

# Argyll and Bute Council

Management Report 2017/18



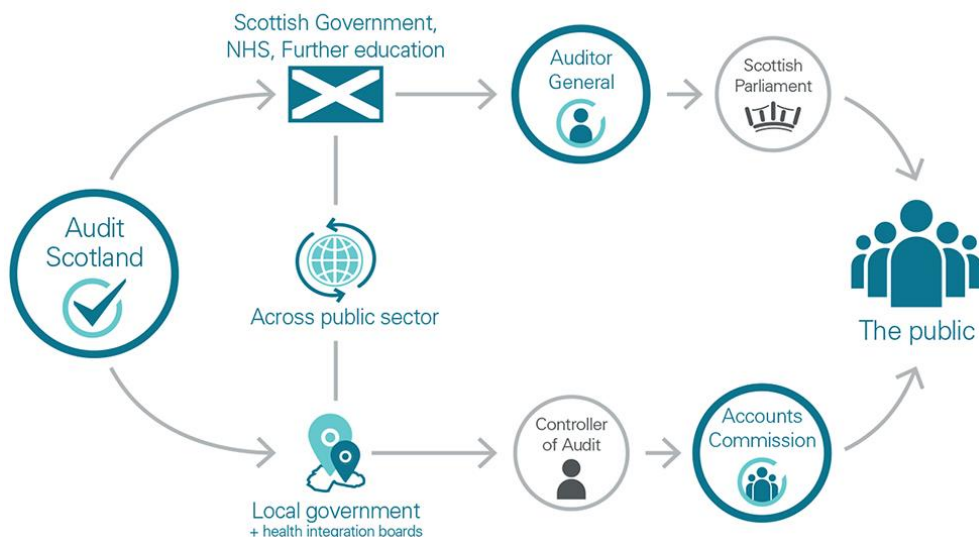
 **AUDIT SCOTLAND**

Prepared for Argyll and Bute Council  
June 2018

# Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



# About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Argyll and Bute 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 2017/18 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 focussed on financial management, financial sustainability, and governance and transparency.

## Conclusion

4. We concluded that, overall, Argyll & Bute Council's systems of internal control were effective. We identified several control weaknesses as summarised in [Exhibit 1](#) and, where appropriate, will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2017/18 financial statements.

5. In terms of our wider dimension audit work we concluded that, in general, appropriate arrangements were in place for financial management and governance and transparency.

## Work summary

6. Our 2017/18 interim work included testing of key controls in six core financial systems – receivables, non-domestic rates, council tax, general ledger, cash and banking and treasury management. We tested key controls such as IT access controls, ledger reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts. Additionally, we tested changes of supplier bank details as no suitable audit trail of such amendments was available during 2016/17 (as reported in our 2016/17 interim report).

7. We also performed walkthrough testing of payroll and payables. This involved reviewing the key controls to confirm that they were operating as expected in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, feeder system reconciliations and IT access controls. Our review of key controls also covered budget monitoring and control, and controls for preventing and detecting fraud in areas such as payables.

**Bank reconciliations****Payroll controls****IT access****Budgets**

**8.** 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, we placed reliance on the work of internal audit in the area of payroll exception reporting to avoid duplication of effort.

**9.** As part of our work on the 'wider dimension' aspects of public audit, we followed up on developments in council's financial planning arrangements and reviewed its budget monitoring and aspects of governance and transparency arrangements.

**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.

## Findings

### Review of key controls in the main financial systems

**11.** We concluded that, overall, the council's systems of internal control are effective. Points arising from our review of key controls are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

### Early Substantive Testing

**12.** To enable us to have a more efficient approach to the final accounts audit, we have carried out substantive testing on transactions up to the end of January 2018 for payroll expenditure and for non-payroll expenditure. No significant issues arose from this testing.

### Financial Management

**13.** We reviewed the budgetary control system and confirmed that there was satisfactory communication of accurate and timely information on financial performance to members through the regular financial monitoring reports to PRC.

**14.** We confirmed that there were appropriate arrangements in place to identify funding gaps through the regularly updated Budgetary Outlook Reports presented to Policy and Resources Committee (PRC). Reports were presented to PRC on the savings plans required to address funding gaps 2018/19 to 2020/21.

**15.** We reviewed monitoring of capital investment projects, confirming that regular updates were provided to PRC at key stages of individual projects. Reports demonstrated the rationale for investment decisions and funding methods. Members were able to question officers on any issues arising.

### Financial Sustainability

**16.** In October 2017, the council approved a medium to long term financial strategy from 2018/19 to 2027/28. The underlying principles for the strategy were agreed by the council earlier in 2017 and these provided a high level framework for the strategy.

**17.** The strategy includes forecasts for revenue, capital and treasury management and details how the council plans to mitigate future budget gaps. There are detailed financial forecasts for the years 2018/19 – 2021, with high level estimates for

2021-2028. Assumptions used in making financial projections are per best estimates as at September 2017, and scenario planning for best case, worst case and mid-range outcomes has been utilised to reflect the expected impact of changes in those assumptions. We are in the process of assessing the strategy against available good practice principles and will report our findings in the Annual Audit Report.

## Governance and Transparency

**18.** We assessed the adequacy of the new Audit and Scrutiny Committee's (ASC's) scrutiny arrangements and examined the scrutiny framework approved by the ASC at its March 2018 meeting..

**19.** We confirmed that the ASC's Terms of Reference were updated and approved for inclusion in the updated council's constitution. The three-stage prioritisation process included within the scrutiny framework provides an objective and transparent methodology for exercising scrutiny over council policies and performance. We note that the first annual scrutiny plan is expected to be approved at the June 2018 ASC meeting and additional staff resource for internal audit is expected to be provided from summer 2018.

**20.** We concluded that the component elements for the scrutiny role of the ASC including the updated Terms of Reference, scrutiny framework, scrutiny work plan and additional internal audit resourcing are appropriate and are likely to facilitate effective scrutiny. We will assess the effectiveness of the ASC's scrutiny function during 2018/19, once this is fully operational.

## Risks identified

**21.** 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.

**22.** 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 Argyll and Bute Council.

## Exhibit 1

### Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<b>Receipts and Banking</b>		
A daily cash reconciliation is prepared by Revenue Department which records income into the council from all sources and reconciles this to its recording in relevant bank accounts and general ledger. There is no evidence that these reconciliations were reviewed by a senior officer. Additionally, clearer descriptions could be provided of the information on each tab of the reconciliation spreadsheets.	The monthly bank reconciliation is already signed off by a senior officer. The Cash Supervisor will now sign off the daily bank reconciliation which is prepared by a member of her team. She will ensure that the labelling is sufficient for her to carry out her daily checks.	Fergus Walker Revenues and Benefits Manager 1 June 2018
<b>There is a risk of errors going undetected if reconciliations are not</b>		

Issue identified	Management response	Responsible officer and target date
<p>reviewed by a secondary senior officer.</p> <p><b>Payroll</b></p> <p>The council carries out an annual payroll validation (employee existence check) in April of each year. The Human Resources department circulates details of staff complement included in the payroll system to the relevant managers. Managers are required to respond with either confirming the details or advising of any amendments. For the April 2017 check, ten responses out of a total of 82 expected were not received. Follow-up emails were issued for 6 of these, but no further responses have been recorded.</p> <p><b>If validation checks are not completed in full, there is a risk that errors or irregularities in staff complement are not identified. This could mean that payments could be made to staff no longer employed by the council.</b></p>	<p>Since 2015/16 managers above LGE9 have been given profiles to allow them to see data on all employees in their team through the Council's MyView (MyTeam) system. Any inaccuracies are reported and rectified via email. A clear guidance document will be prepared and circulated to all managers explaining their responsibilities and maximum review period for existence, validation and hierarchy checks.</p>	<p>Mary Soudan 31 August 2018</p>

Source: Audit Scotland

**23.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Argyll and Bute Council

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