annual Audit Report.

Governance & Transparency and Value for Money

A framework for compliance with statutory performance indicators exists.

20. The Accounts Commission defines the performance information that councils must publish for performance comparison and benchmarking purposes. The Accounts Commission's 2018 Direction applies to local authorities for a three-year period from 2019/20. The 2018 Direction requires local authorities to comply with two statutory performance indicators (SPI 1 and SPI 2).

- SPI 1 Improving local services and local outcomes
- SPI 2 Demonstrating Best value

21. Responsibility for performance reporting sits with the Comhairle's Organisational Development team. Compliance with SPI 1 is achieved through service level performance reporting and complying with the Local Government Benchmarking Framework (LGBF). The Comhairle also undertakes additional self-assessments that support SPI 2 requirements.

Committee performance reporting concentrates on significant matters and is available on the Comhairle's website.

22. Performance Progress Reports are a standing item at committee meetings. Each service reports to a designated committee that is responsible for the scrutiny of performance and service delivery. Performance reports published in the committee papers section on the Comhairle website are high level reports that highlight the most significant performance matters.

Detailed service reports include planned actions and are available on the Comhairle's website

23. More detailed service business plan performance reports are published quarterly within the *Performance* section of the Comhairle website. These reports include detailed narrative of progress against each planned action and explanations for each local performance indicator score in addition to the summary information presented directly to the committee. As these reports are freely available on the Comhairle website, performance reporting is open and transparent.

Annual performance report information is widely published

24. Annual public performance reports are also available on the Comhairle website. The Comhairle published its Annual Public Performance Report for 2018/19 in March 2020, in compliance with reporting deadlines. Performance information is also disclosed in the annual accounts and through the Outer Hebrides Community Planning Partnership (OHCPP)'s annual review, both of which are published on the Comhairle and OHCPP websites respectively.

Self-assessment exercises are routinely undertaken, but are not openly reported

25. The Public Service Improvement Framework (PSIF) is a self-assessment approach to support continuous improvement. The Comhairle adopted the framework in 2016. To date, the Comhairle have carried out 9 PSIF self-assessments covering a range of issues including Managing Financial Resources, Engagement and Consultation with Stakeholders, and Leadership. However only 3 of the 9 reports are available on the Comhairle's website, having been presented to the Audit and Scrutiny committee.

Further self-assessment processes are planned

26. The Comhairle are undertaking a further 18 self-assessments using the Audit Scotland suite of Best Value toolkits. To date, 2 self-assessments have been completed, covering People Management and Planning and Resource Alignment. A summary of findings from these reports were appended to a PSIF update submitted to the March 2020 meeting of the Audit and Scrutiny committee but the

full reports were not presented to the Committee and are not available on the Comhairle's website.

Internal audit has reviewed the Comhairle's approach

27. The Comhairle's Internal Audit function reviewed public performance reporting in 2019 and made a number of recommendations. They proposed extending performance reporting within the *performance* section of the Comhairle website to include PSIF and Best Value self-assessments. This recommendation is currently being considered by the Comhairle's Corporate Services section.

External inspection and audit reports are presented to committees

28. The results of external inspections and audits are reported to the relevant service committee to support best value reporting and continuous improvement. Recommendations made in these inspections are added to the Service Improvement Action Plan. In conjunction with the Organisational Development team we reviewed a number of audits undertaken by external bodies including the Care Inspectorate and Education Scotland between February 2019 and March 2020 to determine the extent to which these were reported to the relevant service committee:

- For a sample of 6 school inspections undertaken in 2019, reporting was found to be inconsistent. 4 HMIE inspections were reported to committee but 2 Care Inspectorate reports were not reported.
- 2 full inspections and 1 short model school inspection were fully reported at Education, Skills and Children's Services with evaluations, strengths and action points included in the reports.
- For a sample of 5 Care Inspectorate reports undertaken in Quarter 1 and Quarter 2 to December 2019, reporting to the Communities and Housing Committee was mixed.
- At the Q1 update only 1 of 3 care home inspections was reported, with ratings published without the recommendations. 2 further inspections carried out in May were not reported to committee in the covering report, but ratings were included in appended data. Recommendations to be actioned were not reported.
- At the Q2 update 1 further inspection includes the gradings but not recommendations made by the inspectorate. The outcomes of a second Care Home Service inspection (Aug'19) published by the Care Inspectorate was not included in the Q2 report or appended.



Exhibit 4 - Recommendation 3

All external inspection and audit reports should be presented to the relevant service committee so performance and remedial action taken can be monitored.

The Comhairle has a Continuous Improvement Action Plan

29. The key improvement outcomes from audits, self-assessments and inspections are also included in a Continuous Improvement Action Plan (CIAP). CIAP updates have previously reported to the Service Change and Improvement sub-committee but following a change in remit, bi-annual updates will now be presented to the Audit and Scrutiny committee.

National Fraud Initiative

The Comhairle has made good progress reviewing matches

30. The National Fraud Initiative (NFI) 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. NFI activity is summarised in Exhibit 3 below.

Exhibit 3 NFI activity



1134

Matches



944

Processed



17

In progress investigations

Source: NFI secure website: www.nfi.gov.uk

31. The majority of the matches have been processed and cleared. From 1134 matches identified for potential investigation, 944 matches have been processed and 17 are currently under investigation. This reflects a significant increase from June 2019 (the time of our last review), where there was only 239 matches processed. No cases of fraud have been discovered from the exercise, but 13 errors have been identified, resulting in over £4,800 being actively recovered.

32. In taking account of the relatively small balance of funds recovered through the NFI exercise the Comhairle could take a more proportionate and risk-based approach to investigating matches.



Exhibit 4 - Recommendation 4

The Comhairle should take a risk-based approach NFI matches to ensure that testing is proportionate to the likelihood of finding fraud or error.

There is scope to improve NFI management arrangements

33. The Senior Responsible Officer for directing NFI participation is the Director for Assets, Finance & Resources. Through organisational restructuring operational management of the NFI exercise has changed and is now the responsibility of the Head of Accounting & Exchequer Services. As a consequence, the knowledge and experience of the former key contact has been lost.

34. We found that there has been limited communication between senior responsible officers and service staff responsible for completing the NFI exercise. Responsibility for reviewing Social Work matches was not established, and as a consequence, none of the Social Work's matches have been investigated. We therefore recommend that responsibilities are clearly set out in advance of the 20/21 exercise to ensure that all types of matches are adequately investigated.

35. Audit Scotland published an "NFI user Self-Assessment checklist" as part of the 2018/19 NFI exercise. The 2020/21 NFI exercise is scheduled to get underway in the Autumn of 2020 and the Comhairle may wish to carry out a self-assessment exercise to ensure that the Comhairle is fully prepared.



Exhibit 4 - Recommendation 5

Responsibilities for delivering the Comhairle's participation in the 2020-21 NFI exercise should be clearly established to ensure that all categories of matches are reviewed.

NFI progress reports have not been taken to the Audit & Scrutiny Committee

36. NFI progress reports have not been reported to the Audit & Scrutiny committee during the 2018-19 exercise. Reporting progress permits members to scrutinise the Comhairle's participation in the NFI exercise and we recommend the resumption of reports to committee going forward.



Exhibit 4 - Recommendation 6

NFI progress reports should be regularly presented to the Audit & Scrutiny committee to permit member oversight.

Exhibit 4

Wider dimension key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>1. Financial Management – Procurement risk register</p> <p>The Procurement manager has prepared an early draft of a procurement risk register. This should be finalised and approved by committee.</p> <p>There is a risk that without a formal procurement risk register, the Comhairle fails to identify and address existing or emerging procurement risks.</p>	<p>Agreed</p> <p>Report will be presented to committee for approval.</p>	<p>Procurement Manager</p> <p>30 Sept 2020</p>
<p>2. Financial Management – Procurement officer training</p> <p>Refresher training for the procurement team has not been carried out for several years.</p>	<p>Training was last carried out in October 2018. The law has not changed since then and all procurement officers are familiar with the Comhairle's policies and procedures, so the risk is minimal.</p>	<p>Legal and Procurement Manager</p> <p>30 Sept 2020</p>

Issue identified	Management response	Responsible officer / target date
<p>There is a risk that officers involved in procurement exercises fail to comply with the Comhairle's procurement policies.</p>	<p>However, it is acknowledged that refresher training should be provided.</p>	
<p>3. Governance and Transparency – external inspections and audits</p> <p>Not all external audits and inspections are reported to the relevant service committee.</p> <p>There is a risk that external recommendations are not subsequently captured in the Service Improvement Action Plan or the Continuous Improvement Action Plan monitored by the Audit & Scrutiny committee.</p>	<p>Arrangements will be made for all Care Inspectorate reports to be presented to the appropriate committees.</p>	<p>Head of Education IJB Chief Officer 30 June 2020</p>
<p>4. Governance & Transparency – NFI – risk-based approach to investigating matches</p> <p>The Comhairle are recovering just over £4,800 from errors identified from over 900 matches investigated in the 2018-19 NFI exercise.</p> <p>There is a risk that the volume of testing undertaken by the Comhairle is disproportionate to the amounts being recovered.</p>	<p>It is agreed that the amount of work involved in testing is disproportionate to the value of the outcomes. However, if testing is reduced, audit comments in relation to testing percentages will need to acknowledge that this is in line with recommendations.</p> <p>A meeting to complete the Self Evaluation was in the diary for the end of March but had to be cancelled due to Covid. This along with planning for the new exercise will be rescheduled.</p>	<p>Head of Accountancy and Exchequer Services 30 June 2020</p>
<p>5. Governance & Transparency – NFI Delegation of responsibilities</p> <p>Responsibility for investigating matches and potential fraud or error was not evident for all match types. Consequently, not all match types were investigated in the 2018-19 exercise.</p> <p>There is a risk that fraud or error may go undetected where match types are not subject to investigation.</p>	<p>Whilst initial attempts were made to establish responsibility for Blue badge testing, this was not pursued. In terms of numbers of matches and value these are not material. Residential homes testing was partially completed.</p> <p>Planning for the next exercise will include identification of staff responsible for each area being tested.</p>	<p>Head of Accountancy and Exchequer Services 30 June 2020</p>
<p>6. Governance & Transparency NFI Reporting to Audit and Scrutiny.</p> <p>NFI progress reports were not presented to the Audit and Scrutiny committee during the 2018-19 exercise.</p>	<p>NFI was previously included in the performance reports to P&R. Since the introduction of revised report formats this has been omitted. Reference to NFI will be included in future reports.</p>	<p>Head of Accountancy and Exchequer Services 30 June 2020</p>

Issue identified	Management response	Responsible officer / target date
There is a risk that progress in participating in the NFI exercise is not subject to appropriate scrutiny.	In terms of scrutiny, the proportionality and value factors mentioned above are also relevant.	

Source: Audit Scotland

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

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