

Argyll and Bute Council

Management report 2018/19



 AUDIT SCOTLAND

Prepared for Argyll and Bute Council
May 2019

Audit findings

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 2018/19 financial statements.

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.

Conclusion

3. No significant key control weaknesses were identified from our interim audit work which would present a risk of material misstatement for the 2018/19 financial statements. However, several other issues and risks have been reported at [Exhibit 1](#) for management's attention and action.

Work summary

4. Our 2018/19 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.



Bank reconciliations



Payroll controls



IT access



Budgets

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.

6. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during our audit is gratefully acknowledged.

Risks identified

7. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

8. Any weaknesses identified represent those that have come to our attention during 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.

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

Exhibit 1

Key findings and action plan 2018/19

Issue identified	Management response	Responsible officer and target date
Audit findings		
1. Accounts Payable		
<p>Changes to supplier payment details are subject to various checks which have previously been considered reliable by management and audit. However, at the end of 2018, a successful fraud occurred where a supplier's email system had been compromised, so that the checks in place failed to detect a fraudulent change of bank details before payment was made. A protocol was quickly implemented requiring council officers to make telephone calls (in all cases) to known supplier contacts prior to effecting changes in supplier details.</p> <p>Evidence of checks carried out is held on file, including notes of telephone calls. We tested a sample of ten such changes occurring after the fraud incident. However, in two instances there was no evidence of checks.</p> <p>There will continue to be a risk of loss to the Council as fraud methods become more sophisticated. For control over supplier detail amendments to be effective, a full audit trail should be retained for subsequent inspection. Supervisory staff should be able to confirm that checks have been made and withhold payments until they have been completed.</p>	<p>Staff will be reminded of the requirement to comply with the newly established protocol. Internal Audit will assess this compliance as part of their ongoing programme of continuous monitoring.</p>	<p>Responsible Officer – Head of Strategic Finance</p> <p>Target Date – 30 June 2019</p>

Issue identified	Management response	Responsible officer and target date
<p>2. Treasury Management</p> <p>The monthly reconciliations between the Logotech PSTM system and the General Ledger had not been completed and approved timeously between November 2018 to February 2019 due to long-term sickness absence. Appropriate staff resources have now been arranged and the backlog of reconciliations brought up to date by mid-March 2019.</p> <p>There is a risk of errors or omissions going undetected when regular reconciliations are not carried out, whether by design or not. The financial impact of errors in treasury management transactions is likely to be significant if not identified and resolved timeously.</p>	<p>Corrective action has already been taken to address the backlog and these reconciliations are now being performed on a monthly basis. Internal Audit will monitor the ongoing performance of these reconciliations as part of their ongoing programme of continuous monitoring.</p>	<p>Responsible Officer – Finance Manager</p> <p>Target Date – Action Completed</p>
<p>3. Payroll</p> <p>The Council's annual payroll validation (employee existence check) was carried out in April/May of 2018. As in prior years, the percentage response was high. However, of 78 requests issued, no response was received in 17 cases. Of these, 10 were from the Education Department.</p> <p>If validation checks are not completed in full there is a risk that errors in staff complement are not identified early enough for corrective action. Overpayments could arise, and the council may not be able to fully recover these from former, or current, employees.</p> <p>[See paras 11 to 13 below]</p>	<p>The 2019 annual payroll validation is currently being carried out. Outstanding responses will be followed up and escalated where deemed necessary.</p>	<p>Responsible Officer – Head of Improvement and HR</p> <p>Target Date – 31 July 2019</p>

Follow up of prior year action points

10. Receipts and banking: Last year we identified that controls over cash reconciliations required improvement. From our testing in the current year we can confirm that controls have been strengthened. In particular, daily cash reconciliations are now signed by the Cash Supervisor as evidence of checking.

11. Payroll validation: Last year management proposed to issue clear guidance explaining responsibilities for checking and validating payroll data on the MyView system. Also, the guidance would cover the frequency with which validation checks would be carried out. This does not appear to be in place, and there is no provision in the MyView system for confirming these checks have been carried out.

Opportunity for improvement

12. Officers explained that the Council's annual payroll validation exercise is an extremely onerous undertaking. Also, it does not provide complete assurance on the accuracy of the staff establishment because some departments do not carry out validation checks.

13. The Council's MyView (MyTeam) system has been cited by management as a more reliable means of confirming staff complement on an ongoing basis. Line managers should be able to use the system to report any inaccuracies and rectify these by email. However, there is nothing in place currently to evidence checks on the MyView system. We have confirmed, in discussion with officers, that an online solution could be developed to strengthen controls by incorporating an audit trail of checks carried out by managers. The payroll validation process could then be reported and monitored throughout the year. There would still be an element of checking required by HR although the process would be less onerous, and the management information provided would be more reliable.

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