Angus Council

Management Report 2018/19

VAUDIT SCOTLAND

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Angus 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 2018/19 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 carry out work on the audit dimensions as required by the *Code of Audit Practice*. This will be reported in our Annual Audit Report in September 2019.

4. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during our audit is gratefully acknowledged.

Conclusion

5. We identified several control weaknesses requiring action as summarised in Exhibit 1. We will be expanding our sample testing at final accounts in response to these findings. This will enable us to take the planned assurance from these financial systems for our audit of the 2018/19 annual accounts.

Work summary

6. Our 2018/19 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, we tested controls in the following areas: 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**

7. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. 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 where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

8. We also reviewed the council's progress in addressing the agreed actions in last year's Management Report:

9. Bank reconciliations: In 2017/18, bank reconciliations were being prepared every two months, with a significant gap in preparing the year end reconciliation during the period of accounts preparation (and a significant initial reconciling difference). The finance team's restructure has allowed bank reconciliations to be prepared on a monthly basis from the end of 2018, and the 2018/19 year end bank reconciliation is expected to be available shortly. There is also evidence on the bank reconciliations of review by a second officer, as recommended last year.

10. Group accounts assurance: The audited 2017/18 financial statements of Angus Alive, a component of the council's group accounts, were not available until after the council's accounts were signed off. Additional assurance procedures were required to support our opinion on the group accounts. The council has agreed a timetable with Angus Alive and the external auditors of Angus Alive to ensure the audited 2018/19 figures and proposed audit opinion will be available before the council's 2018/19 group accounts are signed.

11. Scrutiny of external bodies: We reported in 2017/18 that the Scrutiny and Audit Committee had not received any scrutiny reports on Angus Alive after its remit was extended to cover scrutiny of Angus Alive and Angus Integration Joint Board. Arrangements for regular reporting by these bodies were agreed and reports on both these bodies have subsequently been presented to the committee.

Risks identified

12. 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.

13. A recent investigation by the council's fraud team uncovered an income fraud. The investigation highlighted a number of weaknesses in internal control that have been highlighted to management and the Scrutiny and Audit Committee. We will monitor the council's response to the weaknesses highlighted.

14. Any weaknesses identified represent those that have come to our attention during 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 Angus Council.

Exhibit 1

Key findings and action plan 2018/19

Issue identified	Management response	Responsible officer and target date
Audit findings		
Changes to supplier bank details We reported last year that the council was exposed to the risk of fraud in relation to its procedures for confirming the validity of requests to change a supplier's bank details (for suppliers where the council's annual spend is below £100,000). Officers discussed and accepted that level of risk last year and the council continues to accept that risk in 2018/19. **This is a common area of attempted fraud. There is a risk that a fraudulent request to amend supplier bank details would not be identified until the supplier reported non-payment of an invoice.**	A review of internal controls was undertaken when the supplier bank details issue first arose as a significant issue. A risk assessment was undertaken, and Report 126/11 was submitted to committee with proposals of the additional controls to be put in place. The £100k de minimis was suggested and approved. It is not considered that risks have changed significantly subsequently that would necessitate an alternative approach.	Not applicable
General ledger user access rights The system user access list should be regularly reviewed and updated by management to confirm that only current employees hold access rights and that these rights are appropriate to their role. This check is not carried out on a regular (annual) basis. **Without regular review, user access rights may not be appropriate to the user's current role.**	Clients are responsible for informing the Finance Systems Team of those staff who have left the Council or require their access permissions amended. In addition to this, a monthly report is provided from the ResourceLink payroll and establishement system identifying those staff who have left the Council. This is used to remove any ex-staff not informed by clients. An annual review with clients of Integra access permissions is to take place. This has, however, been deferred until the implementation of the Business Support Review as this is anticipated to necessitate a significant overhaul of current Integra access permissions in itself.	Finance Systems & Development Officer 31 August 2019 (dependent upon clarity of Business Support role changes required)
ResourceLink – IT access rights On review of the access rights for the payroll system (ResourceLink) we were unable to confirm the users who had access rights to change standing data within the system. In addition, the audit logs which detail who has made changes to the system have been disabled to improve system performance issues. (The audit logs can extend to several million entries.) **There is a risk that changes could be made to the standing data within the payroll system with no record of who has made the changes.**	A review of access rights and monitoring is currently in progress in response to issues raised in a recent internal audit of Payroll User Access Management. A process is in development to ensure that user access levels can be reported on and are monitored and reviewed on an annual basis. This process is to be established by 30 April 2020. Further to this, it has been established that audit logs are currently enabled but have not been calibrated or reviewed. These will be reviewed in order to ensure that the appropriate parameters are in place and a process put in place to ensure they are being reviewed on a regular basis. A larger scale action looking to implement a central alerts-	ResourceLink Systems & Development Officer 30 April 2020

Issue identified	Management response	Responsible officer and target date
	based Security Incident and Events Monitoring (SIEM) is currently underway by IT with a completion date of 30 April 2020.	
Council tax – confirmation of exemptions or discounts The Council Tax team has not been able to confirm continuing student exemptions or discounts to supporting documentation as educational institutes have not supplied student listings due to GDPR issues. The council should confirm with these educational institutes, involving Legal and Democratic Services as appropriate, that it has a legitimate requirement to obtain student data for this purpose. Students should supply the relevant documentation when they apply for an exemption or discount and inform the council if these circumstances change. **There is a risk that student exemptions discounts have been applied to accounts in error which reduces the council tax collectable by Angus Council.**	It is highlighted that the student listings are purely to assist the Council Tax team administratively. In all cases a discount or an exemption for a student will NOT be added unless this has been verified either via a student list provided by the educational establishment or by securing evidence from the student. Student exemptions / discounts are thus not applied without this evidence and staff continue to be reminded of this requirement. With regard to student lists, these were previously received annually from colleges and universities (Abertay University, Dundee University and Dundee & Angus College) which made verifying the status of students much easier and quicker enabling the more efficient processing of discounts and exemptions. The introduction of GDPR has though caused issues with receiving these lists. For 2018/19 only Abertay University have provided a student list. We are working with Dundee University to create a data sharing agreement which is almost complete and we expect to receive a student list once this is finalised. Dundee & Angus College will no longer send any lists and at present are not entertaining entering into a data sharing agreement.	Not applicable
Group accounts boundary The council does not retain a record of its annual consideration of the group accounts boundary, to confirm that all relevant bodies are included in the group accounts. This has been requested as part of the working papers to support the 2018/19 financial statements. **Without a record of the annual consideration of the council's relationship with and influence or control over related or satellite bodies, the council may not be able to demonstrate the completeness of its group accounts.**	A record will be created on the Group file to record a review of existing flowcharts (some of these will need to be put into the new format) and wider group boundary.	Finance Team Leader (Corporate Support Team 1) 30 June 2019

Issue identified	Management response	Responsible officer and target date
Audit dimensions – issues and risks		
Disaster Recovery Time Objectives not specified Several service departments have yet to provide disaster recovery time objectives to inform the disaster recovery plan. This information indicates how quickly a system needs to be reinstated in the event of disaster recovery (and is linked to how critical the system is). If services do not provide the required information, critical systems may be ranked lower importance (with a longer recovery time) in the planned recovery process. **This could lead to departments not having key systems available to them if the disaster recovery protocol has to be implemented.**	All business continuity plans are being reviewed; this will be completed by June 2019. As part of this review IT requirements are being reassessed in line with recovery time objectives. This will identify the recovery time objectives for all recovery actions relevant to IT, and in addition will inform the work required to ensure that we have resilience in place for our IT systems and network. The purpose of reviewing the IT requirements is to ensure that services understand what can be provided, and where there are gaps that require to be addressed. This will be the subject of a report to Council Leadership Team in August.	Risk, Resilience & Safety Manager 31 August 2019

Source: Audit Scotland

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