Scottish Borders COUNCIL

AUDIT AND SCRUTINY COMMITTEE
TUESDAY, 25TH JUNE, 2019

Please find attached the report in respect of Item No. 7 on the agenda for the above meeting

7.	**External Audit Interim Management Report 2018/19** (Pages 3 - 10)	15 mins
	Consider report by Audit Scotland on interim findings from their review of Key Systems of Internal Control in connection with their audit for the year ended 31 March 2019 and associated Management Action Plan. (To follow).	

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Scottish Borders Council

Management report 2018/19

AUDIT SCOTLAND

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 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 2018/19 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. 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

4. Based on our review and testing of the main financial systems, and subject to management addressing the points raised in the action plan, we have concluded that overall the council:

- has adequate systems for recording and processing transactions to ensure financial statements are appropriately prepared;

- has systems of internal control which provide sufficient means of preventing and detecting material misstatement, error, fraud or corruption; and

- complies with established policies, procedures, laws and regulations.

5. However, we identified control weaknesses as summarised in Exhibit 2 where 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 2018/19 annual accounts.

Work summary

6. Exhibit 1 summarises the key systems and controls that were tested in 2018/19.

Exhibit 1
Work summary

Key system	Key controls tested (including testing performed by internal audit)
Payroll	Exception reporting Employee validation
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
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 (NDR)	Awards of discounts / reliefs User access
Pensions Adminstration	Arrangements for using custodian information Monitoring of contributions

Source: Audit Scotland

7. 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.

8. Where possible we use the work of Internal Audit to avoid duplication of effort. As reported in our Annual Audit Plan, which was presented to the council's Audit & Scrutiny Committee in March 2019, we planned to use Internal Audit's work on Business World (Key internal controls over financial systems), Revenues (Council tax and NDR) and Asset Registers. The findings of this internal audit work were reported to the Audit & Scrutiny Committee in May 2019. We considered these reports 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*.

9. We also planned to use Internal Audit's work on Asset Registers as part of our audit of the financial statements. We noted that their testing related to 2017/18 controls over the asset register due to timing of their work. We will carry out testing of this area as part of our financial statements audit later in the year.

10. As noted in our Annual Audit Plan, the council is receiving a Best Value Assurance Report in 2019. Fieldwork for the report has been mostly completed and the results of this work will be reported to the Accounts Commission in October 2019.

Risks identified

11. The key control risks identified during the interim audit are detailed in Exhibit 2. These findings will inform our approach to the financial statements audit where relevant.

Exhibit 2
Key findings and action plan 2018/19

Ref.	Issue identified	Management response	Responsible officer and target date
	Audit findings		
1	**User access** Users of the Business World system are assigned role profiles which are intended to enforce appropriate segregation of duties to ensure officers have appropriate and correct permissions to carry out their tasks. It is not possible to easily ascertain that the configuration of the role profiles fully ensures this in every instance. We are aware that a role review is currently underway. **There is a risk that fraud or error might occur in the event that an officer has inappropriate or conflicting permissions.**	A review of the role permissions is currently underway and is planned for completion alongside the wider roll out of access to Business World for those who do not have a scotborders email address. The external access was signed off in May and a roll out plan is currently being developed that will incorporate a full role access review.	Ian Angus, HRSS Manager by 31 December 2019
2	**Audit trails** The Business World system uses 'workflows' which should record amendments made to customer and employee information held in the system's 'masterfiles'. Internal audit testing identified that these records were incomplete for a number of amendments tested. **There is a risk that records may be fraudulently or inaccurately amended.**	This is currently being reviewed with consultants supporting Business World to ensure workflows and amendment logs are recording appropriate information for customer and employee Masterfile amendments.	Ian Angus, HRSS Manager by 31 August 2019
3	**Non domestic rate (NDR) reviews** Internal audit testing of a sample of exemptions and discounts granted to NDR payers identified that periodic reviews of NDR accounts, to confirm that they were still eligible for the reduction, have not been carried out for some time, or regularly. **There is a risk that NDR reductions are no longer**	There are no indications from billing, recovery or correspondence that there is a specific issue however relief reviews have been identified as an area where a proportion of higher risk categories will be reviewed during the current financial year. The reviews will be carried out on a rolling basis through	Katrina Wilkinson, Lead Officer Revenues by 31 March 2020

Ref.	Issue identified	Management response	Responsible officer and target date
	appropriate for some businesses and that the correct amount of NDR is not being collected.	the year for completion by 31/3/20 with highest risk areas targeted first.	
4	**Pensioner validation using ATMOS reports** As part of our review of pension payment controls, we requested a sample of ATMOS match reports for testing. These reports are used by management to identify deceased pensioners so that pension payments are stopped in a timely manner, minimising overpayments. The ATMOS match reports we received for testing were unformatted (i.e they only had raw data). Therefore, there is no evidence that the matches have been investigated by management in a timely manner. **There is a risk that, without prompt investigation by management, pensions are being overpaid.**	There is currently an issue with the receipt of the ATMOS report with the originating sender email not being on the "whitelist". This issue has been taken up with both CGI and our IT Business Partner. The formatting issue was an error in the way in which the file was saved, you only get one download attempt from the ATMOS site. A file for the current period has been saved in the correct format and submitted to External Audit for review.	Ian Angus, HRSS Manager / Anthea Green, HRSS Team Leader by 31 August 2019
5	**Internal audit reporting** Internal audit prepare detailed reports for each of their audits during the year, with summaries of their work being taken to the Audit & Scrutiny committee. Whilst these summary reports do include details of issues identified by internal audit's work, we noted that issues identified do not always result in recommendations if management are already aware of the issue, or if recommendations have already been raised in a previous report. This approach can result in many reports containing no recommendations despite there being issues with the system or process being reviewed. **There is a risk that members are not sufficiently aware of all issues and risks being identified by internal audit's work.**	In response to a related question raised during the year by one of the Audit and Scrutiny Committee members it was explained that Internal Audit would not duplicate a management action or a previous Internal Audit recommendation that are already logged on the Pentana system to mitigate risks. However the executive summaries of Internal Audit work do provide details of issues and areas of improvement or outstanding internal audit recommendations e.g. Internal Audit Work to March 2019 – Business World ERP System Key Internal Controls, Revenues (Council Tax and NDR), and Corporate Transformation.	Jill Stacey, Chief Officer Audit & Risk

Source: Audit Scotland

12. An update on control risks identified in last year's management report are detailed in Exhibit 3.

Exhibit 3
Prior year issues

Ref.	Issue identified	Management response	Updated position
b/f	**Business World** 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 funcitionality within the system that is not yet in place. **There is a risk that errors or fraud may not be identified timeously due to weaknesses in controls.**	The control weaknesses identified are being addressed through an agreed action plan. Work is ongoing with CGI to ensure these are rectified. 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.	We confirmed that many control weaknesses identified in the previous year had been corrected. Some issues with controls remain, as reported in Exhibit 2 above, and there are functions of the new system that are not being used.
b/f	**Access to Revenue Systems** 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. **There is a risk that individuals could have inappropriate access to revenues systems.**	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. A further communication to ensure managers update records will be issued.	We confirmed that a review had been carried out and reviewed the current access list for appropriateness. No issues were identified for 2018/19.
b/f	**Payroll Audit Reports** 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. **There is a risk that unauthorised changes to payroll data may not be identified timeously.**	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. Again it should be noted that there is no evidence that any unauthorised changes to the ERP payroll have been made.	We confirmed that an audit report of changes to payroll has been introduced during 2018/19, although due to resource contraints it has not been checked consistently during the year.

Source: Audit Scotland

13. 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.

14. In addition, we also identified that the versions of council corporate documents including schemes of administration, delegation and financial regulations which are available through a library in the meetings section of the council's website were not the most up to date. Updates to the documents have been approved at council meetings but older versions are still available through the information library. Management should ensure that the most up to date versions are available on the council's website to avoid confusion.

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

Scottish Borders Council
Management report 2018/19

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