

# Fife Council

Governance Report 2016/17



 AUDIT SCOTLAND

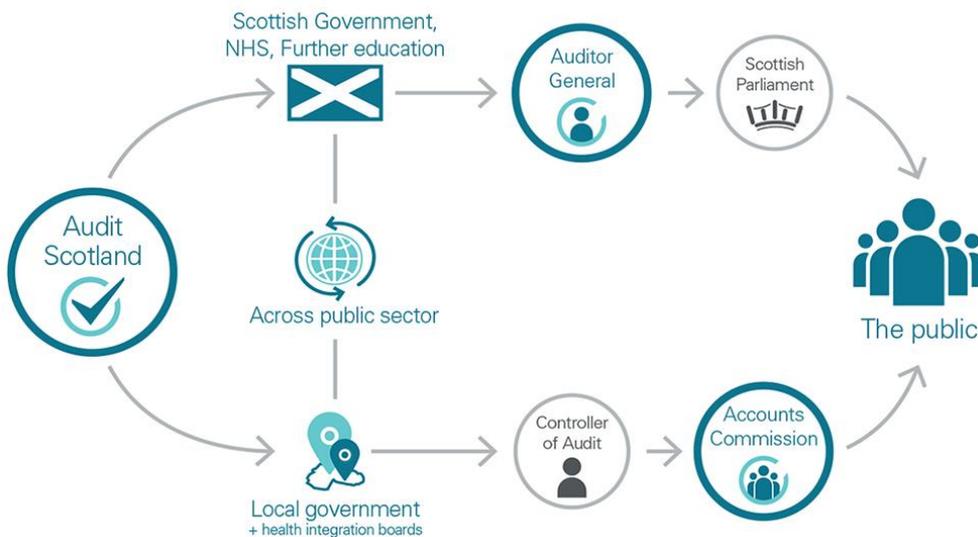
Prepared for Fife Council

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 Fife Council.
2. This work included the 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.
3. 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.
4. Also, under the Code of Audit Practice (2016) we have carried out work on the wider dimension audit , [Exhibit 1](#). This focussed on financial sustainability, financial management and aspects of governance and transparency.

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## Exhibit 1

### Audit dimensions



## Conclusion

**5.** Based on our interim audit work, we have concluded that Fife Council has adequate internal controls over the key systems used for preparing their accounts. This will enable us to take the planned assurance for our audit of the 2016/17 financial statements. Our interim audit work did identify some control weaknesses which if addressed would improve assurance levels. These are summarised in [Exhibit 2](#) overleaf.

**6.** In terms of our wider dimension audit work we concluded that appropriate arrangements were in place for financial planning and financial management. We have identified some improvements in relation to aspects of Governance and Transparency, these are set out in [Exhibit 4](#).

**7.** 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 Fife Council.

**8.** 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).

**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.

## Internal control systems and action plan

**10.** 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**

**11.** The key control risks identified during the interim audit are detailed in [Exhibit 2](#). These findings will inform our approach to the financial statements audit where relevant.

**12.** In our Annual Audit Plan we had proposed placing formal reliance on the work of internal audit in the following areas:

- 2070 - Bank and suspense account reconciliations (council tax)
- 1002 - Purchase to pay system

**13.** The bank and suspense account reconciliation review covered only one of the key systems, and we undertook further work to obtain the assurances required on the remaining systems.

**14.** At the time of this report (June 2017) the Purchase to pay audit review is only partially complete. As a result our conclusions are based on our own testing of the key controls outlined above. We have liaised regularly with internal auditors and considered emerging findings on this work. The scope of the internal audit review is

broader than our own work and we will consider the finalised reports as part of our overall conclusion on financial management in our Annual Audit Report.

## Exhibit 2

### Internal Controls key findings and action plan

Audit finding	Management response, responsible officer and target date	Additional audit procedures
<b>Audit team controls work</b>		
<p><b>1 User Access Controls - ERP</b></p> <p>A review of current access lists for the ERP system identified 764 users with access to the purchasing system that have never logged on and 286 who have not logged on during 2016/17. There are no formal periodic reviews of on-going access levels carried out by the system administration team.</p> <p><b>Income</b></p> <p>A review of current access list for the ASH/E-Go system identified 36 enabled users who have never logged on and 7 users who have not logged on during 2016/17. Current controls including regular reviews of on-going access levels and automatic lock out time limits are not operating effectively</p> <p><b>Employees retaining access levels inappropriate for their current roles increases the risk of fraud and error in the systems. Infrequent use of systems by employees increases the risk of errors occurring.</b></p>	<p><b>ERP</b></p> <p>While reviews have been taken and Managers asked to identify accounts which no longer require access, these are periodic and not formally time-tabled. We propose that these will be formally timetabled and produced on a quarterly basis. To avoid leaving access open unnecessarily, we will advise Managers that access has been suspended for identified inactive accounts, and will request, by return, a request for reactivation of access with a reason and stipulated period of “re-enablement” should that be required. These requests will be logged formally through our First Contact system to ensure future auditability.</p> <p>Accounts which remain inactive and disabled for 6 months (i.e. have had no request for re-activation) will be removed from the system permanently.</p> <p><b>Competency Centre Manager</b></p> <p><b>August 2017</b></p> <p><b>Income</b></p> <p>The Business Rates and Income Recovery Team will review the access list on a quarterly basis disabling users who have not used the system for over 180 days</p> <p><b>Revenues Lead Officer - Business &amp; Banking</b></p> <p><b>Immediate</b></p>	<p>We will review the access list at the year end and confirm that these users have not processed any transactions in 2016/17 and confirm whether action has been taken by management to revise access rights.</p>

Audit finding	Management response, responsible officer and target date	Additional audit procedures
<p><b>2 Reconciliations of feeder systems</b></p> <p>Our testing of the reconciliations between the General Ledger and the payable and receivables systems found no evidence of formal review by another member of staff</p> <p><b>Reconciliations are a key control in detecting fraud or error in the accounting system. Timeous, independent reviews reduce the risk of the control becoming ineffective.</b></p>	<p>The review of the monthly reconciliations will be evidenced in future.</p> <p><b>Accountant, Compliance, Finance Operations</b></p> <p><b>July 2017</b></p>	<p>We will review the year end reconciliation and sample test any significant reconciling items</p>
<p><b>3 Controls over changes to supplier details</b></p> <p>Current procedures in place include a check to confirm the validity of any changes to supplier details. However there is no formal recording of this check,</p> <p><b>Ineffective controls over changes to supplier details increase the risk of fraudulent payments.</b></p>	<p>The use of checklists by staff will provide assurance that these checks are being carried out on a consistent basis</p> <p><b>Procurement Service Manager</b></p> <p><b>August 2017</b></p>	<p>Our substantive testing of expenditure will include checks on in year changes to supplier details</p>

Source: Audit Scotland

## Governance and transparency

### Standards and Audit Committee

**15.** Fife Council's Standards and Audit Committee is a key element of the organisations governance arrangements. Our observations on the operation of the committee during 2016/17 has confirmed that it operates broadly in line with guidance, however there are a number of areas where there is scope to enhance scrutiny and adopt best practice:

- No formal private meetings between the committee members and external audit have taken place
- Only a summary of internal audit reports are made available to members in advance of the meeting, leading to members requesting sight of the reports at the meeting itself. Providing member with access to full reviews in advance will enhance the level of scrutiny provided at the meeting.
- There is limited officer attendance at the meetings. Members with questions about issues identified on an internal audit review are routinely answered by the Head of Audit & Risk Management Services rather than the head of service or appropriate officer. Scrutiny would be enhanced if members had the opportunity to question the responsible officers in relation to significant findings.

#### Exhibit 4 - Point 1

### Fraud

**16.** A key tool in preventing and detecting fraud within an organisation is the provision of training and promoting awareness for relevant staff on existing and emerging fraud issues. The Council's Strategy for the Prevention and Detection of

Fraud states that "*training and guidance is vital in maintaining the effectiveness of the strategy.*" Fraud awareness training is provided to staff as part of standard induction procedures, and to revenues staff on an ad-hoc basis but a regular comprehensive programme of on-going sessions for employees in key positions is not currently in operation.

#### Exhibit 4 - Point 2

## Financial Management

**17.** In February 2016 the council approved a balanced revenue budget of £761.3 million. In order to balance the budget a funding gap of £29.4 million had to be closed. The budget included £40 million of savings and £10.6 million of additional spending. The savings included the removal of the provision for demographic pressures (£9 million), permanent savings (£11.7 million), operational savings (£5.5 million) and temporary savings (£13.8 million).

**18.** During the year four full revenue budget monitoring exercises were undertaken with reports presented to both executive and scrutiny committees [Exhibit 3](#). The reports include both narrative explanations of variances and movements alongside detailed tables setting out the provisional outturn figures which are updated following a review of year to date expenditure. The monitoring reports also include information on the achievement of the budgeted savings. The February 2017 report forecasted that 86% of the savings were likely to be achieved. Due to the timing of committee meetings, reports are reviewed by committees two to three months after the period end.

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## Exhibit 3

### Revenue Budget Monitoring arrangements

Period End	Executive Committee	Provisional Outturn General Fund Surplus	Scrutiny committees
3 (June)	20th September 2016	£4.4 million	4th October 2016
5 (August)	15th November 2016	£4.6 million	29th November 2016
7 (October)	24th January 2017	£3.5 million	14th February 2017
9 (December)	28th February 2017	£5.6 million	14th March 2017

Source: Fife council budget monitoring reports 2016-17

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**19.** In the intervening periods, additional budget monitoring exercises take place focusing on account areas designated as higher risk. Any major issues emerging from these reviews would be escalated to the Council Executive Team (CET).

**20.** Appropriate arrangements are in place to allow the council to identify and respond to any issues through the budget monitoring process. While there is a two to three month delay between the month end and the presentation of information to members, processes are in place for key stakeholders such as service heads and the CET to respond to any variances in advance of the committee meeting.

**21.** Throughout 2016/17 the council reported an anticipated year end surplus against the budget. This figure fluctuated from a low of £3.5 million to a high of £5.6 million reported in February. The February figure was reached despite a £2.9 million service overspend (most notably on Health & Social Care). This was offset by corporate underspends on contingencies and loan charges and higher than forecasted income from council tax.

**22.** Under the Integrated Joint Board arrangements an overall overspend by the IJB may need to be covered by additional funding from the partner bodies. The amount is based on an agreed proportion calculated on the initial levels of funding from each body.

## Financial Sustainability

**23.** Financial sustainability is concerned with the robustness of the financial planning arrangements in place to identify and address financial risks in the medium (two to five years) and longer term (longer than five years).

**24.** For several years officers have developed and utilised a budgeting model to forecast expenditure and income levels over the next 10 years. The model makes use of population data from the National Office of Statistics and the expertise of service staff to predict increasing or decreasing demands for services. While income forecasts are limited by the availability of UK and Scottish Government spending plans, the council have used figures put forward by a public affairs think tank to calculate best case, worst case and a medium case scenario for funding levels.

**25.** These forecasts are used as part of their budget planning process. Councillors are presented with the headline funding and expenditure forecasts for a 3 year period each cycle to give them a sense of the funding gap which needs to be closed. Each year services are tasked with identifying a raft of efficiency savings (both temporary and permanent) in order to close the gap. Councillors make the final decision on whether to adopt all or a selection of the identified savings to present a balanced budget.

**26.** Given the size of forecasted budget gaps in 2018/19 and 2019/20, the Council have recognised that they will need to go further than the existing annual budget process for identifying savings. In December 2016 the CET agreed to launch a new improvement programme "enabling change". The programme is designed to build on previous improvement programmes including the Shared Support Service programme (3S). The central programme management team are supporting services in identifying opportunities across a number of work streams. Initial savings targets for the programme of £35 million across the next three years are not sufficient to fill the current forecasted funding gap and shortfalls of £32.8 million (2018/19) and £40.5 million (2019/20) remain. Progress with establishing the Enabling Change programme will be reported in our Annual Audit Report

**27.** In April 2017 the Executive Director of Finance and Corporate Services produced a revised medium term financial strategy which has been approved by the CET. This has recommended a number of changes to the budget process and a revised approach to the reserves policy. Steps will be taken to remove any contingencies in annual corporate budgets, and the council will align their planned reserve level to match an estimate of financial risks identified by the council. The current policy is to hold a minimum of 2% of gross expenditure in uncommitted reserves (£15 million). As at 1st April 2016 their uncommitted reserve of £25 million was their lowest level in the last 5 years. Initial estimates of financial risk indicate that the council will need to take steps to make increases to their uncommitted general fund reserve.

**28.** At this point there has been limited involvement of members in the development of the financial strategy, however this will be submitted for approval once the new administration's governance arrangements are established. Following approval, Fife council will have a coherent medium term financial strategy in place and by establishing the transformation programme it has demonstrated steps are being taken to address its financial sustainability.

## Exhibit 4

### Wider dimension key findings and action plan

	Issue identified	Management response	Responsible officer and target date
<b>Governance and Transparency</b>			
1	<p><b>Standards and Audit Committee Operational Arrangements</b></p> <p>Our initial observations of the operation of Standards and Audit Committee have identified 3 areas where improvements would enhance scrutiny levels</p> <ul style="list-style-type: none"> <li>• Private meetings between external audit and members</li> <li>• Increased availability of full internal audit reports prior to meetings</li> <li>• Attendance of relevant council officers to answer questions in response to internal audit reviews</li> </ul> <p><b>There is a risk that the Standards and Audit Committee provides an ineffective level of scrutiny.</b></p>	<p>The holding of annual private meetings between members and external audit has been agreed by the previous committee and chair.</p> <p>It has been agreed that online access to IA reviews will be given to members.</p> <p>Where satisfactory actions have been agreed and the Post Audit Review Reports show actions are being completed as agreed it has not been the practice to invite officers to attend to answer questions. The option is however there and can be exercised at any time. The view of the Chair is normally sought prior to or at the pre-agenda meeting and after considering the reports members at Committee can ask for officer attendance.</p> <p>The ARMS Manager will seek the views of the Chair and the Committee on this matter.</p>	<p>Audit &amp; Risk Management Service (ARMS) Manager</p> <p>June 2017</p>
2	<p><b>Fraud Training</b></p> <p>The provision of training and guidance for employees is an important element in fraud prevention and detection. While fraud awareness training is provided on induction, there is limited provision for on-going training or awareness sessions for key staff</p> <p><b>There is risk that finance and revenue staff are not alert to emerging fraud risks.</b></p>	<p>Audit and Risk Management Services have just created a Corporate Fraud Resource and the planned actions of this Team include the carrying out of a fraud risk assessment and training session for the Extended Council Management Team</p>	<p>ARMS Manager</p> <p>September 2017</p>

# Fife Council

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