

Clackmannanshire Council

Interim Audit Report 2016/17



 AUDIT SCOTLAND

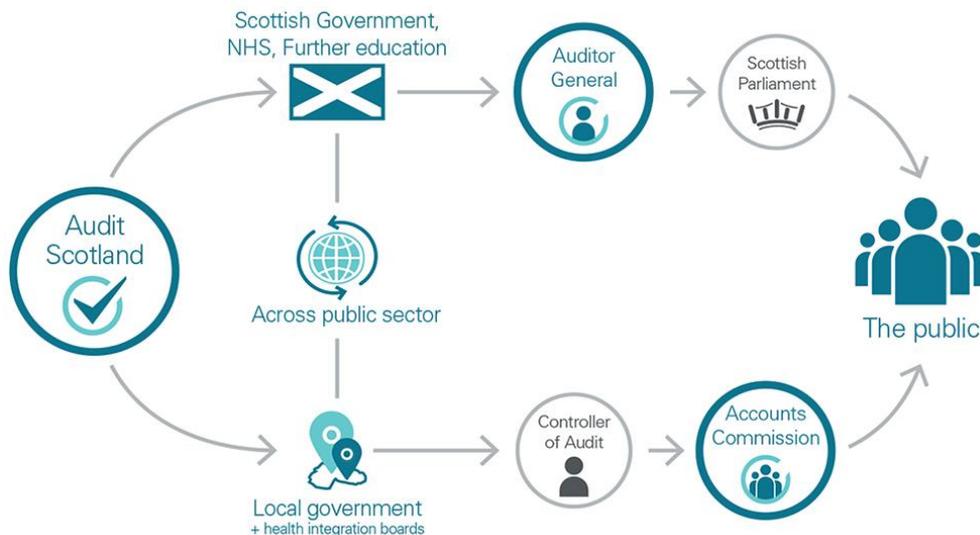
Prepared for Clackmannanshire Council

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.
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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 summarises the key issues identified during our interim audit work at Clackmannanshire Council (the council). This work included testing of key controls within financial systems to gain assurance over 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. We identified some areas where controls were not operating as expected or where improvements could be made. There are summarised in Exhibit 1 below. We will carry out additional audit work in response to these findings. This will enable us to take the planned assurance for our audit of the 2016/17 financial statements.

4. The matters raised in this report should be considered as part of the council's assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement.

Work summary

5. Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, authorisation of journals and system access controls.

6. At the time of reporting, we had not received all the information required to complete our planned programme of interim testing and assurance. We will carry out further work in June and will report any significant matters arising in our final report on the year's audit.

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 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.

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 the council.

Exhibit 1

Key findings and action plan 2016/17

Issue identified	Management response Responsible officer and target date	Additional audit procedures
Audit findings		
<p>Financial management</p> <p>Several documents which set out the council's financial management and governance arrangements are out of date and contain references to previous structures and roles. These are:</p> <ul style="list-style-type: none"> • Standing Financial Instructions (last reviewed 2008) • Scheme of Delegation (last reviewed 2014) • Corporate Debt Write-off Policy (last reviewed 2012). <p>There is a risk that differences between written procedures and actual processes and structures leads to key controls not being complied with.</p>	<ul style="list-style-type: none"> • Financial Regulations have been reviewed in both 2014 and 2016, though submission to members for approval was deferred to allow for further changes relating to the implementation of the new finance system Tech One. The updated regulations will be submitted to members for approval. • The Scheme of Delegation has been discussed by the Chief Executive and Head of Resources and Governance and will be submitted to the council for approval during 2017. • The Corporate Recovery and Write-off Policy was significantly updated in 2012 at the same time as a detailed annual write off report was implemented. The policy is scheduled for review during 2017 and the review is being taken forward by the Revenues Manager. Responsible Officer: Head of Resources and Governance. Target date: December 2017. 	<p>We will test a sample of the council's income and expenditure as part of our year end audit.</p>
<p>Reconciliations</p> <p>Bank reconciliations and income reconciliations were not carried out regularly in the first half of the 2016/17 Financial Year. This led to a backlog of work and additional resource was deployed later in the year to bring them up to date.</p> <p>The purpose of regular accounting reconciliations is to identify errors or unknown items close to the time they occur. A delay in reconciling bank and income transactions leads to a risk that potential frauds or errors are not identified timeously or investigated effectively.</p>	<p>There have been capacity issues within the Accountancy Team during the year due to unforeseeable circumstances. As a consequence there was a lag between identifying and commissioning backfill.</p> <p>All reconciliations were up to date in order to finalise the year end position.</p>	<p>We will review the reconciliations as part of our year end audit.</p>
<p>Exception reporting</p>	<p>The council is implementing Tech One on a phased roll out basis. The requirements for</p>	<p>We will test a sample of the</p>

Issue identified	Management response Responsible officer and target date	Additional audit procedures
<p>Exception reporting helps officers to identify unusual transactions that merit further review and investigation. The council implemented a new financial ledger in April 2016 and is still developing exception reporting. In addition, no exception reports are produced by the housing rents system.</p> <p>There is a risk that unusual transactions are not identified and investigated resulting in errors in the annual accounts.</p>	<p>exception reports are under review and include the Housing Rents system. There are a number of standard exception reports available in the system and development of further exception reports will be carried out during 2017/18 once the requirements are finalised.</p> <p>Responsible Officer: Chief Accountant. Target date: December 2017.</p>	<p>council's income and expenditure as part of our year end audit.</p>

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

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