Inverclyde
council

Report To:	**Audit Committee**	Date:	**23 April 2019**
Report By:	**Chief Financial Officer**	Report No:	**FIN/47/19/AP/CA**
Contact Officer:	**Alan Puckrin**	Contact No:	**01475 712223**
Subject:	**Management Report - 2018/19**		

1.0 PURPOSE

1.1 The purpose of this report is to bring to the Committees attention the Management Report issued by Audit Scotland following a review of the internal controls and financial systems as part of the 2018/19 Annual Audit.

2.0 SUMMARY

2.1 Each year the Councils External Auditor issue a Management Report in respect of interim audit work carried out to date. Appendix 1 is the management report received from Audit Scotland for 2018/19.

2.2 The report covers work carried out testing key controls within financial systems. The 2018/19 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, budget monitoring and control and IT access controls.

2.3 The Management Report identifies two issues; one issue in relation to payroll validation and another regarding payroll system access. Management responses regarding these two issues are included in the Appendix and progress will be monitored via the regular updates to Committee.

2.4 A representative of Audit Scotland will be present at Committee to answer any questions which Members may have on the contents of the Management Report.

3.0 RECOMMENDATIONS

3.1 It is recommended that Committee note the contents of the Management Report received from Audit Scotland and the matters arising.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 Audit Scotland are required to assess the systems of internal control put in place by management. Each year the Council's External Auditor will issue a Management Report in respect of work carried out to date. Appendix 1 is the Management Report received from Audit Scotland for 2018/19.

5.0 DRAFT MANAGEMENT REPORT

5.1 The overall conclusion of the report is that the Council has in general, appropriate and effective internal controls in place for the systems reviewed.

5.2 The Management Report identifies two issues; one issue in relation to payroll validation and another regarding payroll system access. Management responses regarding these two issues are included in the Appendix and progress will be monitored via the regular updates to Committee.

6.0 IMPLICATIONS

6.1 **Finance**

There are no financial implications arising from this report.

Financial Implications

Any financial implications are highlighted in the report.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

6.2 **Legal**

There are no legal implications.

6.3 **Human Resources**

There are no HR implications arising from this report.

6.4 **Equalities**

The report has no impact on the Council's Equalities policy.

6.5 **Repopulation**

There are no repopulation implications arising from this report.

7.0   CONSULTATIONS

7.1   The contents of the Management Report have been discussed and agreed with the Chief Financial Officer and Officers from Human Resources.

8.0   BACKGROUND PAPERS

8.1   None

Inverclyde Council
Management report 2018/19

AUDIT SCOTLAND

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Inverclyde Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems 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 annual 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 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, we are currently carrying out work on the audit dimensions as required by the *Code of Audit Practice*. This focusses on financial management, financial sustainability, governance and transparency and value for money.

Conclusion

4. Two significant key control weaknesses were identified from our interim audit work as summarised in Exhibit 1 overleaf. 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 2018/19 annual accounts.

5. In general, appropriate and effective arrangements were in place for all key financial systems. Work on some systems is ongoing but we do not anticipate any other significant weaknesses in addition to those in Exhibit 1.

6. In terms of our wider dimension audit work, this is ongoing and will inform our Annual Audit Report which will be issued in September 2019.

Work summary

7. Our 2018/19 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, we tested controls in the following areas: 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**

8. 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.

9. 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.

Risks identified

10. 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.

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 Inverclyde Council.

Exhibit 1
Key findings and action plan 2018/19

Issue identified	Management response, responsible officer and target date	Additional audit procedures
Audit findings		
1. Payroll validation Payroll validation is no longer performed by payroll or HR staff. Service managers are expected to review payroll standing data and report any errors or changes to payroll on an ad hoc basis. Nil returns are not required therefore there is no evidence that this control is operating. **Without positive confirmation, there is an increased risk of incorrect payments being made due to inaccurate payroll records.**	A quarterly temporary workers report is sent out to services detailing anticipated end dates so services can identify and take action where necessary. As part of the Bottom Up Budgeting process, information is collated annually on all employees by service and cross referenced with CHRIS information so any discrepancies can be highlighted. A six monthly validation template report will be set up on CHRIS (with information on Post, Designation, Grade, Salary, Hours, Term Time) – a six monthly email will be sent out to Service Managers asking them to run the report, check, and advise of amendments, or submit a nil return. **HR Manager/Payroll and Admin Team Leader,**	We will substantively test a sample of paid employees to ensure they exist as current employees of the council, through confirmation to other records / management response.

Issue identified	Management response, responsible officer and target date	Additional audit procedures
	First Validation Report July 2019	
2. Payroll system access Sample testing identified one member of HR staff who had inappropriate read/write access to the CHRIS system. The permissions reflected those a Manager would have. **There is a risk that users have inappropriate access rights and are able to make unauthorised changes to the payroll system which could result in fraud or financial loss.**	The service have commenced a full review of menu roles and access privileges to highlight any anomalies and will use this User Privileges Report on a six monthly basis going forward. **HR Manager/Payroll and Admin Team Leader,** **Initial Review complete, first 6 monthly review June 2019**	We will consider the review undertaken by management and extend our testing of employees who have access to the Council's payroll system to ensure that these permissions have only been granted to appropriate members of staff. We will also review a sample of changes made to payroll data.

Source: Audit Scotland

2017/18 risks and action plan update

12. Our 2017/18 interim audit identified one control weakness which was reported to the Audit Committee in August 2018. Exhibit 2 outlines the progress made by management where planned action was agreed in response to the audit recommendations made.

Exhibit 2
Key findings and action plan 2017/18

Issue identified	Management response, responsible officer and target date	Progress
Audit findings		
Key control reconciliations Testing identified instances where control account reconciliations had not been adequately signed off by the preparer or confirmed as authorised. A failure to properly document and/or authorise reconciliations increases the risk of error in the system. **There is an increased risk of error in the system not being identified.**	The Finance Manager will formally remind all those involved in the preparation and approval of reconciliations that signatures are required in all cases. **Finance Manager, July 2018**	Testing of key control reconciliations in 2018/19 did not identify any instances where the preparer or person authorising had not appropriately evidenced this. However, monthly payroll reconciliations had not been authorised until up to two months after being prepared. **Recommendation partly implemented.**

13. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Inverclyde Council
Management report 2018/19

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