

Orkney Islands Council

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Orkney Islands Council

April 2020

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Orkney Islands 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 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 also carried out work on the audit dimensions as required by the Code of Audit Practice as well as reviews of NFI investigation work, procurement fraud and the statutory performance indicators process undertaken by the Council.

COVID-19

4. The audit work contained in this report pre-dates the COVID-19 global pandemic and 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

5. We have evaluated the Council's key financial systems and we found that key controls are operating satisfactorily and we are able to take planned assurance for the audit of the financial statements. However we identified a small number of control weaknesses which have been summarised in [Error! Reference source not found.](#)

6. 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 Orkney Islands Council.

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

8. 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.

Work summary

9. In 2019/20 we assessed the effectiveness of the control environment and conducted early substantive testing in the following systems:

System	Assessment of control environment	Early Substantive Testing
Accounts Payable	✓	✓
Accounts Receivable	✓	✓
General Ledger	✓	✓
Non-Domestic Rates	✓	✓
Cash & Bank	✓	
Payroll	✓	
Housing Rents	✓	
Council Tax	✓	

10. 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, grants and other claims.

11. 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

12. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated 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.

13. The Council has completed 470 out of 474 recheck matches (4 in progress) and 1,187 out of 1,262 main exercise matches. The Council identified four errors resulting in two overpayments totalling £394. The low value of fraud identified indicates that the Council's anti-fraud controls are working effectively. At the time of our audit work the NFI results had not been presented to the Monitoring and Audit Committee. The Council intends to present the results of the NFI exercise to the Monitoring and Audit Committee along with the Audit Scotland national report.

Procurement fraud

14. The Council has a small dedicated procurement team and an independent review carried out by Scotland Excel indicates that the controls around the Council's procurement process are satisfactory.

15. The Procurement and Commercial Improvement Programme (PCIP) review was undertaken in September 2019 obtaining a 58% score (band F4) this demonstrates an improvement from the previous review in 2016 which was a band F6, scoring 49%. In addition, the Council has reviewed Audit Scotland's Procurement Red Flags report, which sets out some warning signs to be aware of when considering procurement fraud. In response to this the Council is developing an action plan around staff training and contract management.

Statutory performance indicators and performance information

16. The Council Plan 2018-23 sets out the intended outcomes for each strategic priority action and this is monitored through the delivery plan 2018-23. We have reviewed the controls for collecting and monitoring performance information through the Aspireview system and concluded that satisfactory arrangements are in place within the Council.

17. Internal Audit carry out an annual review of SPIs and the local government benchmarking framework indicators. However, the results of this review are not reported to the Monitoring and Audit Committee (See [Error! Reference source not found.](#) – Point 5).

Risks identified

18. The key control weaknesses identified during the interim audit are detailed in [Error! Reference source not found.](#)

19. Overall, we found that key controls are operating satisfactory and we are able to take assurance for the audit of the financial statements.

Exhibit 1: Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
Internal Controls		
1. Reconciliation between Housing Rents and Ledger systems		
<p>The monthly reconciliation between the housing rents system to the General ledger has not been completed since July 2019.</p> <p>In addition, we noted that whilst the weekly reconciliation between all payments to the Northgate Revenue system is being completed, no independent review is carried out.</p> <p>There is a risk that reconciling items are not investigated and frauds or errors are not identified in a timely manner.</p>	<p>The monthly reconciliations between the rent system and the general ledger were brought up to date during March 2020, following this audit.</p> <p>Reconciliations for each month are now taking place at the start of the following month.</p> <p>The management team is looking at what type of independent review may be appropriate and will discuss this with auditors.</p>	Revenues & Benefits Manager/ August 2020
2. Changes to Bank Details		
<p>We were advised that procedures included a check to confirm the validity of any changes to supplier bank details. However, our review noted that the control is only partially being implemented.</p> <p>Where an email or letter is received highlighting a change in bank details then this is checked with the supplier and recorded on the invoice and system. However, where an invoice is received which details a change of bank details, it is our understanding that staff update the details on the system without the additional check with the supplier and therefore the control is not fully working as intended.</p> <p>There is risk that supplier fraud goes undetected due to inadequate controls over changes.</p>	<p>Mandate fraud guidance from the Govt Counter Fraud Function sets out that changes to supplier bank details notified via email, letter or telephone should be checked, and this control is in place with notifications of changes received in these formats being confirmed with the supplier. The risk of mandate fraud via supplier invoice information has not previously been highlighted as a risk.</p> <p>However methods used to commit fraud continually evolve and to address this an additional check will be introduced to confirm any change in bank details with the supplier where this is notified on an invoice.</p>	Payments Manager May 2020

Issue identified	Management response	Responsible officer / target date
<p>3. Key Systems User access</p> <p>Current controls for the key financial systems include regular reviews of staff access levels and removal of access for users who have not used the system in the previous 60 days. Our testing noted that generally these controls are working satisfactorily. However, we noted a small number of housekeeping issues such as:</p> <ul style="list-style-type: none"> • 1 member of staff with multiple accounts for same system (Integra) • 1 supervisor account with no member of staff assigned as the user (Pay.net) • 4 staff left or were transferred within the Council however their system accounts were still active (Integra, Revenues) • 2 third party user accounts for external audit and Northgate remain active although not used on regular basis (Payroll, Revenues) <p>There is an increased risk of fraud due to access to the system by inappropriate individuals.</p>	<p>The multiple accounts are required as there are two methods of accessing Integra. The second account is used to troubleshoot problems with the alternative method. The account has since been de-activated and will only be activated when testing or troubleshooting is required.</p> <p>The Paye.net supervisor account is a system account that is required to administer the system. This account has access to parts of the system that cannot be accessed by a normal account. Access to these restricted areas is rare so the account has been de-activated until required.</p> <p>The process for removing users from Integra was a labour-intensive one as there were a large number of users (effectively all employees). A housekeeping exercise has been carried out in Integra and the process for removing user accounts has been revised so that there is less chance of missing someone. These staff user accounts were removed as part of the housekeeping exercise. The user accounts on the Revenues system have since been closed off by I.T.</p> <p>I.T. have closed off the Northgate and external audit users in the Revenues system. In the payroll system, the Northgate user has been de-activated and will only be re-activated when they require access.</p>	<p>Financial Systems Manager May 2020</p>
<p>Audit dimensions – issues and risks</p>		
<p>4. SPI and Performance Review</p> <p>Internal Audit carry out an annual review of the SPIs and LGBF process. However, our review noted that no Internal Audit report is presented to the Monitoring and Audit Committee detailing their findings.</p> <p>There is a risk that the results of internal audit work is not subject to appropriate levels of scrutiny by members.</p>	<p>It is proposed that an annual report or briefing note be presented to the Monitoring and Audit Committee covering several of the smaller annual reviews that are carried out by Internal Audit.</p>	<p>Chief Internal Auditor End of Financial Year</p>

Source: Audit Scotland

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