

Inverclyde Council

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Inverclyde Council
April 2020

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 2019/20 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

COVID-19

4. The audit work contained in this report pre-dates the COVID-19 global pandemic and our audit approach may require further revision once we are clearer about the accounting and auditing frameworks that will apply to the audit of the 2019/20 financial year.

Conclusion

5. Overall, we found the key controls in place within Inverclyde Council's main financial systems operate satisfactorily. We identified several control weaknesses covering the timely completion of bank reconciliations, authorisation of access privileges for new users of the CHRIS system and preparation of debt write-off reports. These are detailed in [Exhibit 1](#) and we will be carrying out additional work in response to three of these findings as part of our audit of the 2019/20 financial statements.

6. The 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.

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

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.

Internal control systems and action plan

9. 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.

10. Our 2019/20 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, changes to supplier bank details, second officer checks over payments, controls over changes to standing data and IT access. Additionally, our testing covered key areas for preventing and detecting fraud including the issuing of credit notes, the awarding of discretionary discounts and grant payments. We also assessed the financial controls within social work services for care payments which also supports the assurances required for the audit of the Inverclyde Integration Joint Board.

Additional audit work due to systems weaknesses

11. Interim testing has identified systems weaknesses which require us to reconsider our audit procedures. 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)
- We will review access privileges for new users of the CHRIS system to ensure that appropriate access rights have been granted (see [Exhibit 1](#) Payroll system access)
- Our substantive testing of payroll expenditure during the financial statements audit will include checks on a small sample of payroll reductions between April 2019 and May 2019 as a result of the weakness identified (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. 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).

Exhibit 1

Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<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</p>	<p>Management will formally remind all staff involved in preparation and authorisation of bank reconciliations that these should be completed within the appropriate timescales.</p> <p>Management will ensure that payroll reconciliations will be authorised by</p>	<p>Finance Manager, May 2020</p> <p>Payroll & Admin Team Leader, May 2020</p>

Issue identified	Management response	Responsible officer / target date
<p>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>the 19th of the month following period end.</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>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>Transactions on exception reports should be checked on at least a sample basis to ensure that they are fully supported and accurate.</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>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>

Source: Audit Scotland

2018/19 risks and action plan update

12. Our 2018/19 management report identified three control weakness which were reported to the Audit Committee in April 2019. [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 2018/19

Issue identified	Management response, responsible officer and target date	Progress
Audit findings		
<p>Payroll validation</p> <p>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.</p> <p>Nil returns are not required therefore there is no evidence that this control is operating.</p> <p>Without positive confirmation, there is an increased risk of incorrect payments being made due to inaccurate payroll records.</p>	<p>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 chris21 information so any discrepancies can be highlighted.</p> <p>A six monthly validation template report will be set up on chris21 (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.</p> <p>HR Manager/Payroll and Admin Team Leader, First Validation Report July 2019</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>Recommendation partly implemented.</p>
<p>Payroll system access</p> <p>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.</p>	<p>The service has commenced a full review of menu roles and access privileges to highlight any anomalies and will use this User Privileges</p>	<p>The department undertook an extensive review over user access to the payroll system in June 2019. This highlighted some anomalies and</p>

Issue identified	Management response, responsible officer and target date	Progress
<p>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.</p>	<p>Report on a six-monthly basis going forward.</p> <p>HR Manager/Payroll and Admin Team Leader,</p> <p>Initial Review complete, first 6 monthly review June 2019</p>	<p>inappropriate access rights that were then corrected. Management have since taken the view that an annual review is sufficient and do not plan to undertake a further review until June 2020.</p> <p>Recommendation implemented, however see Exhibit 1 Payroll system access.</p>
<p>Key control reconciliations</p> <p>Testing identified instances where monthly payroll reconciliations had not been authorised until up to two months after being prepared. A failure to properly document and/or authorise reconciliations increases the risk of error in the system.</p> <p>There is an increased risk of error in the system not being identified.</p>	<p>The Finance Manager will formally remind all those involved in the preparation and approval of reconciliations that signatures are required in all cases.</p> <p>Finance Manager, July 2018</p>	<p>Testing of key control reconciliations in 2019/20 did not identify any instances where the preparer or person authorising had not appropriately evidenced this. However, there were instances where monthly payroll and trade receivables reconciliations had not been authorised until up to two months after being prepared.</p> <p>Recommendation partly implemented (see Exhibit 1 Key control reconciliations).</p>

Wider Dimension Audit Work

Financial Management

Budget monitoring projects a year-end surplus for 2019/20

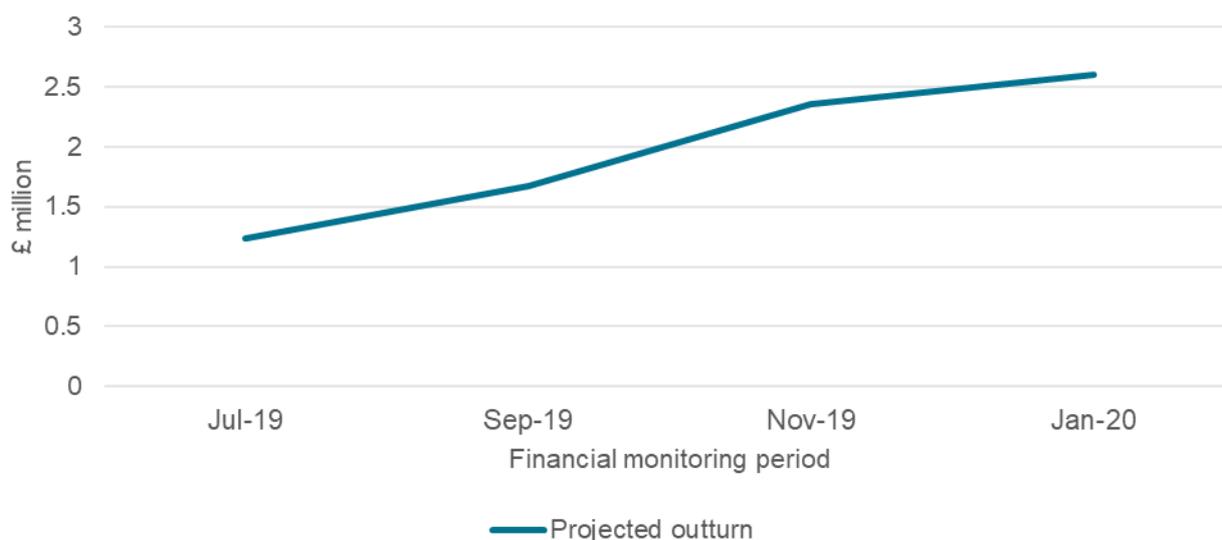
13. The council effectively monitors the budget position through bi-monthly budget monitoring reports to the Corporate Management Team and the Policy and Resources Committee. In addition, performance against budget for each service area is reported to the relevant service committee. Detail of how the year end outturn position has developed throughout 2019/20 is included in [Exhibit 3](#).

14. Financial forecasting is an embedded part of management and reporting within the council. From our review of budget monitoring reports, we have concluded that they provide an accurate overall picture of the budget position at service level and include good narrative explanations for significant variances against budget. This allows both members and officers to carry out effective scrutiny of the council's finances.

Exhibit 3

Outturn reporting of the projected year-end surplus during 2019/20

An increasing year-end underspend (including IJB) has been developing throughout the year



Source: Inverclyde Council Revenue Budget Monitoring Reports

The 2019/20 outturn was forecast to be a surplus of £2.6 million at 31 January 2020. This included unused inflation contingencies of £1.1 million

15. The most recent revenue budget monitoring report shows that the 2019/20 revenue outturn is forecast to be an underspend of £2.6 million (1.3%). This is mainly due to release of non-pay and pay inflation contingency not required, a projected over recovery of Internal Resources Interest from the loans fund and a one-off projected underspend due to a reduction in NDR payable for schools relating to prior years.

16. Inflation contingencies of £1.1 million were not required. We reported in our 2018/19 Annual Audit Report that the year-end outturn for at least the last three

years has included a saving due to inflation contingencies not being used (£1.2m in 2018/19; £1m in 2017/18 and £0.4m in 2016/17). This would suggest that inflation contingencies were again set too high in 2019/20.

17. The Chief Financial Officer has explained that the reason this level of inflation contingencies were not required in 2019/20 is that the teachers' pay award and pension increase was not finalised when the budget was set and the Scottish Government had not confirmed how much was being funded centrally.

18. We will review the council's budget setting process for 2020/21 and provide an update in our 2019/20 Annual Audit Report. However, we are informed that the 2018/19 action has been completed with contingencies reviewed and significant reductions made.

Financial sustainability

The 2020/21 budget is based on achieving further savings of £5.8 million

19. The 2020/21 budget was approved by the council in March 2020. The budget was set at £198 million after closing an initial funding gap of £6.7 million through savings of £5.8 million and a 3% council tax increase (£0.9 million). The approved proposals have also resulted in a further general increase of 3% in fees and charges, as well as the loss of 18.5 FTE posts.

20. The council's Members' Budget Working Group (MBWG) has continued to work together successfully. Difficult decisions have been made after careful consideration and debate across political parties. This includes increases in fees and charges and loss of posts, as noted above.

The council has a long-term financial strategy and a medium-term financial plan

21. We reported in our 2019/20 Annual Audit Report that the council has a good process in place for financial planning. The council's financial strategy covers the period 2019/20 to 2028/29. It is updated on a six-monthly basis and ensures that strategic initiatives that require long-term revenue and capital commitments are properly incorporated into the financial planning process. Such longer-term initiatives include the asset management strategy, school estates management plan and roads asset management plan.

22. The strategy provides detailed financial forecasts over the medium-term period 2020/21 to 2022/23 and identifies issues that will impact in the longer-term so that the council can plan ahead. Through this process, officers have identified that the council has a budget gap of £5.4 million in 2021/22 and an additional gap of £5.6 million over the period to 2023. This is a mid-range estimate. Optimistic and pessimistic scenarios for the period 2021 to 2023 are £2.8 million and £18.2 million respectively.

Governance and transparency

The council has made good progress in investigating National Fraud Initiative (NFI) matches and could consider a more proportionate future approach

23. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different

financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. NFI activity is summarised in [Exhibit 4](#).

Exhibit 4 NFI activity



2,788

Matches



2,746 (98%)

Completed/closed
investigations



10

In progress investigations

Source: NFI secure website: www.nfi.gov.uk

24. The council prioritises reviewing and investigating high risk matches but aims to investigate all matches. Since January 2019, when the matches became available, the council has investigated and closed 2,746 matches (98 per cent). To date the council have achieved outcomes from 146 cases concluded as fraud or error with a cumulative value of £27,719 and are progressing the recovery of a further 18 cases, with a cumulative value of £22,437. Outcomes are predominantly from single persons discount fraud or error.

25. The coverage of matches is extensive (98%), compared to our knowledge of other audited bodies and we have proposed that the council might consider introducing a proportionate risk-based approach to future match investigation work. In response, the council have confirmed that they will consider a proportionate, risk-based approach once clarity has been provided on the criteria for each of the categories (high, medium and low) used for the matches.

26. Internal Audit continues to regularly report the outcomes of the NFI exercise to the Audit Committee.

Value for money

Performance management arrangements have been developed with clear links between priorities, indicators and outcomes

27. Following the publication of the Accounts Commission's new [SPI Direction](#) in December 2018, the council carried out a review of its statutory and key performance indicators early in 2019. The aim of the review was to identify a set of measures that would help to demonstrate improved service delivery, linked to the achievement of the council's Corporate Plan organisational priorities and the delivery of outcomes.

28. Within the Corporate Plan 2018-22, each priority is detailed with specific performance indicators and has information on what outcomes are being contributed to by fulfilling that priority.

29. Performance against these indicators is reported within the Corporate Plan Annual Report each year. Each indicator is given a red, amber or green status depending on the performance and progress made. As per the 18/19 Corporate

Plan Annual Report, of the 48 measures for which there is new data available, 25 (52%) have a green status (improved performance), 10 (21%) have an amber status (small decline in performance) and 13 (27%) indicators have a red status (performance has declined by 5% or more). Four measures did not have information available. Each priority includes information surrounding the contributing factors which have resulted in the improvement or decline of each. It also provides details of the next steps to be taken for the indicators which have a red status.

30. The Corporate Plan Annual Report is just one element of the council's strategic planning and performance management framework. Another element is the annual SPI / KPI report. Both performance reports aim to provide a range of information that enables elected members and the public to make an informed judgement on the council's progress in delivering its organisational priorities and in turn, the delivery of improved outcomes for residents.

31. The Statutory and Key Performance Indicators Annual Report 18/19 sets out the Corporate Plan Organisational Priorities numbered 1-10. The report is then framed around these priorities where each KPI is linked to an Organisational Priority. The KPIs are then further explained with narrative explaining 'what the data tells us' as well as 'further information' on where it comes from.

32. The Corporate Plan established 10 organisational priorities for the council, 8 of which support the delivery of the Inverclyde Local Outcomes Improvement Plan (LOIP), with the remainder being 'enabling' priorities that focus on service delivery and its role as an employer. The LOIP sets out the same wellbeing outcomes that were already in place, and sets out three strategic priorities (Population, Inequalities, and Environment, Culture and Heritage). These were agreed from the conclusions of a strategic needs' assessment undertaken in 2017 by the Inverclyde Alliance. The local priorities are also linked to National Outcomes to ensure the alignment is clear. Indicators are also in place to ensure progress against outcomes can be measured.

33. The LOIP Annual Report 2018/19 highlights progress since the introduction of the new Outcomes Improvement Plan in 2017 using key performance data, examples of activities to demonstrate how we are working together to improve the local outcomes. A range of performance indicators have been identified to allow the Inverclyde Alliance to measure progress in achieving their three outcomes. The annual report includes a selection of performance indicators to illustrate how they are doing.

34. In relation to outcomes, progress can be seen in moving towards achievement of these and a clear link is in place between the desired outcomes and the performance indicators in place at both a local and national level. The 'what will be different in 10 years' section in each priority reflects the desired outcome and there is clear ambition and action towards getting there in the LOIP Annual Report.

35. A new 'council performance' web page has been created, which can be found on the performance page of the council's website. Each of the council's organisational priorities has its own web page with performance information collated in the one place, taken from the SPI / KPI report and the Corporate Plan Annual Report 2018/19.

36. A performance summary in the form of infographics has also been developed and is also on each individual page. The aim of this is to provide performance information in a more user-friendly format.

37. Overall, it is evident that performance management and reporting arrangements in place are good. There are clear links in place between corporate priorities, performance indicators, and desired outcomes and accessible reporting of these including KPIs.

Inverclyde Council

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