

# Comhairle nan Eilean Siar

Interim Audit Report 2016/17



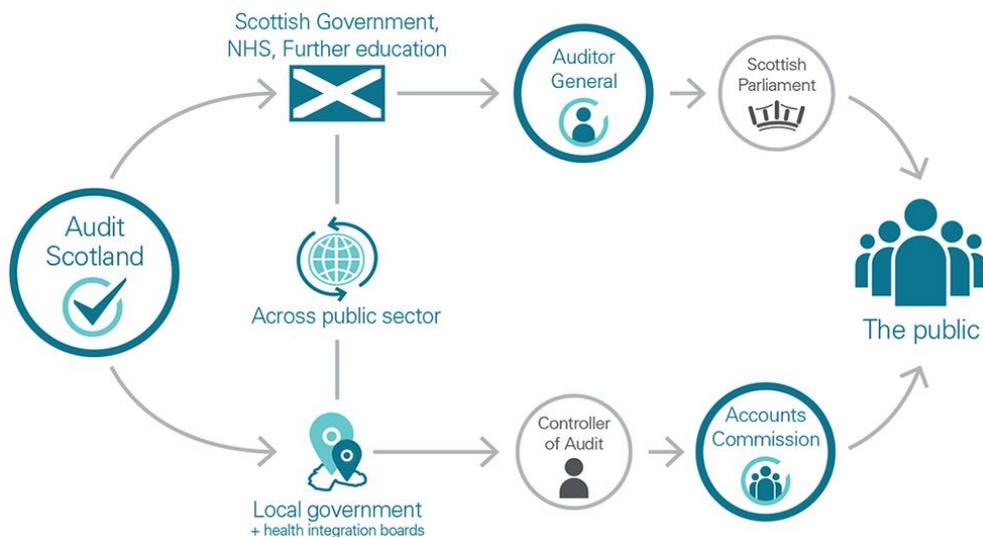
 AUDIT SCOTLAND

Prepared for Comhairle nan Eilean Siar  
May 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.

# Contents

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Audit findings	4
Introduction	4
Conclusion	4
Work summary	4
Risks identified	5
Additional follow-up work	5

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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 the Comhairle. 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 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, under the Code of Audit Practice we have carried out wider dimension audit work. This focussed on financial planning, financial sustainability and governance and transparency, with a focus on following up the key findings from the Audit Scotland Role of Boards report and a review of the registers of interest.

## Conclusion

4. Overall we found the key controls in place within the Comhairle's main financial systems operate satisfactorily. We identified several control weaknesses as summarised in [Exhibit 1](#) where we 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.

5. The results from our wider dimension audit work will be reported to the Comhairle in our Annual Audit Report.

## 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.



Bank reconciliations



Payroll controls



IT access



Budgets

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7. Where possible we place reliance on the work of internal audit to avoid duplication of effort. This year we were able to place reliance on work done on trade payables and housing benefit and council tax reduction.

## Risks identified

8. 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.

## Additional follow-up work

9. Whilst no errors have been identified as a result of our audit work to date, the control weaknesses set out in Exhibit 1 mean that additional audit work is required to allow us to obtain the necessary assurances for the audit of the 2016/17 financial statements. Specifically this will focus on the verification of the existence of a sample of employees and substantively testing payments to suppliers.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response, responsible officer and target date	Additional audit procedures
<b>Audit findings</b>		
<p><b>Payroll validation</b></p> <p>Our systems testing has identified that there is no formal control in place to regularly validate payroll standing data. This was reported in our 2016/17 Annual Audit Plan.</p> <p><b>There is a risk of employee overpayments occurring.</b></p>	<p>A process will be implemented to ensure Heads of Service sign off on the employees which should be live on the system each year as part of the budget setting process. This process is in place for FCR at present. This was produced for External Audit to review. A checklist is in place to review all parameters set up in the system to ensure these are correct, for example pension deduction rates.</p> <p>Officer: Helen Mackenzie</p> <p>Target date: November 2017</p>	<p>We will carry out additional verification and existence substantive sample testing as part of our year end procedures.</p>
<p><b>Authorised signatory lists</b></p> <p>An authorised signatory list is in place within the payroll department. The list is sent to departments annually to confirm it is up to date. However, only Finance and Corporate Services responded to Payroll's latest request in August 2016. As a result, Payroll are still working from previous, out of date authorised signatory lists.</p> <p><b>There is a risk of unauthorised changes to payroll data.</b></p>	<p>A review of authorised signatories being carried out by Purchase to Pay will result in an up to date and comprehensive list for all departments being put in place. This review is scheduled for completion by the end of June 2017. The list can then be shared for viewing by all relevant teams who need to check for authorisation.</p> <p>Officer: Helen Mackenzie</p>	<p>We will review a sample of changes to payroll data to ensure that these are authorised by appropriate officers.</p>
<p><b>Council tax reconciliations</b></p> <p>A review of reconciliations between the ledger and key financial feeder systems was carried out. For all</p>	<p>Whilst the new Revenues and Benefits IT system was being implemented decisions were made by the Head of</p>	<p>We identified this as an isolated weakness in preparation and</p>

Issue identified	Management response, responsible officer and target date	Additional audit procedures
<p>systems there is clear evidence of follow up and of management review. However, for a number of the council tax reconciliations (control account and reliefs), preparation and review of the reconciliations had not been carried out in a timely manner.</p> <p><b>There is a risk of errors or irregularities not being identified on a timely basis, resulting in inaccuracies in council tax accounts.</b></p>	<p>Procurement and Exchequer Services as to what work tasks could be put on hold in order to prioritise new system testing and training. Whilst recognising there could be a risk relating to a delay in monthly reconciliations, she determined that this was lower than the risk to project delay.</p> <p>Reconciliations have subsequently been brought up to date and performance in previous years demonstrates that this was a planned delay rather than systemic failure in getting this work done.</p> <p>Officer: Helen Mackenzie</p>	<p>review of reconciliations as a result of system testing. We have confirmed that this weakness did not lead to any errors or irregularities remaining undetected or uncorrected. We do not intend to revise our planned audit procedures.</p>
<p><b>Change to suppliers' details</b></p> <p>When receiving details from a supplier regarding change of bank details, an important control would be to contact the supplier directly using contact details from an independent source to confirm the change. This control guards against fraudulent changes.</p> <p>Sample testing of 10 changes to supplier bank detail forms identified that three did not have any evidence of a confirmation check of the details with the supplier.</p> <p><b>There is a risk of exposure to fraud as not all requests to change bank details are verified from an independent source.</b></p>	<p>The wording of the Creditor Request Form is being reviewed to ensure relevant checks are documented when carried out by the Purchase to Pay Section.</p> <p>Officer: Helen Mackenzie Target date: July 2017</p>	<p>We will ask officers to check, through positive confirmation, any changes to bank details for suppliers in our sample with significant transactions.</p>
<p>Source: Audit Scotland</p>		

**10.** 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 Comhairle nan Eilean Siar.

**11.** 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).

**12.** 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.

## Comhairle nan Eilean Siar

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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)