

To: Audit, Risk and Scrutiny Board

On: 28 May 2019

Report by: Director of Finance and Resources

Heading: Audit Scotland – Management Report 2018/19

1. Summary

- 1.1 Audit Scotland as appointed external auditors have identified key issues over the course of 2018/19 while undertaking their interim audit work. This work included testing of key controls within the systems and processes used in preparing the annual accounts.
- 1.2 The report contains a summary of their findings and outlines management action to address the issues raised.
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2. Recommendations

- 2.1 To note the report produced by Audit Scotland and the management actions outlined.
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Implications of the Report

1. **Financial** - none
2. **HR & Organisational Development** - none

3. **Community/Council Planning** – none
4. **Legal** - none
5. **Property/Assets** - none
6. **Information Technology** - none
7. **Equality & Human Rights** -
 - (a) The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** - none
9. **Procurement** – none
10. **Risk** – the report outlines the view of Audit Scotland in relation to risks in key systems and processes used in producing the annual accounts; and also the management action planned to mitigate these risks where appropriate.
11. **Privacy Impact** - none
12. **Cosla Policy Position** – none

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Renfrewshire Council

Management Report 2018/19



 AUDIT SCOTLAND

Prepared for Renfrewshire Council
May 2019

2018/19 Audit Work

Introduction

1. This report contains a summary of the key findings identified during the interim audit work carried out at Renfrewshire Council. This work included assessing the design and operation of key controls within financial 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 carried out work on the audit dimensions as required by the [Code of Audit Practice](#). This focussed on financial management, and governance and transparency, specifically looking at budget reporting and capital spending.

Work summary

4. Our 2018/19 testing covered key controls in areas including cash, treasury management, accounts receivable, accounts payable, payroll, capital and general ledger systems. Additionally, we reviewed budget monitoring and control, and rescheduling of the council's capital plans.

5. 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.

Risks identified

6. The key control and wider dimension risks identified during the interim audit are summarised in Appendix 1. These findings will inform our approach to the financial statements audit where relevant.

7. Any weaknesses identified represent those that have come to our attention during the 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 Renfrewshire Council.

Audit findings

Business World

8. Renfrewshire Council implemented an enterprise resource planning system (Business World), in October 2018 which combines finance, HR, payroll and procurement into a single integrated application. The system change was undertaken without any significant issues.

9. The implementation of Business World is ongoing, as elements of the system have not yet been brought online (for example procurement) and other parts continue to fully bed in. As expected, the preparation, implementation and adjustment to a new system on this scale has put additional pressure on staff involved with the implementation process throughout the council.

10. In our 2018/19 Annual Audit Plan we highlighted that the system change increases the risk of financial error particularly in relation to the implementation of a new control environment. As part of our audit work we reviewed and assessed the new processes and related controls in the following systems:

- General Ledger
- Payroll
- Accounts Receivables
- Accounts Payable
- Bank and Treasury Management
- Capital.

11. We also reviewed the process used to transfer data from the previous accounting system into Business World. We tested a sample of balances and transactions that had been transferred to confirm that values were accurately reproduced in the new system and assigned to the appropriate cost codes. We noted no issues with the transfer process or the sample of transferred balances and transactions tested.

Reconciliations

12. Ledger reconciliations are undertaken to provide management with assurance that data recorded in feeder systems is accurately replicated in the general ledger.

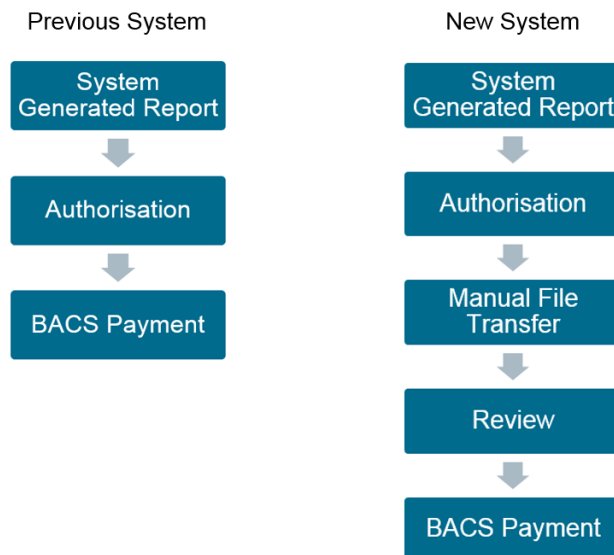
13. Our review noted that the accounts receivable reconciliation can currently only be carried out at council group level rather than for the individual components, for example Renfrewshire Leisure and the Joint Committees. This will have to be corrected as part of the preparation of the annual accounts and increases the risk of misstatement (Appendix 1, Issue 1).

Processing of Daily Payments

14. The implementation of Business World has required interim procedures to be put in place where processes are not fully working as intended. As an example the process for the daily BACS payment of creditors is summarised in Exhibit 1 below.

Exhibit 1

Comparison of payment processing



15. Under the previous system, a daily BACS creditors payment listing was automatically system generated. This was checked and authorised by a member of the accounts payable team before the payments were processed.

16. The daily process in Business World is less streamlined. Firstly, a member of the accounts payable team downloads a listing of due payments to be included in the daily BACS run. This is produced from the system in the form of a report and is authorised by the Creditors Supervisor.

17. The payment cannot be made automatically, instead IT manually transfer the payment data to the required system area. The development team then confirm the correct data was transferred and agrees to the report authorised by the Creditors Supervisor. Following this check the payments are processed through the council's bank account.

18. Where these additional procedures have been put in place, adequate controls have also been implemented. However manual processes are less efficient and with an increased risk of error. (Appendix 1, Issue 2).

Authorisation of Journal Posting

19. Business World allows staff to post journals to the general ledger in two ways. The standard process requires an automated approval by a more senior staff member prior to the journal being posted. Certain types of journal that impact a large number of cost codes do not require approval before posting. A similar process existed in the previous system, and we concluded in our 2017/18 management report that this was low risk due to the small number of staff who had access rights and the mitigating controls in place.

20. Our testing of the journal posting process in Business World highlighted that more than 100 staff had access to post journals without approval. This increases the risk of inaccurate journals being posted. Management should review the staff

who currently have access rights to post journals to ensure this is appropriate. (Appendix 1, Issue 3)

Budget Monitoring

21. Service level revenue budget monitoring reports are taken to council policy boards and a council overview budget monitoring report is taken to the Finance, Resources and Customer Services Policy Board.

22. In our 2017/18 Management Report we recommended that the council should improve the transparency of the budget monitoring reports by improving the reporting of changes to budgets. Management agreed that future revenue budget monitoring reports would include net budget movement information.

23. As part of our 2018/19 audit we reviewed the revenue budget monitoring reports. The narrative sections of the reports now disclose budget changes more clearly. There is still scope to improve the quality and transparency of the budget monitoring reports by including prior period annual budget information (Appendix 1, Issue 4).

24. A review of budget monitoring reports identified an error in the Leisure Service budget reported to the Finance, Resources and Customer Service policy board in January 2019. A budget of £7.573 million was reported rather than the correct balance of £12.430 million. As the budget monitoring reports do not show prior period data the error was not identified.

Reporting of Initial and Final Budget Position

25. The annual revenue and capital budgets are considered and approved by the council before the start of each financial year. Detailed budget proposals are prepared in advance and included in council meeting papers for councillors to consider.

26. The budget proposals in 2018/19 and for 2019/20 were subject to changes by motions agreed at the full council meeting. The budget proposals are not updated to reflect changes agreed by councillors, and an amended budget is not published (however, management reflect the changes for budget monitoring purposes). The agreed changes can be significant. The original 2018/19 budget proposal projected a surplus of £13.638 million, however following changes agreed at the full council meeting the projection changed to a deficit of £1.131 million. To improve transparency an updated budget should be prepared and reported. (Appendix 1, Issue 5).

Payroll Overpayments

27. Our 2017/18 Management Report highlighted that the council had made payroll overpayments totalling £812,255 to 806 current and former employees, of which £439,853 was yet to be recovered. An update to the actions agreed by management is included within Appendix 2.

28. Following our 2017/18 Management Report management issued revised guidance on payroll overpayments to staff.

29. Internal monitoring by the payroll department (Exhibit 2) shows that additional overpayments have been identified totalling £445,630 in the period following our 2017/18 Management Report and that the value of unrecovered overpayments has increased to £720,425. The Council recognises that recovery work in relation to former employees has been impacted by the implementation of Business World and the associated increased workload on payroll and debt-recovery staff.

Exhibit 2

Payroll Overpayments Update

		Value (£)
Reported in 2017/18 Management Report	Overpayments (April 2015 - February 2018)	812,255
	Outstanding (at February 2018)	439,853
Update for 2018/19 Management Report	Additional overpayments	445,630
	Overpayments recovered	165,058
	Outstanding (at 11 April 2019)	720,425

30. The council should continue to review the processes in place to prevent, detect and recover overpayments.

Employee Cost Coding Reallocations

31. Council financial monitoring and forecasting is dependent on expenditure being incurred against the correct budget. This allocation is achieved through cost codes which include information on the type of cost, the related service/department and the associated budget.

32. Finance staff in each service department undertake a monthly review to identify staff costs that require reallocation in the financial ledger. Cost code reallocations may be required in the normal course of business (for example for staff working on temporary projects) but are also required as a result of mis-codings, where the staff have been assigned the wrong cost code. The manual process to identify and correct mis-codings is time consuming, and where these are not amended at source (the payroll system), the same mis-codings must be updated in the ledger on a monthly basis. In the Finance and Resources service 236 of the 1,187 employees required cost coding reallocations in period 12.

33. There is an increased risk that budgeting and forecasting errors, and payroll overpayments are not identified. Management should ensure processes are designed to keep staff cost coding up to date are operating effectively (Appendix 1, Issue 6).

2017/18 Whole of Government Accounts

34. We reported in our 2017/18 Annual Audit Report and in our 2018/19 Annual Audit Plan that the council's submission for the 2017/18 Whole of Government Accounts (WGA) was not received prior to the required deadline.

35. Management were required to submit initial WGA data based on the unaudited annual accounts to auditors by 3 August 2018. A further submission based on the audited annual accounts was due to be provided to auditors to complete our WGA audit and submit the audited return to the National Audit Office (NAO) by their deadline of 28 September 2018. We received managements submission based on the unaudited accounts in October 2019; no submission was received for the audited accounts.

36. We finalised our work on the 2017/18 Whole of Government Accounts and submitted a return to the NAO on 13 February 2019. As the data management submitted for audit was based on the unaudited accounts, we issued a qualified opinion on the 2017/18 WGA submission.

37. Renfrewshire Council's WGA submission was late in both 2016/17 and 2017/18, resulting in a qualified audit opinion in 2017/18. Management should put in place processes to ensure future WGA submissions are prepared in accordance with the required NAO timetable. (Appendix 1, Issue 7)

Capital Rescheduling

38. Renfrewshire Council spent £72.5 million on capital projects in 2017/18, with a further £86.7 million approved for spend in 2018/19.

39. In our 2016/17 and 2017/18 Annual Audit Reports we reported that the council has a history of rescheduling, with capital spend in 2017/18 being £28.437 million lower than planned. Rescheduling has been higher in the housing revenue account, with only 45 per cent of the planned budget being spent in 2017/18.

40. As part of our audit we looked at areas with significant capital rescheduling. To understand the possible impact on the council objectives we:

- analysed capital plans, capital monitoring reports and the underlying capital monitoring data
- reviewed the reports and the supporting data for 2016/17, 2017/18 and 2018/19
- selected a sample of three projects where capital spend had been rescheduled and met with responsible officers.

Analysis of Capital Rescheduling

41. The council approves a 3-year capital plan each year as part of its annual budget setting process. Progress against the capital plan is monitored on a council wide basis through the capital budget monitoring overview report (presented to the Finance, Resources and Customer Service Policy Board) and through more detailed capital budget monitoring reports presented to individual policy boards.

42. As shown in Exhibit 3, a proportion of the capital spend each year relates to underspends brought forward from prior periods. The level of capital rescheduling relating to capital plans 2016/17 and 2017/18 was £52.9 million and £51.2 million respectively.

Exhibit 3 Rescheduling of annual capital plan

Year	Approved Capital Spend* (£ millions)	Capital Spend Relating to Plans Approved in Prior Years (£ millions)	Capital Spend Relating to Current Year Plan (£ millions)	Total Capital Spend (£ millions)	Rescheduling of Current Year Plan (£ millions)
2016/17	£101.6	£17.1	£48.7	£65.8	£52.9
2017/18	£104.4	£19.3	£53.3	£72.5	£51.2

*Includes spend approved by council during the year

43. Although capital rescheduling has led to the deferral of spend to future periods there were limited instances where project budgets were reduced or cancelled. Comparable full year data for 2018/19 was not available at the time of our audit work. However, internal monitoring reports to the end of period 12 (1 March 2019) show rescheduling of £34.1 million against the approved £86.7 million spend.

Reasons for Capital Rescheduling

44. To better understand the cause of capital rescheduling we met with responsible staff for a sample of three projects that had contributed to the rescheduling highlighted in Exhibit 3; St. John Bosco and Bargarran Primary School Shared Campus, Riverbrae School and Darvgavel Village Council Housing.

45. We concluded that the most common cause of rescheduling was a difference between the spending forecast and actual spending profile of a project, although in one case rescheduling was due to issues identified once construction had commenced.

46. Forecasting is challenging however the level of rescheduling across the council in 2016/17 and 2017/18 is significant. Officers acknowledge that a better forecasting to support capital planning, would help reduce the level of rescheduling.

47. The St. John Bosco and Bargarran primary school shared campus project had the largest level of capital rescheduling of the three projects, despite the key phase being delivered ahead of schedule. This highlights that monitoring is not accurately reflecting actual progress on these projects.

48. Rescheduling caused by inaccurate forecasting in the capital budget monitoring reports makes monitoring of capital spend more challenging and increases the risk that genuine slippage is not clearly identified. Management should put in place processes to improve the accuracy of forecasting within the capital budget monitoring reports (Appendix 1, Issue 8).

Council Housing Targets

49. Renfrewshire Council has set a target of building 1,000 affordable homes by 2021, constructed either by the council or by local housing associations.

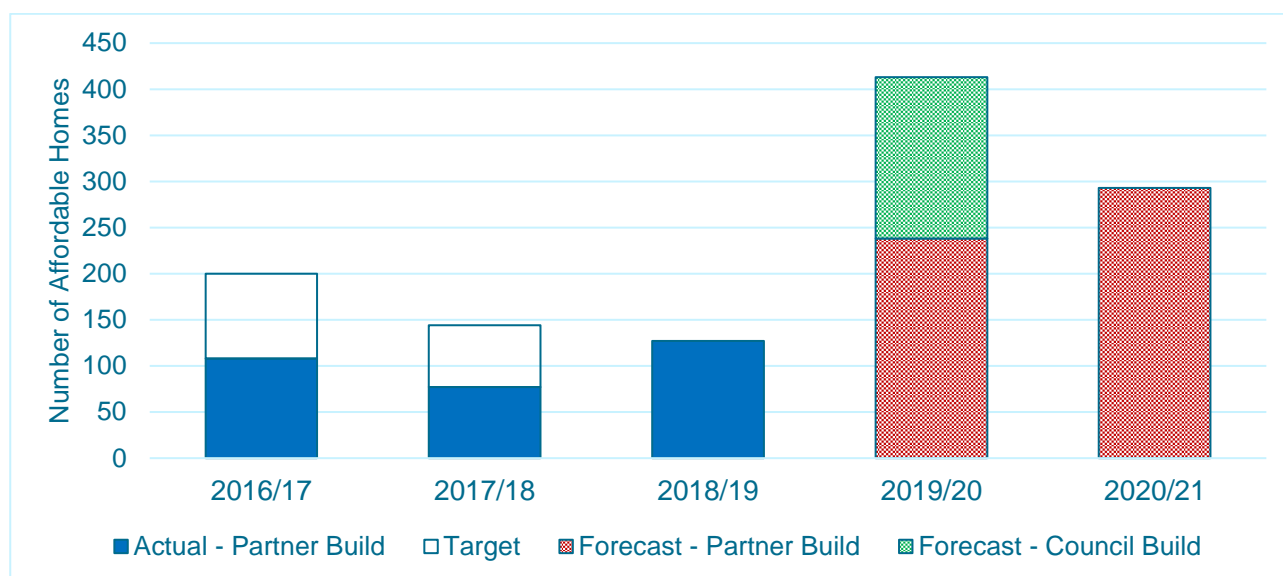
50. The council built 108 of their intended 200 affordable homes in 2016/17 and 77 of the 144 target for 2017/18. Progress is monitored at the Leadership Board through 6-monthly updates of the Council Plan.

51. Due to shortfall in 2016/17 and 2017/18 the status of the affordable housing completion target was listed as “overdue” in December 2018. The targets were not achieved in part due to rescheduling of planned spend on council housing in Dargavel Village. The 2018/19 target of 127 affordable homes looks set to be achieved with the completion of the housing association projects.

52. As illustrated in Exhibit 4, a further 706 affordable homes will need to be completed to achieve the targeted 1,000 by 2021. 175 affordable homes are included in council plans for 2019/20 (the remainder will be built by housing associations). Accurate monitoring and forecasting of these projects is therefore key to ensuring that the council's housing objectives are met.

Exhibit 4

Forecast and actual affordable home construction



Transparency of Capital Monitoring Reports

53. Currently the capital budget monitoring reports provided to members only compare planned annual spend against budget (rather than over the lifetime of a project). The level of detail within the reports did not identify the capital rescheduling highlighted in the examples above (although narrative was included in the reports to the then Education and Children Policy Board to highlight the delay to Riverbrae School).

54. There is a risk that reports are not sufficiently detailed to provide adequate monitoring of council capital spend. This is important as the council continues with significant investment in capital projects including the City Deal projects.

55. For key projects, transparency would be improved if capital budget reports included detail on the:

- estimated completion date and/or date of key milestones
- total project budget
- total project spend to date.

(Appendix 1, Issue 9)

Appendix 1

Key findings and action plan 2018/19

Issue identified	Management response	Responsible officer and target date
Audit findings		
<p>1. Accounts Receivable Reconciliation</p> <p>Following the introduction of Business World, the monthly accounts receivable reconciliation has been carried out at council group level rather than for the individual group components, increasing the risk of error in the annual accounts.</p> <p>Management should implement a process to ensure the reconciliation can be carried out at a component level.</p>	<p>The reconciliation will be analysed to entity level during the year end accounts process, and further development of the process of cash allocation within finance systems will be put in place in order to ensure this reconciliation is sufficiently detailed.</p>	<p>Finance Manager – Financial Accounting</p> <p>July 2019</p>
<p>2. Processing of Daily Payments</p> <p>The implementation of Business World has required additional manual processes to be put in place for the daily processing of payments.</p> <p>Where these additional procedures have been put in place, adequate controls have also been implemented.</p> <p>However manual processes are less efficient and with an increased risk of error.</p> <p>Management should review the daily payments process within Business World to improve the current arrangements.</p>	<p>Management will continue to review processes to ensure Business World is utilised to full advantage and that processes are efficient within a robust control environment.</p>	<p>ERP senior responsible owner</p> <p>March 2020</p>
<p>3. Journal Authorisation</p> <p>A large number of staff can post journals without the standard approval process, increasing the risk of inaccurate journals being posted.</p> <p>Management should review the staff who currently have access rights to post journals to ensure this is appropriate.</p>	<p>Throughout the implementation of Business World existing processes were analysed in the context of ensuring the system operates as efficiently as possible and without modifying the in-built processes, including the reallocation of costs to reflect spend accurately.</p> <p>Additional finance staff have been authorised to post journals which are automatically approved in order to ensure that transaction processing is as efficient as possible. Any significant errors would be highlighted in ongoing budget monitoring; and reports of all automatically posted journals can be audited. The list of those with these access rights will</p>	<p>Head of Finance</p> <p>September 2019</p>

Issue identified	Management response	Responsible officer and target date
	be reviewed regularly, and sample checks of automatically posted journals is being undertaken.	
4. Transparency of Budget Reports Although budget reporting has improved, there is scope for further development of budget reports to include the prior period annual budget.	The Council will consider how to action the recommendation within a revised report format.	Head of Finance September 2019
5. Reporting of Amended Approved Budget In both 2018/19 and 2019/20 the proposed council budget was updated to reflect decisions made by members. The impact of these changes on the budget proposal is not clear. To improve transparency, an amended budget should be published.	Decisions agreed by the Council which alter the budget as set out in the budget papers are reflected in both opening budget monitoring reports and are clearly outlined in the minute of the Council meeting; however Management will consider how to incorporate the recommendation into existing reporting arrangements.	Head of Finance September 2019
6. Employee Cost Coding There are a number of employee cost coding errors that must be adjusted for by finance staff on a monthly basis. This increases the risk of budgeting errors and payroll overpayments. Management should put in place a process to correct these mis-codings in the payroll system and to minimise the occurrence of these in the future.	As is acknowledged in the report, there will be an ongoing requirement to reallocate costs for operational reasons, however where there are errors in code allocations these will be highlighted and requested to be amended in a timely basis.	Head of Finance March 2020
7. Whole of Government Accounts Renfrewshire Council's WGA submission was late in both 2016/17 and 2017/18, resulting in a qualified audit opinion in 2017/18. Management should put in place processes to ensure future WGA submissions are prepared in accordance with the required timetable.	The Council will ensure all submissions are available in time to satisfy WGA requirements for 2018/19.	Head of Finance November 2019
8. Accuracy of Capital Project Forecasting The cause of some of the capital rescheduling reported in 2016/17 and 2017/18 was inaccurate spending forecasts being incorporated into capital budget monitoring reports. Inaccurate forecasts make monitoring of the capital plan more challenging and increase the risk that early	The Council considers forecasting is robust but will endeavour to improve this further and potentially consider alternative methodologies when compiling the capital plan for future years.	Head of Finance March 2020

Issue identified	Management response	Responsible officer and target date
<p>indicators of project delay go unnoticed.</p> <p>Management should put in place processes to improve the accuracy of forecasting within the capital budget monitoring reports.</p>		
<p>9. Transparency of Capital Budget Monitoring Reports</p> <p>There is a issue that capital budget monitoring reports are not sufficiently detailed to provide adequate monitoring of council capital spend.</p> <p>Management should consider including details of the estimated completion date (or key milestones), the total project budget and the total project spend for key projects in monitoring reports.</p>	<p>The Council will consider how to best incorporate the recommendation into the existing reporting structures.</p>	<p>Head of Finance</p> <p>September 2019</p>

Appendix 2

Follow up of outstanding findings: 2017/18 Management Report

Issue identified	Management response	Update
<p>1. Monitoring and recording of overpayments (2017/18)</p> <p>Risk</p> <p>Our analysis identified a number of errors and omissions in the payroll data provided.</p> <p>There is a risk that overpayments are not being properly recorded, monitored and actioned. This may impact on the effectiveness in the recovery of overpayments.</p> <p>Recommendation</p> <p>Payroll services should put appropriate controls in place to ensure that data is accurately recorded.</p>	<p>By the end of June 2018, the data extracted to monitor and review the effectiveness of overpayment recovery will be reviewed and updated to provide enhanced management oversight.</p> <p>Processes, procedures and management information will be reviewed in line with the implementation of Business World ERP system, due to go live in September 2018.</p> <p>In line with the actions outlined in relation to risk number 2, Management Information will continue to be tracked and monitored following the implementation of the new system.</p>	<p>Enhanced recording processes have been in place to track and monitor over payments on a monthly basis. This supports greater analysis of the reasons for overpayments and which in Service they occur leading to more targeted support and guidance for services.</p> <p>The Council reviewed existing procedures and new guidance was developed for managers on reporting changes to an employee's conditions of service. This guidance was issued to all managers on 27 April 2018 and is planned to be issued again in May 2019.</p> <p>New recovery procedures have been in place since 5 March 2018</p>
<p>2. Treasury Management Practices (2017/18)</p> <p>Risk</p> <p>The TMP has been in draft since January 2017 and further changes to the procedures are not reflected in the document.</p> <p>There is a risk that without up to date approved practice notes in place, procedures will not be properly followed.</p> <p>Recommendation</p> <p>The council should update and approve the TMP.</p>	<p>No substantive changes to the TMPs are anticipated, however they will be updated and approved by end May 2018 to incorporate any update required from the revised Treasury Management Code of Practice which was published early in 2018.</p>	<p>TMPs were updated in June 2018.</p>

Renfrewshire Council

Management Report 2018/19

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