

# Argyll and Bute Council

Interim Audit Report 2016/17



 AUDIT SCOTLAND

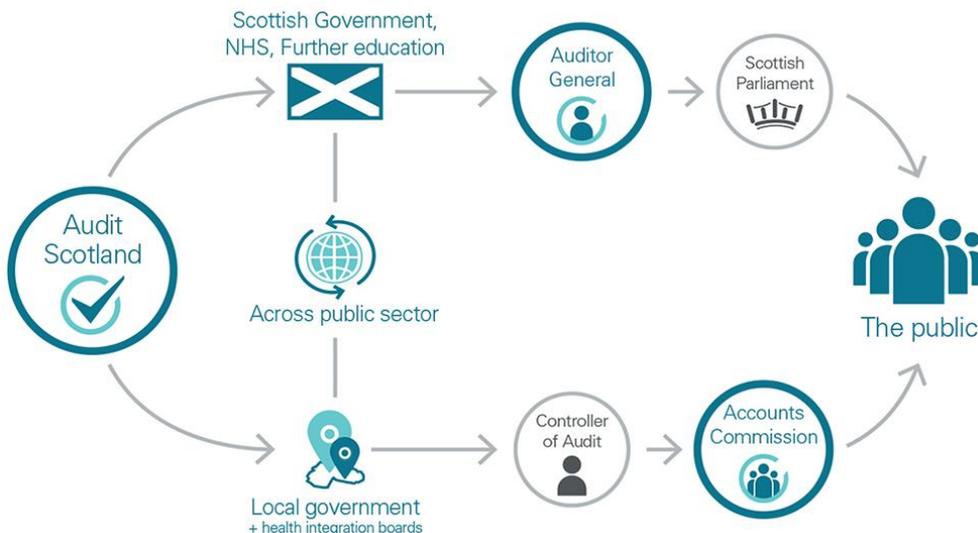
Prepared for Argyll and Bute Council

June 2017

# 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 financial statements. We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

**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 Argyll & Bute 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.

**3.** Under the Code of Audit Practice (2016), we are also required to carry out work on the wider dimension audit. This is focussed on financial management, financial sustainability and governance and transparency.

## Conclusion

**4.** We concluded that, overall, Argyll & Bute Council's systems of internal control are effective. We identified several control weaknesses from our interim audit work 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 2016/17 financial statements.



**Bank reconciliations**



**Payroll controls**



**IT access**



**Budgets**

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**5.** In terms of our wider dimension audit work we concluded that Argyll & Bute Council has appropriate arrangements in place for some aspects of governance and transparency and financial management, with some areas for improvement as set out in paragraphs 13 to 19 and in [Exhibit 1](#). Our 2016/17 Annual Audit Report will include an overall assessment of the council's arrangements for governance and transparency, financial management and financial sustainability. It will also include the results of our review of the council's progress in taking forward the recommendations in the Accounts Commission's Best Value report, published in December 2015.

## Work summary

**6.** Our 2016/17 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, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.

**7.** 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 enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Additionally, where possible we place reliance on the work of internal audit to avoid duplication of effort. As outlined in the 2016/17 Annual Audit Plan, we placed formal reliance on the following internal audit work:

- Continuous monitoring programme - General ledger, Creditors, Debtors, Payroll, Treasury management, Council tax and NDR
- Procurement - PECOS, Off-contract purchasing.

**8.** We carried out early substantive testing on material accounts areas including expenditure and staff costs.

**9.** In terms of our wider audit dimension audit work, we focussed on some aspects of financial management and governance and transparency, including a follow-up of the 'Role of Boards' national report, published in September 2010. Our work on financial sustainability is on-going and will be reported in full in our 2016/17 Annual Audit Report along with the findings of further review of the council's arrangements for financial management and governance and transparency.

**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 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.

### 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 2017 for payroll expenditure, and up to mid-March 2017 for non-payroll expenditure. No significant issues arose from this testing.

### Governance and transparency

**13.** From our review of some aspects of governance and transparency we concluded that:

- The council's overall arrangements for the prevention and detection of fraud are satisfactory.
- The council's risk management arrangements are well embedded. There is a robust process in place for the review and reporting of strategic and operational risk registers and for discussion at quarterly audit committee meetings during the year.

- The council's internal audit reviews Audit Scotland's national reports and passes them to the appropriate management recipient for a high level follow-up. The Chief Internal Auditor summarises this to the Audit Committee on a quarterly basis but this summary does not include all Audit Scotland's national reports of relevance to the council and the follow-up action is not clearly set out. Additionally, only some reports are presented to committees or other member groups for consideration.

**14.** As part of the wider review of governance arrangements across the public sector, we completed a follow-up of the 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at council and committee meetings. From this work we found:

- At a number of council and audit committee meetings we attended, we observed appropriate level of challenge being applied to decision making.
- The council's website is in line with good practice in the way it sets out committee information, agendas, papers and minutes. It is easy to navigate with a high level of transparency and openness. Access to the council's information and committee papers is readily available to the stakeholders. Agendas and papers are available online prior to meetings and minutes are attached in a timely manner. However, we noted that members' interests did not include all information required by the Councillors' Code of Conduct.
- Although, overall, members and staff observe high standards of conduct and behaviour, long-standing political and personal differences remained among a small number of key individuals in Argyll and Bute Council. Some of these continued to be played out in a public way. During the year, one case was upheld by the Standards Commission, and a councillor censured for breach of the Councillors' Code of Conduct.
- The Council has taken steps to improve member training and development, including the introduction of a new members' induction programme in time for the recent local government elections.

**15.** The above findings are based on our review of aspects of governance and transparency and we will continue to monitor developments in this area. This will include reviewing the council's progress in taking forward the recommendations in the Accounts Commission's Best Value report, published in December 2015.

## Financial Management

**16.** We reviewed the council's budget monitoring process and considered internal audit's review of financial planning and budget monitoring activities, reported in August 2016. We found that:

- Financial monitoring reports (revenue and capital) are included in a comprehensive financial reports monitoring pack and discussed at the Policy and Resources Committee every two months. The information presented in the pack is appropriate and sufficiently detailed to support effective scrutiny.
- Internal audit provided reasonable assurance for this area. Its review of budget monitoring reports, provided to budget holders on a regular basis by Strategic Finance, found that these were accurate. This was supported by the budget holders' view that the reports were timely, accurate and relevant. Areas for improvement related to improving the recording of cost and demand pressures and a forecast outturn position in the budget holder engagement logs, including planned earmarking within budget monitoring and forecasting protocols, and using trend analysis and unit costing in the budget monitoring process.

**17.** We will continue to keep the council's budget monitoring process under review.

**18.** We also followed up on areas for improvement set out in our report on the 2016/17 budget setting process. From our attendance at the 2017/18 budget setting meeting, and from reviewing minutes of the meeting, we have confirmed that officers have addressed all three report's recommendations:

- The budget proposals included a clear breakdown of how a balanced budget would be made up. The amendments proposed at the budget setting meeting primarily focussed on allocating the additional funding announced by the Cabinet Secretary for Finance and the Constitution on 15 December 2016. This included £2.4 million of revenue and £0.7 million of capital funding.
- The minutes of the budget setting meeting were comprehensive and clear.
- The Head of Strategic Finance reminded members of the recommendation in our report on the 2016/17 budget setting process for members to consider circulating proposals for any significant changes to the budgeting pack in advance of the council meeting. Although the alternative budget proposals were tabled on the day rather than, as good practice would indicate, circulated in advance with agenda papers. However, the proposed changes to the budget focussed primarily on allocating the additional funding rather than significantly changing the existing budget proposals.

**19.** We also found that the Head of Strategic Finance appropriately commented on each alternative budget proposal and confirmed that each presented a suitably balanced budget.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
<b>Review of controls</b>		
<p><b>Treasury management reconciliations</b></p> <p>Due to a temporary lack of staff resources, the treasury team did not prepare monthly treasury management reconciliations in a timely manner during the financial year.</p> <p><b>There is a risk of errors going undetected if reconciliations are not completed and reviewed in a timely manner.</b></p>	<p>A decision was taken to move to quarterly reconciliations for a temporary period, due to staff resources. The risk was considered to be low. Monthly reconciliations have now resumed.</p>	<p>Peter Cupples 15 June 2017</p>
<p><b>Council tax reconciliations</b></p> <p>For two monthly reconciliations (November 2016 and February 2017) there was no evidence of a secondary review by a senior officer. For one reconciliation (September 2016), it was unclear if the reconciliation had been subject to a secondary review as it was initialled by a senior officer but there was no evidence of another officer completing the reconciliation. Additionally, the November 2016 reconciliation was not completed until</p>	<p>These are the cumulative reconciliations between raw cash account in the general ledger used to record all council tax cash received during the year, and the cash postings made to Northgate council tax system. The Cash section do daily checks on these postings. On a monthly basis, a cumulative (year to date) reconciliation is done by the Revenues Supervisor which is then checked and signed off by the Revenues and Benefits Manager. It</p>	<p>Judy Orr 30 June 2017</p>

Issue identified	Management response	Responsible officer and target date
<p>January 2017.</p> <p><b>There is a risk of errors going undetected if reconciliations are not reviewed by a secondary senior officer. Reconciliations should also be completed timeously to ensure any issues are identified and resolved promptly.</b></p>	<p>appears that two of these were not counter signed by the Manager and one was not initialled by the Revenues Supervisor who carried out the reconciliation. The November reconciliation was delayed because of scheduled holidays. The relevant staff members will be reminded to sign these off to evidence the checks carried out, and to make sure they are done timeously. The risk of any errors arising is small as the daily checks are thorough and all issues would also show either on the monthly bank reconciliation or through suspense not being cleared, both of which are subject to separate reviews.</p>	
<p><b>Changes to suppliers' bank details</b></p> <p>We reported in our 2015/16 interim report that a previously available Oracle report, which enabled random checks of bank account details changes, was no longer available as a result of an Oracle system upgrade. We were advised this was still an issue for 2016/17. Internal audit reported in their update paper to the March audit committee that a new module would be in operation from 1 April 2017, which would report all bank account changes for 2017/18 so that checks could be carried out on these. But as at the end of May, this module has not yet been put in place.</p> <p><b>There is a risk of unauthorised amendments being made to standing suppliers' payment details if there is no suitable audit trail of all such amendments.</b></p>	<p>The new software was procured from Fiscal Technologies in late March. The supplier provided training on 23 May and we are hoping this it will be able to go live this week. We were unable to arrange training earlier due to pressure of year end work. This should provide a suitable audit trail of all such changes for checking.</p>	<p>Judy Orr 30 June 2017</p>
<p><b>Wider code work</b></p>		
<p><b>Governance and transparency - effectiveness of relationships</b></p> <p>Long-standing political and personal differences remained among a small number of key individuals in Argyll and Bute and some of these continued to be played out in a public way.</p> <p><b>There is a risk that, if such public disagreement persists, the council's image and reputation is damaged further, with potential implications for relations with local communities and management effectiveness.</b></p>	<p>The Councillor Induction programme included training on standards and leadership which included an emphasis on developing positive relationships with others and early signs have been encouraging in terms of positive interaction amongst new members.</p>	<p>Charles Reppke 31 May 2017 (end of Induction training)</p>

Issue identified	Management response	Responsible officer and target date
<p><b>Governance and transparency - presenting reports to members</b></p> <p>The council has a process in place for reviewing Audit Scotland's national performance reports and disseminating them to management. While the audit committee receives a quarterly summary of this, not all national reports of relevance to the council are included and the follow-up action is not clearly set out. Additionally, only some reports are presented to relevant committees for review and consideration.</p> <p><b>There is a risk that some opportunities for improvement are not being identified.</b></p>	<p>The process that is currently in place will be reviewed to ensure that necessary reports are presented to relevant committees for review and consideration and follow up actions are monitored.</p>	<p>Chief Internal Auditor 31 August 2017</p>
<p><b>Governance and transparency - councillors' interests</b></p> <p>Although the interests of each councillor are published on the councillors' individual contact pages on the council's website, the information available does not include all that required by the Councillors' Code of Conduct.</p> <p><b>To increase transparency, members' interests should include all information required by the Councillors' Code of Conduct.</b></p>	<p>Arrangements are in place for the collated Register of Interests to be published on the Council website.</p>	<p>Charles Reppke 30 June 2017</p>

Source: Audit Scotland

**20.** 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 the Council.

**21.** 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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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)