
Report To:	Audit Committee	Date:	8 July 2021
Report By:	Interim Service Director, Corporate Services & Organisational Recovery	Report No:	FIN/32/21/AP/LA
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Audit Scotland Management Report – 2020/21		

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 2020/21 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 2020/21.
- 2.2 The report covers work carried out testing key controls within financial systems. The 2020/21 testing covered key controls in a number of areas including key control reconciliations, payroll controls and exception reporting plus controls and fraud prevention around awarding Covid Grants and discretionary discounts relating to NDR and Council Tax.
- 2.3 The Management Report identifies two issues, one issue in relation to both key control reconciliations and payroll exception reporting. 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
Interim Service Director
Corporate Services & Organisational Recovery

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 2020/21.

5.0 2020/21 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 report covers work carried out testing key controls within financial systems. The 2020/21 testing covered key controls in a number of areas including key control reconciliations, payroll controls and exception reporting plus controls and fraud prevention around awarding Covid Grants and discretionary discounts relating to NDR and Council Tax.

5.3 The Management Report identifies two issues, one issue in relation to payroll exception reporting and another regarding the preparation and review of key control reconciliations. 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 relevant officers.

8.0 BACKGROUND PAPERS

8.1 None

Inverclyde Council

Management report 2020/21



 AUDIT SCOTLAND

Prepared for Inverclyde Council

June 2021

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 2020/21 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. We also carried out work on the audit dimensions as required by the [Code of Audit Practice](#). This focussed on financial management and financial sustainability, governance and transparency and value for money

Conclusion

4. We identified several control weaknesses as detailed in [Exhibit 1](#) and we will be carrying out additional work in response to these findings as part of our audit of the 2020/21 financial statements. In terms of our wider dimension audit work, this is ongoing and will inform our Annual Audit Report to be issued to Inverclyde Council in October 2021.

Work summary

5. In accordance with *ISA 330: the auditor's response to assessed risk*, 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 once we have confirmed that the control environment and operation remain unchanged and no significant weaknesses had been identified.

6. Our 2020/21 testing covered key controls in a number of areas including bank and feeder system reconciliations, payroll controls (including starters, leavers, validation and exception reporting), authorisation of journals and IT access. Additionally, our testing covered key areas for preventing and detecting fraud including the awarding of discretionary discounts and grant payments in relation to council tax, NDR and Covid-19.

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.

Risks identified

8. The key issues identified during the interim audit are detailed in [Exhibit 1](#) and [Exhibit 2](#). These findings inform our approach to the 2020/21 financial statements audit.

9. 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.

Additional audit work due to systems weaknesses

10. Interim testing has identified systems weaknesses which require us to reconsider our audit procedures. The reconciliation issues arose due to access restrictions in relation to Covid-19 and a key member of staff leaving, leading to reduction in the operation of financial controls during the year. We assessed that these weaknesses do not represent additional risks of material misstatement, but we have identified a need to undertake additional audit work during our financial statements audit as follows:

- We will review year end bank and feeder system reconciliations and sample test any significant reconciling items (see [Exhibit 1](#) Key controls reconciliations)
- Our substantive testing of payroll expenditure during the financial statements audit will be increased as a result of the weakness identified in exception reporting (see [Exhibit 1](#) Payroll exception reports)
- In 2018/19, we were advised that an electronic solution was put in place to address our concerns relating to confirmation of standing data for employees. In 2019/20, following difficulty with this solution, payroll distributed validation lists to Heads of Service for confirmation. However, returns for some services have not been made to validate the payroll standing data. We will substantively test a sample of paid employees to ensure they exist as current employees of the council, through confirmation to other records (see [Exhibit 2](#) Payroll validation) targeting the services which have not confirmed employee existence.

Exhibit 1 Key findings and action plan 2020/21

Issue identified	Management response	Responsible officer / target date
<p>Key control reconciliations</p> <p>Testing identified that bank reconciliations had not been prepared or authorised until period 9 of 2020/21. Almost all had not been reviewed or authorised until period 12. This was also the case for monthly feeder system reconciliations.</p> <p>A delay in preparing and/or authorising reconciliations increases the risk of error in the ledger and can increase the risk of fraud.</p>	<p>Monthly bank reconciliations were completed as normal. However, due to staffing changes the review process lapsed. This has now been fully rectified and monthly reconciliation and review has recommenced at the end of January 2021. The Finance Accountant allocated to the monthly review of the main account reconciliation has implemented a 'Reconciliations Control' sheet and has also reviewed and signed off the monthly main account reconciliations from June 2020 on a retrospective basis with the quarterly review also having been completed .</p>	<p>Finance Manager – June 2021</p>
<p>Payroll exception reports</p> <p>Our testing identified that all system generated reports sampled have been</p>	<p>This process was impacted by staff illness and Covid working arrangements. A full review of variance</p>	<p>Payroll & Admin Team Leader - June 2021</p>

Issue identified	Management response	Responsible officer / target date
<p>investigated. However, the policy is to investigate variances of +/- £500 on each report and this was not always adhered to with only larger discrepancies checked in some cases.</p> <p>Transactions on exception reports should be checked to ensure that they are fully supported and accurate.</p>	<p>levels will be conducted and staff will be reminded of the importance of these checks</p>	

Source: Audit Scotland

2019/20 risks and action plan update

11. Our 2019/20 management report identified five control weakness which were reported to the Audit Committee in April 2020. [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 2019/20

Issue identified	Management response, responsible officer, and target date	Progress
<h3>Audit findings</h3>		
<p>Payroll validation</p> <p>In 2018/19 we were advised that an electronic solution was put in place to address our concerns relating to confirmation of standing data for employees. In 2019/20 we were further advised that following difficulty with this solution, payroll distributed validation lists to Heads of Service for confirmation. However, returns for some services have not been made to validate the payroll standing data.</p> <p>Without confirmation, there is an increased risk of incorrect payments being made due to inaccurate payroll records.</p>	<p>An electronic solution, to address our concerns, was put in place last year. This allowed each Service to run their own extracts from chris21 to confirm standing data for their employees. This electronic solution was initially tested within Education Services but there have been some difficulties experienced and it has now proved to be inefficient and problematic. In order to address this matter payroll distributed validation lists to Heads of Service (as previously done) in January 2020 for dissemination to Service Managers. However, returns for some services have not been made to validate the payroll standing data. Management will continue to explore an improved electronic solution for data verification in the longer term.</p> <p>HR Manager/Payroll and Admin Team Leader,</p>	<p>Our testing highlighted that for the November 2020 exercise, one service did not return the required information.</p> <p>Recommendation implemented. However, control not operating as expected.</p>

Issue identified	Management response, responsible officer, and target date	Progress
First Validation Report July 2019		
<p>Key control reconciliations</p> <p>Testing identified instances where bank reconciliations had not been prepared or authorised until up to two months after the period end. We also identified instances where monthly payroll and trade receivables reconciliations had not been authorised until up to two months after being prepared.</p> <p>A delay in preparing and/or authorising reconciliations increases the risk of error in the ledger.</p>	<p>Management will continue to remind all staff involved in preparation and authorisation of bank reconciliations that these should be completed within the appropriate timescales. This process has recommenced. The Finance Accountant is now responsible for carrying out these checks each month and performing a quarterly review.</p> <p>Finance Manager, June 2021</p> <p>Management will ensure that payroll reconciliations will be authorised by the 19th of the month following period end.</p> <p>Payroll & Admin Team Leader, May 2020</p>	<p>See Exhibit 1 Key controls reconciliations. Recommendation not implemented.</p>
<p>Payroll system access</p> <p>We found that authorisation of access privileges for new users of the chris21 system could not be provided.</p> <p>The Council's Information Systems Access Policy requires that system access is not granted to any user without appropriate approval. Authorisation is normally granted following receipt by the Systems Administrator of an email request from the service department. However, following recent staff changes, these were not retained.</p> <p>Confirmation should be retained where authorised users have been granted access and that users have been limited to specific defined, documented, and approved applications and levels of access rights.</p>	<p>Management will review the process for maintaining access for chris21 users.</p> <p>Confirmation will be retained where authorised users have been granted access including limits for access rights.</p> <p>Organisational Development Team Leader, June 2020</p>	<p>Our testing confirmed that the process has been reviewed. Email requests for new user access or updates to current access are now retained. A monthly review of user privileges is also undertaken.</p> <p>Recommendation implemented.</p>
<p>Payroll exception reports</p> <p>Our testing identified that all system generated reports have been investigated with the exception of pay reductions in the May 2019 pay run. We are advised that this was because the April 2019 pay run included large amounts of back pay and almost 800 employees appeared on the reductions list.</p>	<p>Management will continue to undertake exception and sample testing on a regular basis to maximise the detection of errors.</p> <p>Payroll & Admin Team Leader, May 2020</p>	<p>See Exhibit 1 Payroll exception report. Recommendation not implemented.</p>

Issue identified	Management response, responsible officer, and target date	Progress
<p>Transactions on exception reports should be checked on at least a sample basis to ensure that they are fully supported and accurate.</p>		
<p>Debt write offs</p> <p>Our testing confirmed that regular quarterly write-off reports have not been carried out since July 2019. These reports are run to monitor and confirm debts to be written off in accordance with the Council debt recovery policy.</p> <p>There is a risk that debt to be written off in accordance with Council policy is not being identified.</p>	<p>This has occurred due to long term staff absence in a small team. Management will ensure a write-off report covering the period from July 2019 is produced, thereafter quarterly reports will be reintroduced.</p> <p>Revenues & Debt Recovery Supervisor, June 2020.</p>	<p>Our testing confirmed that this has been reintroduced in 2020/21.</p> <p>Recommendation implemented.</p>

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

Inverclyde Council

Management report 2020/21

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk