

# Glasgow City Council

Interim Audit Report 2016/17



 AUDIT SCOTLAND

Prepared for Glasgow City Council  
July 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

## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Glasgow City 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 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. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.
4. We did identify several areas where there is room for improvement to existing controls as summarised in [Exhibit 1](#) overleaf.

## Work summary

5. 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.



Bank reconciliations



Payroll controls



IT access



Budgets

6. 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. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

7. 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.

### Follow up of the 2015/16 interim work

8. Last year our interim work covered three distinct areas: a review of internal controls, a review of non-domestic rates system and a review of accounts receivable system. These reviews identified a total of 34 issues which were reported to management as part of the 2015/16 audit. We have followed up these issues to ensure that progress has been made in implementing the agreed actions.

9. One action relating to the non-domestic rates system has not yet been implemented. An update to this action has been included in [Exhibit 1](#).

### Risks identified

10. 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.

11. 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 Glasgow City Council.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<b>NDR income reconciliation</b>		
The reconciliation of the payments received through the NDR system to the general ledger is normally completed and reviewed within 7 days of the period end. During sample testing we identified instances of delays of over a month between the period end and the completion and review of the reconciliations.	Reconciliations are targeted for completion and review within 7 days of the period end and we will complete these timeously moving forward.	Operations Manager, Financial Services  Sept 2017
<b>There is a risk that financial or data transfer discrepancies are not identified and resolved timeously.</b>		
<b>Treasury management reconciliation</b>		
Monthly reconciliations are prepared between the Logotech treasury management data and the general ledger balances and transactions. During audit testing we noted the December 2016 reconciliation was not completed until March 2017.	Treasury Management Reconciliation issue has been addressed and action completed.  Reconciliations for 2017/18 are planned for completion following each period end.	Head of Corporate Finance  Completed

Issue identified	Management response	Responsible officer and target date
<p><b>Significant delays in conducting and reviewing reconciliations increase the risk of errors and fraud.</b></p>		
<p><b>Internal SAP Reconciliations</b></p>		
<p>The internal modules of the SAP financial system are reconciled each period to ensure they balance. At the time of audit testing in May 2017, reconciliations had only been completed up to October 2016.</p>	<p>Reconciliation to March 2017 complete. An additional two members of staff will be trained to ensure resource is in place to carry out this task timeously in 2017/18.</p>	<p>Head of Service Development  September 2017</p>
<p><b>Significant delays in conducting and reviewing reconciliations increase the risk of errors and fraud.</b></p>		
<p><b>Journals over £50k</b></p>		
<p>Evidence of Finance Manager approval for all P5 and P9 journals over £50k could not be provided.</p> <p><b>Unauthorised journals present the risk of invalid/incorrect journals adversely impacting financial management and reporting.</b></p>	<p>Enhanced monitoring arrangements have been established and retention period set in line with council policy. Use will be made of EDRMS to log for each period the email going to the Finance Managers in each of the Services and then a record of their response which would evidence action on the recommendation.</p>	<p>Head of Service Development  Completed</p>
<p><b>Follow up of 2015/16 Review of Non Domestic Rates System</b></p>		
<p><b>Debt collection agency</b></p>		
<p>The council employs an external debt collection agency to recover unpaid NDR balances. In accordance with the terms of the service level agreement, a process should be developed to agree the accuracy of the volume and value of cases passed to the collection agency by the council.</p> <p>Such a process has not been developed.</p> <p><b>Arrears recovery action is not being taken in all appropriate cases resulting in further delays or loss in the receipt of income.</b></p>	<p>The Council has worked with its Debt Management Partner (DMP) to establish an appropriate regime for confirming caseload accuracy. An exercise against existing caseload has commenced and is due to be completed end of July 2017. Thereafter all new cases passed to the DMP will be subject to an audit regime to confirm the value and volume of cases loaded on an ongoing basis.</p>	<p>Operations Manager, Financial Services  July 2017</p>
<p>Source: Audit Scotland</p>		

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