

Scottish Borders Council Interim Audit Report 2016/17



Prepared for Scottish Borders 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

Introduction

1. This report contains a summary of the key issues identified during our interim audit work carried out at Scottish Borders Council ('the 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.

3. Also, under the Code of Audit Practice (2016) we have carried out work on the wider dimension audit. We have reviewed the council's approach to financial planning and will be carrying out work on financial governance and transparency in the coming weeks. We will report our findings in these areas in our Annual Audit Report.

Conclusion

4. Based on our review and testing of the main financial systems, and subject to management addressing the points raised in the action plan, we have concluded that Scottish Borders Council:

- has adequate systems for recording and processing transactions to ensure financial statements are appropriately prepared and the council's assets are effectively managed
- has systems of internal control which provide sufficient means of preventing and detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulation.

Work summary

5. The following table summarises the key systems that we have tested in our interim audit for financial year 2016/17.

Key System	Audit coverage
Payroll	√ (including internal audit reliance)
General Ledger	√
Trade Payables	√ (including internal audit reliance)
Trade Receivables	√
Cash and Banking	√
Treasury Management	√
Council Tax and Non Domestic Rates	√ (including internal audit reliance)
Pensions Administration	√

6. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

7. In an effort to avoid duplication, our review included re-performing a sample of internal audit work on non domestic rates and creditors controls to limit the scope of our testing in this area. We can conclude that our findings are consistent with internal audit and we can, therefore, place formal reliance on their work in this area.

8. 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

9. 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.

10. We reviewed payroll controls in place at the council. An expected key control is that periodic checks are carried out to ensure that all staff on the payroll are valid employees. Currently the check of staff on payroll and the costs being charged to appropriate budgets is carried out as part of the budget monitoring arrangements, with details being provided to budget holders for review. However, evidence of this check is not routinely recorded.

11. We were advised that in addition to these ongoing reports there is an employee validation check during the budget setting process where Finance staff meet Budget Holders to validate their establishment. In addition to this, Internal Audit carry out independent sample checks to validate employees as part of their work during the year. On the basis of these assurances we have not included this matter in the action plan.

12. 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 Scottish Borders Council.

Exhibit 1

Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
Audit findings		
<p>Bank reconciliations</p> <p>We reviewed a sample of bank reconciliations during the year to confirm that the reconciliations were being carried out and checked timeously. The bank reconciliations for the pension fund bank accounts had not been prepared for four months from November to February.</p> <p>Risk: There is an increased risk of fraud or errors not being identified if reconciliations are not carried out regularly.</p> <p>Recommendation: We recommend that arrangements are put in place to ensure that reconciliations are carried out regularly throughout the year.</p>	<p>Agreed. The normal monthly process for reconciliation of bank accounts was temporarily suspended during 2016/17 due to staffing pressures and the focus being placed on other work related priorities including the implementation of the new ERP system business world.</p> <p>Bank accounts, including the Pension Fund account continued to be monitored by finance staff during the period referred to, although formally documented reconciliations did not take place during this 4 month period. The previous process with documented reconciliations being undertaken and evidenced on a monthly basis has now been re-instated. 2016/17 bank account is now fully reconciled.</p>	<p>Chief Financial Officer 30/6/17.</p>
<p>Supporting documentation</p> <p>We tested a sample of journals back to supporting documentation stored on a shared finance drive. Testing revealed that supporting documentation confirming the reason for the journal, or who authorised it, is not always stored on the shared drive.</p> <p>Risk: There is an increased risk of incorrect journals.</p> <p>Recommendation: Adequate supporting documentation should be maintained demonstrating the reason for journals as well as recording who raised and authorised it.</p>	<p>Agreed. Updated instructions accompanied by training has been issued to all finance staff following the implementation of Business World to ensure appropriate documentary evidence to support journal entries is saved with the journal online</p>	<p>Chief Financial Officer 31/5/17</p>

Source: Audit Scotland

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

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