Scottish Borders Council

Management report 2020/21

VAUDIT SCOTLAND

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Scottish Borders Council ('the Council'). This work focused on testing key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. Our interim work also included a review of procurement procedures and controls in place, as well as a review of internal audit. We will consider the results of this interim testing when determining our approach to the audit of the 2020/21 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 Council:

- 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.

Conclusion

3. Overall we conclude that the Council has satisfactory systems of internal control in place, but we have identified some control improvements as summarised in Exhibit 1 below. 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 2020/21 annual accounts.

Work summary

4. Our 2020/21 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 confirmed appropriate creditor, debtor and budget monitoring controls were in place for the 2020/21 financial year.

5. 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 placed assurance on the work of internal audit to avoid duplication of effort.

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.

Internal Audit

7. We have now completed our annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Our review was supplemented by the External Quality Assessment completed by North Lanarkshire Council's Internal Audit Service in early 2021.

8. We conclude that the internal audit function's methodology, procedures and reporting comply with the PSIAS. This has allowed us to place assurance on their work (mainly relating to their review of *Business World ERP system key internal controls*) in areas related to our financial statements audit.

Risks identified

9. The key control risks identified during our interim audit are detailed in Exhibit 1. These findings will inform our approach to the financial statements audit where relevant.

10. Any issues 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.

Exhibit 1
Key findings and action plan 2020/21

Issue identified	Management response	Responsible officer / target date
Payroll exception reporting **Issue:** The Payroll Services team complete a checklist each month prior to each payroll run. This documents a series of checks including validation reports run from the Business World ERP system, to investigate anomalies such as negative pays. However, at present the checklist does not include exception reporting to identify and investigate instances where an employee's pay varies significantly when comparing the current month to the prior month. For example, by applying a certain percentage change criteria, or reviewing salaries exceeding a set threshold. These assurance checks are commonly in place at other public bodies. **Risk:** There is a risk that inaccurate payroll data (such as salary overpayments) go undetected resulting in financial loss to the Council, if such detective checks are not in place.	Agreed, will be actioned	**Responsible officer:** Human Resources Shared Services Manager **Target date:** September 2021

Issue identified	Management response	Responsible officer / target date
Aged debtor reporting **Issue:** The Credit Control team advised that a review of aged debtors takes place on a monthly basis and appropriate action is taken to review and recover outstanding payments from customers. The Business World ERP system allows the team to write notes of action taken against each individual customer and transaction. However, our testing found instances where these notes were not always updated regularly on the system to evidence progress of each case. There is also no formal overview process in place to evidence that aged debtor reports are run each month and reviewed, signed and dated by a senior officer to confirm appropriate action is being taken. The Credit Control Team Leader, an experienced officer, has also recently left the Council which adds to the need for this area to be reviewed. **Risk:** There is a risk that aged debts go undetected without formal checks in place and result in delays or loss of income to the Council.	Agreed, will be actioned	**Responsible officer:** Pensions and Investment Manager **Target date:** September 2021
Verifying supplier bank details **Issue:** We reviewed a sample of changes to supplier bank details, for both new suppliers set up and changes to existing suppliers. Verifying bank details is a key control to ensure accurate payments are made by the Council. The Accounts Payable team have a procedure in place to verify bank details, either by completion of a BACS form from the supplier and confirming with the appropriate contact, or by using bank verification software to confirm bank details. However, during our testing we found several cases where changes to bank details were being checked by the originating Council department and sent to the Accounts Payable team to process, without a sufficient audit trail or evidence to confirm how the bank details had been verified. We recommend the Council implement a standard process or change form signed by officers to keep an appropriate record of checking and verifying bank details. **Risk:** There is a risk that payments will be made to the wrong suppliers if verification checks over	Agreed, will be actioned	**Responsible officer:** Commercial and Commissioned Services Manager **Target date:** September 2021

Issue identified	Management response	Responsible officer / target date
bank details are not fully complete in accordance with procedures.		
NDR/ CT system issues **Issue:** The Council uses its Northgate system to process and manage both Council Tax (CT) and Non-Domestic Rates (NDR) transactions. The Customer Advice and Support Service team oversee this area. Service demand has significantly increased in 2020/21 due to processing Covid-19 related grants. On discussions with officers and review of supporting documentation, we identified the following control weaknesses: • There has been no formal, periodic review of CT or NDR reliefs awarded in 2020/21 e.g. secondary checks to confirm customer eligibility for reliefs or discounts still apply. While officers noted this is linked to demands attributed to Covid-19, these reviews were also not formally carried our during 2019/20. Some ad-hoc reviews have been completed for certain categories of relief or where significant changes are applied, such as the NDR small business bonus relief, but not in entirety or in a formalised manner. • Monthly reconciliations are typically completed between the Property Assessor reports and the properties and valuations held on the Northgate system. This is considered a key control as it ensures that the properties on the system, from which taxes are collected, are complete and the valuations are accurate. However, due to staff pressures, these monthly reconciliations were not evidenced consistently throughout 2020/21. Two large comparison reports were actioned in February 2021 and March 2021 to make sure the Council were up to date for annual billing, but this control was not in operation throughout the full year. • There has been no recent check to ensure staff user access to the Northgate CT/DR system remain appropriate. The last check was completed in February 2020. Checks should also ensure that staff who have access to the system do not have access to their own personal tax records. This check is done when staff are initially set up on the system but not periodically reviewed, for example, if they have changed address.	Agreed, will be actioned	**Responsible officer:** Customer Services Manager **Target date:** December 2021

Issue identified	Management response	Responsible officer / target date
Risk: There is a risk that CT or NDR reliefs or discounts are awarded or continued inappropriately, without periodic checks in place over key processes and access rights.		

Source: Audit Scotland

Additional follow-up work

11. As our interim testing has identified some control weaknesses, we will carry out additional work for the following account areas:

- Payroll: We will supplement our substantive analytical procedures with sampling of individual salaries/payslips, in response to the exception reporting issue identified. This will test the accuracy of staff costs.

- Debtors: We will test an extended sample of debtor balances to review the valuation and allocation of customer debtors and completeness of debt write offs.

- Creditors: We will test a sample of creditor balances in the annual accounts to check the accuracy and valuation of payments due by the Council.

- NDR and CT: We will extend our substantive sample testing in these account areas and review year-end reconciliations e.g. we will sample test a range of NDR transactions and reliefs as part of auditing the NDR grant claim to test accuracy and completeness of transactions.

Procurement review

12. Scottish Borders Council has a centralized approach to supporting and managing procurement of goods and services, provided by a Commercial and Commissioned Services Team. This team oversee a number of activities including procurement processes, social work contracts management, and Accounts Payable/Payments functions. The team have a good level of experience and qualifications, with several officers CIPS (Chartered Institute of Procurement and Supply) qualified.

13. Procurement processes are guided by its, '*Purchasing Handbook – Staff Information'* procedures, most recently updated in March 2021. This Handbook (available to all SBC staff on the intranet) sets out a number of key principles and controls in place to ensure appropriate procurement of services and contracts according to specific thresholds e.g. quotations and tenders by value of goods/services purchased. Appropriate procedures for requisitioning and approving orders are also included in the Handbook. Furthermore, the Council have Procurement & Contracts Standing Orders (January 2021) to promote procurement key principles and additional guidance on the appointment of consultants.

14. The Business World ERP system is key to administering effective procurement and purchase of goods. The most recent PCIP (Procurement and Commercial Improvement Programme) external assessment reported in February 2019 that the Council scored 78%, ranking SBC in the top banding ahead of the Scottish local authority average. This PCIP review reported a successful implementation of the Business World ERP, with some scope to further utilize functionality and outputs for

key purchasing processes. The next PCIP assessment is now due in 2022, delayed from 2021 due to the pandemic.

15. SBC have a *'Commercial & Commissioned Services Strategy 2018-2023'.* The Strategy follows the Scottish Model of Procurement focusing on value for money as well as sustainable procurement and a focus on supporting local businesses. An Annual Procurement Report is also produced each year, which reported in 2019/20 procurement spend of £174m with further analysis of existing contracts and contracts expected to be entered into for the next two financial years.

16. Overall we consider appropriate procurement procedures, controls and reporting arrangements are in place at the Council, supported by a clear strategy and objectives.

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

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