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**Report to Audit Committee**

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**Date of Meeting: 25 April 2019**

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**Subject: External Audit: Management Report 2018/19**

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**Report by: Chief Finance Officer**

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**1.0 Purpose**

- 1.1 The purpose of the attached External Audit Management Report (Appendix A) is to summarise the key issues identified during the interim audit work. The findings from this work will influence the approach to the audit activity in respect of the audit of the financial year 2018/19

**2.0 Recommendations**

It is recommended that the Committee.

- 2.1. Discusses and notes the key issues identified in the report.

**3.0 Considerations**

- 3.1 As per the External Audit Annual Audit Plan 2018/19 submitted to this Committee in February 2019, this Management Report sets out the findings of their interim work. This work focuses on testing of key controls to gain assurance over the processes and systems used in preparing the annual accounts. This will then determine the activity of the audit.
- 3.2 Due to the statutory basis of the work of the external auditor, all external audit activity undertaken against the annual audit plan is formally reported to Committee.

**4.0 Conclusions**

- 4.1 The attached report sets out details of the interim work on key systems controls testing and identifies areas of activity for the 2018/19 audit.

**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** (Please double click on the check box )

- Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all
- Our families; children and young people will have the best possible start in life
- Women and girls will be confident and aspirational, and achieve their full potential
- Our communities will be resilient and empowered so that they can thrive and flourish

- (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".

External Audit Management Report 2018/19.

## 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 Annual Audit Plan 2018/19**

### Author(s)

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Lindsay Sim	Chief Finance Officer	2022

### Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	
Stuart Crickmar	Strategic Director Partnership & Performance	

# Clackmannanshire Council

Management Report 2018/19



 AUDIT SCOTLAND

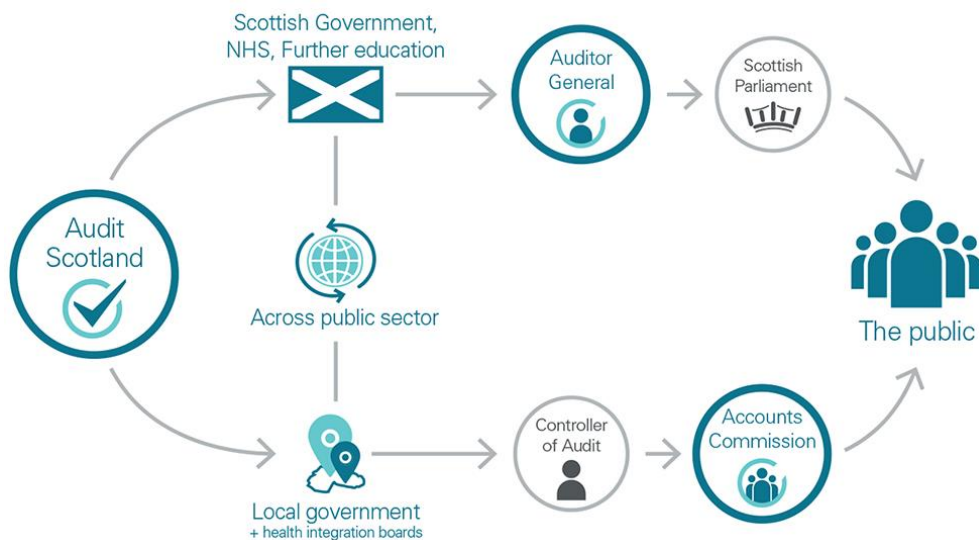
Prepared for Clackmannanshire Council

April 2019

## 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 summarises issues identified during our interim audit at Clackmannanshire Council (the council). This work included testing of key controls within financial systems to gain assurance over the processes 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 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 for recording and processing transactions which provide a sound basis for the preparation of financial statements
- has systems of internal control which provide an adequate means of preventing and detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

## Conclusion

3. We identified areas where controls could be strengthened, as detailed in [Exhibit 1](#) on page six. We will carry out additional work to gain the assurance we require for our audit of the council's 2018/19 annual accounts.

## Work summary

4. Our 2018/19 testing covered key controls in the following areas:

- bank reconciliations
- authorisation of journals
- change of supplier bank details
- IT access controls
- payroll exception reports
- changes to payroll and general ledger chart of account standing data
- budget monitoring.

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

6. The issues identified in preparing this management report are those that have come to our attention during the course of our routine audit work and are not necessarily all the risk areas that may exist. It is the responsibility of management to decide the extent of the internal control system appropriate to the council.


## Follow-up of prior year findings


**7.** We also followed up the council's progress in addressing the control weaknesses identified in our 2017/18 management report. These recommendations have been partially addressed and further work is required to ensure the controls are operating effectively. This is detailed in [Exhibit 1](#).


**8.** We highlight in particular continuing weaknesses in the controls over changes to supplier bank details. This is concerning and needs to be addressed as a matter of urgency. Until this matter is resolved, financial and reputational risks to the council will remain.



## Exhibit 1 2018/19 interim audit key findings and action plan

	Issue/risk	Recommendation	Agreed management action/timing
<b>Audit findings</b>			
<b>1</b>	<p><b>Bank account access rights</b></p> <p>Authorised signatories approve the opening and closing of bank accounts, authorise payments, and approve changes to the list of authorised signatories. We identified that the authorised signatory list is out of date and includes an employee who no longer works for the council.</p> <p>We also found that the user access list for the council's banking system is out of date. Some employees whose responsibilities mean that they do not require access to the system are listed.</p> <p><b>Risk</b></p> <p>There is a risk of unauthorised access to council data.</p>	<p>These lists should be updated as a priority. Senior officers should periodically review access rights to bank accounts and authorised signatory lists to ensure they are up to date. Evidence of this review should be retained.</p>	<p>Changes to authorised signatories and the opening and closing of bank accounts requires multiple authorised signatures. There was a short delay on this occasion due to timing. Normal process is to complete appropriate paperwork on a timely basis.</p> <p>We will permanently delete users who no longer require any access to the system and will continue to review access on a timely basis.</p> <p>Corporate Accountancy Team Leader June 2019</p>
<b>2</b>	<p><b>Bank reconciliations</b></p> <p>Bank reconciliations are a key financial control which highlight possible irregularities and help to identify potential fraud.</p> <p>Our testing found that the council is not performing bank reconciliations on a regular basis and the process is not reviewed by a second officer.</p> <p><b>Risk</b></p> <p>There is an increased risk of undetected fraud or error if bank reconciliations are not completed timeously.</p>	<p>The council should ensure that monthly bank reconciliations are completed and reviewed, and evidence of this is retained.</p>	<p>We will review the process and ensure reconciliations are carried out and reviewed on a regular basis.</p> <p>Corporate Accountancy Team Leader September 2019</p>
<b>Prior year issues</b>			
b/f	<p><b>Changes to supplier bank details</b></p> <p>Last year, we reported finance staff are aware of the importance of ensuring changes to a supplier's bank details are genuine. Staff verify requests for changes in bank details by contacting the supplier by telephone using the number already held by the council.</p>	<p>Evidence of supplier verification should be noted on file for every change of supplier bank details.</p> <p>Staff should now record a note of the verification against the supplier file in the system and attach a</p>	<p>The process was reviewed and updated following the previous recommendation which included recording the verification of any changes.</p> <p>For some of the changes appropriate back up was attached but no explanation of the verification process had been noted.</p> <p>Two of the changes were made from</p>

	Issue/risk	Recommendation	Agreed management action/timing
	<p>Officers do not however retain any evidence that this check has been carried out.</p> <p>Our 2018/19 interim testing found that, for 11 of the 20 cases we sample tested, the council had not recorded evidence of supplier verification on file.</p> <p>In four of the 11 cases, supplier bank details had been changed without verifying that the requests to change were authentic.</p> <p><b>Risk</b></p> <p>Without evidence supporting changes to supplier bank details officers cannot be sure that the proper process has been followed. Failure to perform the control exposes the council to financial and reputational risks.</p> <p><b>Planned audit action</b></p> <p>We will carry out additional work to give us assurance over the accuracy of the council's financial statements.</p>	<p>back up of the new details received.</p>	<p>bank notifications through the BACS system, we will review our procedures and update if we are satisfied this is an appropriate method of notification.</p> <p>We will review our process and training of staff involved to ensure the full verification process is noted against the supplier account for all changes.</p> <p>The Accountancy team are focused on identifying and preventing fraud at all stages. We ensure staff attend training events to raise awareness and share potential risks across the department and will continue to do so to prevent fraud at all stages of our payments process.</p> <p>Corporate Accountancy Team Leader June 2019</p>
b/f	<p><b>Housing rents reconciliation</b></p> <p>Last year we reported that the housing rents system has not been regularly reconciled to the financial ledger during the 2017/18 financial year. The housing rents system has also not been reconciled to the fixed asset register since the last council house revaluation in 2014/15.</p> <p>At the year end audit we noted that a full year reconciliation to the financial ledger was provided. However, this was difficult to follow and there was no evidence that reconciling differences had been investigated.</p> <p>An annual high level reconciliation to the fixed asset register is performed to reflect sales and purchases in the year. Full detailed reconciliations are undertaken in the five yearly valuation.</p> <p><b>Risk</b></p> <p>The purpose of regular accounting reconciliations is to identify errors or unknown items close to the time they occur. If regular reconciliations are not performed</p>	<p>Regular reconciliations should be performed and reconciling differences investigated.</p>	<p>Reconciliations are continuing to be carried out on a regular basis. The reconciliations are being reviewed to simplify the process and this will include a process to record evidence of the investigation of differences.</p> <p>Management Accounting Team Leader and Revenues Manager August 2019</p> <p>Fixed Assets – there is an annual high level reconciliation to reflect sales and purchases in the year. Full detailed reconciliations are undertaken in the five yearly valuation with the next one being carried out during 2019/20.</p> <p>Corporate Accounting Team Leader March 2020</p>

	Issue/risk	Recommendation	Agreed management action/timing
	<p>and reconciling differences investigated there is a risk that potential frauds or errors are not identified timeously or investigated effectively.</p> <p><b>Planned audit action</b></p> <p>We will review the 2018/19 year end reconciliations as part of our final accounts audit.</p>		
<b>b/f</b>	<p><b>Financial management</b></p> <p>In our 2016/17 interim audit report we reported that several documents which set out the council's financial management and governance arrangements are out of date and contain references to previous structures and roles. These are:</p> <ul style="list-style-type: none"> <li>• Financial Regulations (last updated 2008)</li> <li>• Scheme of Delegation (last reviewed 2014)</li> <li>• Corporate Debt Write-off Policy (last reviewed 2012).</li> </ul> <p>Our subsequent audit work confirmed that updated Financial Regulations and updated Corporate Debt Write-off Policy were approved by the council in April 2018 and June 2018 respectively.</p> <p>The Scheme of Delegation was due to be updated in March 2019. The council's redesign of the senior manager structure is ongoing and once this is finalised the Scheme of Delegation will be updated.</p> <p><b>Risk</b></p> <p>There is a risk that differences between written procedures and actual processes and structures leads to key controls not being complied with.</p> <p><b>Planned audit action</b></p> <p>We will follow this up, when the new senior management structure is finalised, to ensure progress has been made.</p>	<p>Documents which set out the council's financial management and governance arrangements should be updated and reflect current structures and roles.</p>	<p>The Scheme of Delegation will be updated once the redesign of the senior manager has been finalised.</p> <p>Director of Performance and Partnership</p> <p>June 2019</p>

Source: Audit Scotland

# Clackmannanshire Council

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