
Report to Scrutiny Committee

Date of Meeting: 8 September 2011

Subject: External Audit: Interim Audit Report 2010/11

Report by: Director of Finance & Corporate Services

1.0 Purpose

- 1.1 This report brings to members the Interim Audit Report produced by our external auditors Grant Thornton in respect of the areas of work covered by them in relation to the 2010/11 financial year.

2.0 Recommendations

It is recommended that the Committee.

- 2.1. Discusses and notes the recommendations contained in the report together with the management responses.

3.0 Considerations

- 3.1 Our External Auditors, Grant Thornton have produced this interim audit report in accordance with their planned activity relating to 2010/11 as outlined in their Audit Approach Memorandum considered by the Committee in June 2011. The report largely covers Core Financial Systems and Governance.
- 3.2 A total of eleven recommendations have been made. Three cover Governance and are detailed in Appendix B to the report. The remaining eight relate to Financial Systems and are itemised in Appendix C. The Councils response to each of the recommendations are also included within those appendices.
- 3.3 Details on progress made in implementing agreed recommendation in previous years are itemised within Appendix D.

4.0 Conclusions

- 4.1 The Councils external auditors, Grant Thornton are in the final year of their appointment to Clackmannanshire Council and this report covers the work undertaken by them in respect of 2010/11.

5.0 Sustainability Implications

- 5.1 N/A

6.0 Resource Implications

- 6.1 *Financial Details* - there are no implications for the Council's budgets arising from this report
- 6.2 *Staffing* - there are no implications for the Council's establishment arising from this report

7.0 Exempt Reports

- 7.1 Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☒

8.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities 2008 - 2011** (Please double click on the check box ☒)

The area has a positive image and attracts people and businesses	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>
Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

- (2) **Council Policies** (Please detail)

N/A

9.0 Equalities Impact

- 9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? N/A

10.0 Legality

- 10.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☒

11.0 Appendices

- 11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Council summary of expenditure

12.0 Background Papers

- 12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)



Yes ☒ (please list the documents below)

External Audit: Audit Approach Memorandum. Report to Scrutiny Committee, 23 June 2011

Author(s)

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Clackmannanshire Council

Interim Audit Report 2010/11

1. Executive Summary

Introduction

As part of our interim audit we have reviewed the effectiveness of the Council's core financial systems and governance arrangements and followed up the Council's progress in implementing recommendations agreed in prior year audit reports.

Key Findings

Financial Systems and Internal Controls

We audited the design and implementation of internal systems of financial control for the areas we consider to be at higher risk of material misstatement in the financial statements. We found that one of the key controls within employee remuneration was not operating effectively and, as a result we are unable to rely upon controls in this area. Additional substantive testing will be undertaken in this area during the final audit. Only a small number of weaknesses were identified within other cycles and tested controls generally worked well.

Governance Arrangements

The Council is making significant progress with its innovative shared service arrangement for the delivery of education and social work services. There are risks inherent with such a significant organisational change, but the Programme Board has taken steps to develop and implement robust risk management arrangements to monitor and mitigate issues as they arise. We will continue to monitor the effectiveness of these processes during the audit.

The Council continues to improve overall governance arrangements. A Governance Manager has been appointed to develop and co-ordinate corporate governance arrangements. This role helps support the Council's move to develop an Assurance Framework in relation to internal controls across the organisation, and to take forward the governance improvement plan.

An improvement plan has also been developed following a thorough and honest review of the effectiveness and impact of the Scrutiny Committee.

During the visit we also assessed the current internal audit arrangements against the CIPFA code of best practice. Our review highlighted concerns around the independence and resourcing of internal audit. An option appraisal is underway to ensure that future internal audit arrangements meet the Council's requirements, particularly in relation to the skill mix and ability to support assurance requirements.

We also highlighted concerns with the current register of staff interest. We have recommended that the Council review arrangements for updating the register.

Performance

We have followed up the Council's progress against a number of Audit Scotland's national performance reports. During the review of **Improving Public Sector Purchasing**, we found that the Council's Procurement Team has made improvements within the year, particularly around the implementation of policies and procedures, and the adoption of an improvement plan.

Clackmannanshire is the highest performing Scottish council in relation to recycling municipal waste. We found that the service is responding to each of the recommendations within the **Strategic Waste Management** report. Plans to meet the challenging Scottish Government targets are monitored via the Council's Single Outcome Agreement.

1. Executive Summary (continued)

Follow up of prior year recommendations

Progress has been made in implementing agreed recommendations made in the prior year audit reports, in particular around improvements to budgeting and arrangements to develop a new fixed asset register. However, we continue to highlight weaknesses in the segregation of duties within the Finance Team. The Council has plans in place for service redesign and restructuring to address a number of these weaknesses.

We have recorded the outstanding prior year findings in the Action Plan at Appendix C.

Use of this report

This report has been prepared to advise you of any matters arising from our interim audit and should not be used for any other purpose or be given to third parties without our prior year written consent.

Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implementing them, seeking your own specialist advice as appropriate.

We cannot accept responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

The way forward

We have set out our findings and recommendations in the appendices to this report. We have agreed action to implement the recommendations made with the Director of Finance and Corporate Resources.

2. Financial Statements Audit

Introduction

This report is intended to provide additional detail regarding our audit approach, as set out in our Audit Approach Memorandum 2010-11, issued in January 2011, as well as an update on our response to key risks from the results of interim audit work carried out to date.

Our accounts audit approach

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. We therefore focus our control review on the high risk areas of the financial statements.

The specific accounts assertion risks by cycle which we consider to present a 'reasonably possible' risk of material misstatement to the financial statements are detailed in Appendix A to this report.

We are also required to assess whether the controls have been implemented as intended. We do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs. Our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

Reliance on internal audit

We will work with the internal audit function to ensure our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the effectiveness of the internal audit function.

Review of IT and outsourced systems

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Council's internal controls in the information technology (IT) environment.

We have involved Technology Risk Services (TRS) team members during the audit, as a result of the complexity of IT used in the significant transaction cycles and the control risk assessment.

Results of interim audit work

Introduction

As part of the interim audit, and in advance of our final accounts audit visit, we considered:

- internal audit's work on the Council's key financial systems
- a review of the Information Technology control environment
- a review of closedown procedures in preparation for the final accounts
- emerging accounting issues.

We have set out recommendations identified by our work in Appendix C to this report.

Core Financial Systems

All councils are required to establish and maintain effective arrangements for the proper governance of their affairs and stewardship of resources at their disposal. The implementation and maintenance of sound systems of internal control are essential elements of robust corporate governance arrangements within an organisation. As part of our interim audit, we reviewed the design and implementation of internal systems of financial control that we considered to be areas of the highest risk of material misstatement.

We planned to place reliance upon the controls operating in the following systems in order to reduce the substantive audit work required for the year end procedures:

- property plant and equipment
- council tax revenue
- employee remuneration
- operating expenses

However, during tests of controls present in the Employee Remuneration cycle, we found that a key control in relation to entering new employees onto the employee master file was not being implemented. We cannot therefore place reliance on payroll controls, and additional substantive procedures will therefore be performed. We have also identified a number of control design weaknesses within the cycles we reviewed. These have been reported within the action plan in Appendix C. Key concerns include:

- new employee forms being authorised by individuals who were not included in the Authorised Signatory Database.
- the Authorised Signatory Database is not up to date, and is not being monitored on regular basis.
- segregation of duty weaknesses in relation to creditor payments and payroll processing.

Information Technology Control Environment

We completed a high level review of the general Information Technology control environment as part of the overall review of the internal control system. We concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts. No new IT issues were identified during our review although we noted that a number of IT recommendations from the 2009-10 audit within Appendix D have yet to be implemented.

3. Governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council is responsible for putting in place arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice.

Commensurate with the wider scope of a public sector audit, the Code gives the auditor a responsibility to review and, where appropriate, report findings on the Council's corporate governance arrangements as they relate to:

- the Council's review of its systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct, and arrangements in relation to the prevention and detection of corruption
- the financial position of the Council.

During our planning we identified a number of audit risks in relation to Corporate Governance:

- Shared Services
- Scrutiny Committee arrangements
- Internal Audit Arrangements
- National Fraud Initiative

This section summarises our interim findings to date.

Shared Services

The Clackmannanshire and Stirling Councils Education and Social Work Shared Services continues to develop. The Councils have appointed the Heads of Joint Social Services and Joint Education Services. Their respective Councils each take a lead authority role for that service area.

The Chief Executives of the two Councils are jointly accountable for the services to a Joint Steering Group for the new arrangements. The Steering Group meets monthly and comprises of the Leaders of the two Councils along with Depute Leaders and the two main Opposition Leaders. They report separately to their Councils. Management meet monthly at a Joint Programme Board chaired jointly by the Chief Executives, with senior managers from both Councils and representation from the Trades Unions. The Councils have recently approved a joint Scheme of Delegation that legally gives the Heads the authority to direct services in both Councils.

The arrangements are innovative in Scotland, and therefore bring operational risks as organisational changes are implemented. The Steering Group is therefore taking steps to ensure that effective risk management arrangements are in place to mitigate the impact of change. We will continue to monitor the effectiveness of governance and risk management arrangements throughout the year.

Scrutiny Committee arrangements

The Scrutiny Committee is continuing to evaluate its role and remit as part of an over-arching review of its effectiveness and impact. An improvement plan has been developed which will clarify the role and remit of the Committee within the Council's overall governance arrangements, and improve the impact and forward planning of the Committee's programme of work.

This review complements the Council's self-assessment against the CIPFA Good Governance Framework, and forms a key part of the related governance improvement plan.

Internal Audit Arrangements

As part of our 2010-11 audit we reviewed the Internal Audit function within the Council against the CIPFA Code of Practice for Internal Audit in Local Government. Our review confirmed that there are a number of issues that will need to be addressed if the Internal Audit department is to operate effectively and in line with the Code of Practice.

Audit Independence

As a result of substantial restructuring within the Council, the Audit Manager has now been appointed as Revenue and Payments Manager within the Finance Team. The Council has contracted with Fife Council to oversee the day to day activities of the department, and to provide additional staff resource. However, in practice, the former Audit Manager continues to have a role in reviewing and approving final audit reports.

Resourcing

We have noted that internal audit resources available to internal audit have fallen during our appointment from 5.8 full time equivalent staff in 2006-07 to 4.8 full time equivalent staff under the current structure, including the vacant Audit Manager post, albeit supported by external partners. None of the employees within the current establishment hold a professional qualification. In addition, since February 2011, two of the internal audit members have been on long term sick leave.

These absences have had a significant impact on such a small team and the Council has therefore had to reprioritise the 2010-11 annual plan. This has reduced the level of reliance we have been able to place on the work of internal audit.

Plans for Improvement

An options appraisal on the internal audit service is underway to ensure that a long term strategy is in place to protect the independence of internal audit and ensure that sufficient resource and experience is available to fulfil the audit plan.

The review must consider the Council's developing internal audit requirements. The move to develop a Statement of Internal Control, and therefore an Assurance

Framework means that the core skills required by the Council's internal audit team may change to reflect the governance reviews necessary to provide sufficient assurance to the Scrutiny Committee and Senior Management Team.

National Fraud Initiative

The National Fraud Initiative (NFI) matches electronic data within and between audited bodies to prevent and detect fraud and is operated by the Audit Commission. The Council is currently involved in the 2009-11 NFI exercise. We noted in our Audit Approach Memorandum that the Council had successfully uploaded all of the relevant data to the Audit Commission.

During our interim audit we reviewed the progress the Council has made in the NFI date matching exercise and assessed the adequacy of the planning and monitoring techniques in place. The internal audit team are responsible for overseeing the process and have adequate planning and monitoring arrangements in place. The timetable for NFI appears realistic, and matches are investigated by the relevant departments. We also noted that the Senior Management team and Scrutiny Committee receive progress reports on NFI on a quarterly basis.

Overall we conclude that the initial planning of the NFI appears to be well progressed. We will continue to review the progress made by the Council throughout our 2010-11 audit.

Register of Interests and Related Party Transactions

The International Standard on Auditing (ISA) 550, recognises that the risks of misstatement are higher when related parties are involved. The recently updated standard requires us to explicitly consider related party relationships and transactions and form an understanding of controls relevant to related parties.

As part of our 2010-11 audit we reviewed the Council's staff register of interests. We noted that in a number of cases, council employees have interests which have not been declared in the register on the council's COIN system. We have therefore recommended that the council has arrangements in place to ensure that the Register is up to date and provides an accurate list of all interests within the Council.

See Appendix B for all Governance recommendations.

4. Performance

Introduction

In accordance with our Audit Approach Memorandum, we have followed up the Council's progress against a number of Audit Scotland's national performance reports. In this section we summarise our findings.

Improving Public Sector Purchasing

Audit Scotland's report **Improving public sector purchasing** was published in July 2009. The report examined the progress and impact of the Public Procurement Reform Programme, which was introduced in 2006. This programme aimed to make significant improvement in public sector purchasing practice and make substantial savings. The report found that the public sector in Scotland was improving its purchasing and making some savings, although there was uncertainty about how future savings would be made, measured and reported. More widely, the procurement reform programme had improved cross-sector working and helped purchasing activity on a number of levels – from promoting and developing purchasing skills and awareness to increasing the use of electronic purchasing. The scale of improvement however was difficult to quantify and there was wide variation across public bodies in the quality of purchasing data, practice and skill levels.

Overall, the report highlighted that there was potential for the public sector to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management.

The results of Scotland Excel's Procurement Capability Assessment show that the Council's performance has significantly improved over the last year, and the Council is now within the 'conformance' banding.

The Council's corporate approach to Procurement has been strengthened with the approval of the Procurement Strategy and Procurement Improvement Plan. The Procurement Manager has produced a corporate procurement healthcheck, which will be produced annually in the future.

Strategic Waste Management

In September 2007, Audit Scotland published a report on **Sustainable Waste Management**. Collecting household waste is a vital and universal council service. The aim of the study was to review the work of councils, SEPA and the Scottish Government in reducing the amount of waste being sent to landfill.

There has been significant progress in improving waste management over the past decade but meeting future European Union and Scottish Government targets for waste management over the next ten years will pose significant challenges for councils. Meeting these targets may require significant investment in new waste management facilities and changes in individuals' and communities' behaviours towards waste management. The aim of this follow up work is therefore to assess what steps Scottish Council have taken, or still need to take, to ensure that they will be able to meet future EU and Scottish Government targets.

Clackmannanshire Council is Scotland's top performer in Audit Scotland's recycling statutory performance indicators. Draft results for 2010-11 suggest that the Council has achieved 48.9% of municipal waste recycled, a further improvement from 2009-10 when at 46.7% it was the best in the country. Figure 1 highlights that the Council regularly exceeds both the Scottish average figures, and is on course to achieve the Scottish Government's 2013 target.

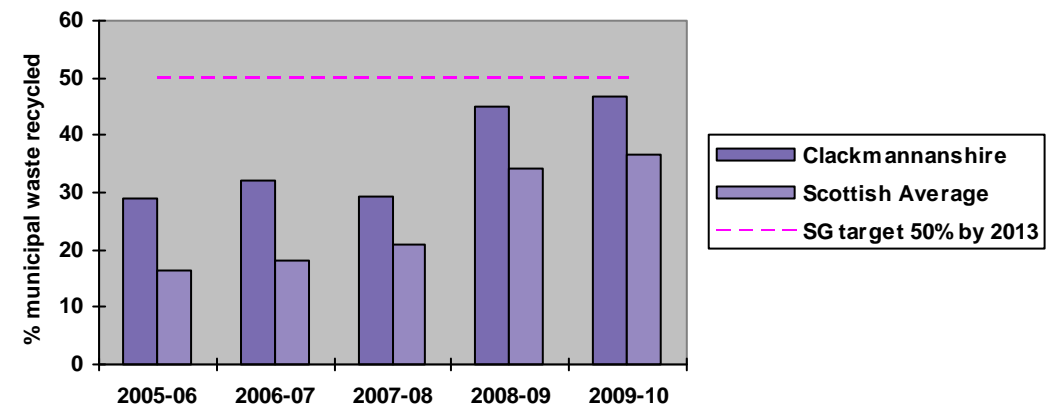
The Council continues to implement the Forth Valley Strategic Outline case for waste management, based on the best practical environmental option calculated at the time of the Forth Valley Area Waste Plan. A revised Waste Management Strategy is currently being developed in partnership with Stirling and Falkirk Councils, with the assistance of Zero Waste Scotland. This will allow the Council to respond to changes in regulation as required, such as the potential imposition of food waste collection.

The Council does not have the critical mass to make development of its own infrastructure desirable or necessary in a competitive market. As a result, the Council has made good use of partnership working, such as the joint investment in a shared waste transfer station and composting facility with Stirling Council. The service also issues joint tenders with Stirling and Falkirk Council to achieve procurement savings.

The Council continues to develop facilities within the existing local infrastructure for example, a 'Recycling Shed' has been opened at the recycling centre in Alloa to restrict site users from depositing residual waste; residual waste is now handed over and hand-sorted. This arrangement was developed following the service's waste analysis exercise, which suggested that over 30% of residual waste from the civic amenity site could be recovered in a cost effective manner. Early results have highlighted a 33% reduction in the level of residual waste going to landfill.

The Council has made extensive use of waste awareness materials, collection crew reporting and doorstep intervention to continue to improve recycling by the local public. This has included participation in a targeted intervention pathfinder project with Zero Waste Scotland to provide a robust methodology of the impact of awareness campaigns. To date councils have followed best practice from

Figure 1: Waste Management SPI Performance



Source: Audit Scotland, Statutory Performance Indicators

organisations such as SWAG, and impact has only been measured by monitoring overall trends. However, the Clacks 1000 survey results show that of the respondents who recycle, 91% say the most important reason is because it allows them to recycle at home, and it is easy to use (important to 90% of respondents). A minority say they are motivated by campaigns and adverts.

Each household is issued with advice on waste minimisation and the recycling system the council operates on an annual basis. This includes all dry recycle, garden waste, glass, textiles and now small WEEE (Waste Electrical and Electronic Equipment) collection. We have therefore concluded that the Council has arrangements in place to address each area of the Audit Scotland report, and no further recommendations were identified.

A. Accounts assertion risks by cycle

A reasonably possible risk is defined as being where:

- Numerous and often very precise controls should be established by management
- Substantive procedures would vary if controls were tested
- Inherent risk factors increase the likelihood of a material misstatement

Property, plant and equipment

Valuation - Gross

Risks

Property, plant and equipment activity not valid

Intended control reliance

Walkthroughs will be performed to verify that controls are implemented

Operating expenses

Completeness

Risks

Theft perpetrated through vendor payments

Creditors understated or not recorded in correct period.

Intended control reliance

Tests of controls will be performed to verify that controls operate effectively

Test of controls will be performed to verify that controls operate effectively

Employee remuneration

Existence/occurrence

Risks

Theft perpetrated through payment of fictitious employees

Intended control reliance

Tests of controls will be performed to verify that controls operate effectively

A. Accounts assertion risks by cycle (continued)

Council Tax	
Existence/Occurrence	
Risks	Intended control reliance
Recorded debtors not valid	Tests of controls will be performed to verify that controls operate effectively
Valuation - Net	
Risks	Intended control reliance
Allowance for doubtful accounts not adequate	Walkthroughs will be performed to verify that controls are implemented

B. Audit Issues - Governance

Number	Finding	Recommendation	Priority H/M/L	Council response	Implementation Due
Resister of Interests					
1	The councils register of interests is not up to date and complete. From our testing we have found a number of individuals who have interests that have not been declared.	We recommend that all council employees within a position of authority make annual declarations with regards to their interests, even if only to confirm that he/she has no interests. Furthermore it should be communicated to employees the importance of such a declaration.	High	A reminder has already been issued to staff via COIN and this is revisited regularly. An annual declaration will be required for the future.	
Internal Audit					
2	The Head of Internal Audit is not independent from the rest of the council as she has been appointed as the Revenues and Payments Manager.	<p>We are aware that the council is currently undertaking an options appraisal of the Internal Audit function. We would therefore recommended that as part of this the Council ensures that:</p> <ul style="list-style-type: none"> •The internal Audit team is independent from the rest of the organisation. •An Internal Audit plan for 2011/12 is developed. •The internal audit team includes adequately qualified staff with the relevant skill set to work within the department. 	High	These three points are incorporated within the Internal Audit Appraisal. The key objectives are to provide a high quality, professional, sustainable service which forms part of the Council's overall assurance framework.	June 2012
3	There is a risk that the internal audit team does not have adequate resources to meet the needs to the Council.	As above, the Council's internal audit options appraisal must ensure that the team have sufficient skills and experience to meet the requirements of an Assurance Framework.	High	As above	June 2012

C. Audit Issues - Financial Systems

Number	Finding	Recommendation	Priority H/M/L	Council response	Implementation due
Council Tax					
1.	Reconciliations between the council tax system and the general ledger are not performed on a regular basis.	Reconciliations between the general ledger and the council tax sub system should take place on a monthly basis.	Low	Agreed. This will be addressed.	December 2011
2	There are a number of small items amounting to around £20k which cannot be reconciled.	A review of reconciling items should be performed.	Low	Agreed. This will be addressed.	December 2011
Operating Expenses					
3	Purchase orders are not sent to the creditors department when the invoice is being approved for payment, instead a verification form signed by an Authorised Signatory is sent.	A copy of the signed purchase order should be submitted to the creditors department which can then be attached to the journals voucher and the invoice.	Medium	This is to be addressed through the POPLAR purchase ordering system which will automate and enforce the order and invoicing process.	April 2013
Employee remuneration					
4	As noted in the prior year, there is a lack of segregation of duties in the payroll department that increase the risk of fraudulent or erroneous transactions: payroll assistants make changes to temporary and permanent data and are also required to review deviance reports.	Management should review the responsibilities within the payroll department to identify areas for improving the segregation of duties. Having the payroll manager review work would be a viable option.	Medium	This is currently being undertaken by the Payroll Officers as part of the Revenues and Payments reconfiguration.	December 2011

Audit Issues - Financial Systems (continued)

Number	Finding	Recommendation	Priority H/M/L	Council response	Implementation due
5.	We noted that the Human Resources system does not allow staff to run exception reports. Further, it does not prevent staff from inputting invalid/duplicate information.	Management should review the Compel System which holds the employee master file and consider updating the current system.	Low	The Compel system is currently unsupported by the software supplier and it is expected that arrangements will be made to migrate to a new system. However, there are monthly reconciliations between the HR and payroll system that mitigate some of the risks.	N/a
6.	During our testing we found that we cannot rely on payroll controls. A number of new employee forms had been signed by individuals who were not authorised to do so per the Authorised Signatory Database, further Human Resources staff failed to check signatures to the database when entering the employee onto the master file.	We recommend that Human Resources staff ensure that new employee forms are signed by a member of the authorised signatory database.	High	Agreed. Both HR and Payroll staff will be given access to the Authorised Signatories Database to ensure only forms signed by authorised staff are processed.	December 2011
Authorised Signatory Database					
7.	The ASD has now been made available to staff electronically, however it does not include actual signatures.	We recommend that the internal audit department review the ASD to determine if an improved system that incorporates a copy of signatures would enhance the controls in place.	Medium	Will investigate the opportunity to include scanned signatures into the ASD.	March 2012
8.	The ASD is not up to date and included members of staff who had since left the council, and had not been updated to reflect new authorisers.	We recommend that the ASD is regularly reviewed and updated by all departments to ensure that the list of authorisers is correct.	Medium	A review of the ASD will be completed.	March 2012

D. Prior Year Issues Follow Up

Number	Finding	Recommendation	Council response	Implementation
Budget Setting				
1.	<p>Although the Council has improved an Integrated Planning and Performance Management Framework, our findings suggest that the Council Still relies on historical, incremental budgeting processes.</p> <p>There remains scope to better demonstrate how the Council's priorities shape the budget.</p>	The council should undertake a review of its budget setting arrangements to better demonstrate how corporate priorities are prioritised within the budget.	Review of budget setting arrangements currently on-going.	Implemented in full using budget challenge process.
Operating Expenses				
2.	There is a lack of segregation of duties within the creditors department as the staff who have access to change supplier details also post invoices and journals, make payments through the BACS system and perform bank reconciliations. This increases the risk of fraudulent or erroneous transactions not being detected.	Management should review the tasks assigned to key members of the creditors department to ensure duties are segregated where possible and that high level reviews are carried out in sufficient detail where complete segregation of duties is not possible.	Staff inputting data are not permitted to input/change supplier data. This is checked on a regular basis.	Partly implemented - we have continued to highlight segregation of duty risks within the creditors department.

Clackmannanshire Council Interim Audit Report for the year ended 31 March 2011

Number	Finding	Recommendation	Council response	Implementation
Journal Entries				
3.	Senior financial personnel have the ability to process journal entries and there are no formal procedures for reviewing journal entries.	<p>We are required to bring this finding to the attention of management as there is a lack of segregation of duties resulting in an increased risk of fraud.</p> <p>We recommend that the journal entry process and controls be reviewed by management to ensure the most effective and efficient internal controls are in place.</p>	<p>We believe the risk of fraud from this practice is low.</p> <p>However, processes and controls will be reviewed within the Finance Service as new management structure and responsibilities are finalise</p>	Not yet implemented.
Employee Remuneration				
4.	There is currently no reconciliation of employee data held by payroll to data held by the HR department. Performing such reconciliations mitigates the risk of incorrect employee data being held on the payroll system.	The Council should regularly (at least annually) reconcile data held on its payroll system to HR records to ensure consistency and accuracy.	This was undertaken for the implementation of the Single Status Agreement and will be reconciled for the change to monthly payments.	Implemented.
Treasury Management				
5.	Key Council staff involved in the handling of cash and the operation of bank accounts have not received any money laundering or fraud training.	The Council should provide training on money laundering and fraud to staff involved in cash handling operations to ensure compliance with money laundering legislation.	Training to be provided by fraud manager.	Not yet implemented.
6.	There are reconciled items on the creditors reconciliation dating back to 1996 that have not yet been cleared.	The Council should ensure that outstanding reconciled balances over one year old are investigated and written off.		Not implemented. This will require external consultancy support, as this is not a standard function within Strategix creditors system at present.

Clackmannanshire Council Interim Audit Report for the year ended 31 March 2011

Number	Finding	Recommendation	Council response	Implementation
Fixed Assets				
7.	The central fixed asset register is maintained on an Excel spread sheet which increases the opportunity of human error within the asset figures.	The Council should consider implementing a bespoke fixed asset register system to improve financial and management reporting arrangements for fixed assets.	Council is currently exploring bespoke systems with view to having completed procurement and implementation in time for next financial year	Implementation ongoing.
8.	The fixed asset register does not record assets on an individual basis which does not support asset tracking.	The Council should list assets on the fixed asset register individually.	Agreed - this will be addressed within new system	As above.
9.	There are no formal controls in place to regularly reconcile the fixed asset register to the independent IT & Property registers held by departments. This year, the fixed asset register was reconciled to the property register as part of the 1 April 2009 revaluation process and this resulted in several changes to the fixed asset register.	The Council should implement formal controls to regularly perform reconciliations between the central fixed asset register and the asset registers held by departments. Performing such reconciliations would increase the accuracy and reliability of the central fixed asset registers.	Agreed - this will be addressed within new system with clear linkages to other asset register information held by other services	As above.
Information Systems				
10.	We noted that the Council has a series of IT policies. However, members of staff do not formally confirm their understanding and acceptance of them apart from the Internet and E-mail use policy. There is a risk that the Council may not be able to hold individuals accountable for a misuse of IT resources.	The Council should implement a procedure whereby members of staff formally confirm their understanding and acceptance of the different IT policies. This acceptance could be recorded in electronic format.	Our policies are currently under review and being updated. Once this has been completed, these will be submitted to the IT Governance Group for approval. Once granted, these will be circulated to all staff for acceptance and this will be recorded electronically.	Not yet implemented - Council is seeking best practice guidance in this area.

Clackmannanshire Council Interim Audit Report for the year ended 31 March 2011

Number	Finding	Recommendation	Council response	Implementation
11.	<p>We noted that there is no standard form to request the creation of new user accounts in Strategix. In addition, we selected a sample of five new hires and noted that evidence of approval for the creation of the corresponding Strategix user account was not retained for two out of these five new employees.</p> <p>We also noted that the Strategix user account of a former member of staff was reallocated to one of these new starts. However, the description of the user account was not changed and it still indicates the name of the former member of staff.</p>	<p>The Council should consider implementing a standard access request form for Strategix. This form should detail the access rights that a new member of staff should be granted. Evidence of approval for any access request should be retained.</p> <p>Descriptions of user accounts in Strategix should indicate the name of the corresponding member of staff.</p>	Form will be drafted, approved and in use by 31st October 2010.	<p>Not yet implemented</p> <p>The new user request form had not been produced.</p>
12.	<p>We understand that a review of user accounts in the Strategix application is performed on an annual basis. However, we noted that no formal evidence is retained of this review.</p> <p>There is a risk that individuals may gain unauthorised access to finance data.</p>	<p>The Council should implement a formal process to perform a biannual review of user access rights in Strategix. Business managers should formally confirm that the level of access rights held by their staff is commensurate with their current job duties. Evidence of this review and any remedial action should be retained.</p>	The first biannual review will be completed by 31st October 2010. Business managers will be consulted as requested and this will be documented as will any actions required.	<p>Partially implemented</p> <p>A review of user access rights to the supplier master file in Strategix was performed in the current financial year. Observed email dated 28 January 2011 where some amendments in access rights to the supplier master file were detailed.</p> <p>However, there is no formal process to review access rights in Strategix for all users on a regular basis.</p>



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