

# Moray Council

## Management report 2018/19



Prepared for Moray Council  
July 2019

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Moray 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 annual accounts. We 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 wider audit dimensions as required by the [Code of Audit Practice](#). This focussed on financial sustainability, governance and transparency.

4. 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.

5. All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Conclusion

6. Overall, we found that the key controls in place within the council's main financial systems were operating effectively with the exception of payroll validation checks, the completion of the housing rents reconciliation and changes to suppliers' bank details. These control weaknesses are set out in [Exhibit 1](#) along with other areas where controls could be further improved. We will be undertaking additional work in response to six of the findings set out in [Exhibit 1](#) and those set out in the [Appendix](#) (nos. 1 and 2) as part of our audit of the 2018/19 financial statements.

7. In terms of our wider dimension audit work, we identified areas where the council could improve current arrangements. These are summarised in [Exhibit 3](#) and will inform our annual audit report which will be issued in September 2019.

8. Three of the eight agreed recommendations included in our 2017/18 management report were completed during 2018/19 (see [Appendix](#) nos. 4, 5 and 6 for details). The remainder have been included in [Exhibits 1](#) and [3](#) and the [Appendix](#) (no. 2) as appropriate.

## Internal control systems

### Work done

**9.** Our 2018/19 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, changes to 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. We also assessed the financial controls within social work services to support the assurances required for the audit of Moray Integration Joint Board.



**Bank reconciliations**



**Payroll controls**



**IT access**



**Budgets**

**10.** 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.

### Key control risks

**11.** The key control risks identified during the interim audit are detailed in [Exhibit 1](#). Any weaknesses identified represent only those that have come to our attention during the course of our normal audit work and, therefore, are not necessarily all of the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Moray Council.

### Additional audit work due to identified systems weaknesses

**12.** As a result of the findings set out in [Exhibit 1](#) and the control weaknesses where management have previously accepted the risk ([Appendix](#)), we have reviewed our approach to the audit of the financial statements and identified that we need to do additional work. This has been set out in the additional procedures column in [Exhibit 1](#) and [Appendix 1](#).

### Additional audit work due to issues with access to audit evidence

**13.** As part of our audit testing we asked for documentation of the interface between the Tranman system and the accounts payable system. The council was unable to provide these for 3 out of the 5 samples selected as the building used to store these records had been closed due to a fire in an adjacent building. As a result, we have revised our approach to this area of the financial statements audit and will do additional substantive testing of transactions processed through the Tranman system.

## Exhibit 1

### Internal control systems - action plan 2018/19

Audit findings	Management response, responsible officer and target date	Additional audit procedures
<p><b>1. Payroll validation</b></p> <p>Last year we reported that a validation exercise to verify the existence of employees on the payroll system had not been undertaken since the introduction of the new payroll system on 1 April 2017. Establishment lists were sent to budget managers in November 2018 but this highlighted that these were out of date due to delays in HR processing changes to the payroll system. Since November 2018, HR have been clearing their backlog but are not yet at a point where establishment lists can be sent out.</p> <p><b>Without regular confirmation of payroll details, there is an increased risk of fraudulent payments being made.</b></p>	<p>This has not been given priority with available resources directed to other more immediate payroll tasks. Higher level budget management reports are issued monthly which detail variances in payroll spend; establishment lists complement these reports. Work to ensure accurate data and linkages with regard to the council's organisational structure to allow the establishment lists is currently being taken forward within HR.</p> <p><b>Responsible officer:</b></p> <p>Acting Joint Head of HR and ICT</p> <p><b>Target Date:</b> December 2019</p>	<p>We will substantively test a sample of paid employees to ensure they are current employees of the council through confirmation to other records/ management response.</p>
<p><b>2. Payroll – calculation of pension contributions</b></p> <p>Pension contribution percentages are assessed manually and input to the payroll system. We have been advised that a sample of the resulting pension calculations is checked but no evidence is retained of these checks.</p> <p><b>There is a risk that pension contribution percentages have not been correctly updated within the payroll system resulting in incorrect deductions from employees.</b></p>	<p>The risk is acknowledged, however employees are notified individually of their pension contribution and how it has been determined. Contribution rates are also checked by the North East Scotland Pension Fund which receives remittances for participating employees. We will await the results of the audit work but no change is proposed at present.</p> <p><b>Risk accepted by management.</b></p>	<p>We will substantively test the calculation of pension contributions for a sample of employees to ensure that they are correct.</p>
<p><b>3. Changes to supplier bank details</b></p> <p>All changes to supplier bank details require to be verified prior to processing. In 2016/17 and 2017/18 we reported that our interim testing had identified instances where changes had not been verified in line with council procedures or there was no evidence that the change had been independently verified.</p> <p>Our 2018/19 interim testing identified further issues. Of the 24 changes to suppliers' bank details tested:</p> <ul style="list-style-type: none"> <li>– there was no evidence for 4 changes that they had been verified in line with council procedures. Of these, 1 change had been incorrectly input and this had not been picked up until our audit testing</li> </ul>	<p>Although a robust procedure has been developed to evidence the steps to be completed, the team have struggled to ensure this has been applied in practice, mainly due to staff turnover. Staff changes are unavoidable and management acknowledges the need for an additional check to ensure the task is carried out to the required standard. The consequences of any error or indeed fraudulent intent are significant enough for additional resources to be allocated to this issue. Independent from the procedure, a senior officer will be notified of all changes (report from the Financial Management System) on a regular basis and</p>	<p>We will substantively test a sample of changes to suppliers' bank details to ensure that they were valid and had been correctly updated in the council's financial management system.</p>

Audit findings	Management response, responsible officer and target date	Additional audit procedures
<ul style="list-style-type: none"> <li>– 1 further change had been incorrectly input and this had not been picked up until our audit testing</li> <li>– 1 change had been incorrectly input but was subsequently identified and corrected by council staff</li> <li>– 1 change had not been made in a timely manner and was not identified until a payment to the supplier failed.</li> </ul>	<p>the actions taken for each transaction reviewed.</p> <p><b>Responsible officer:</b> Payments Manager</p> <p><b>Target Date:</b> September 2019</p>	
<p><b>Audit Scotland's Technical Bulletins regularly highlight examples of cases where fraudulent payments have been made due to weaknesses in controls over changes to suppliers' bank details. If procedures are not followed, there is a high risk that fraudulent payments will be made to unauthorised third parties.</b></p>		
<p><b>4. Housing rents reconciliation</b></p> <p>Reconciliations between the financial ledger and housing rents system provide assurance that rents, voids, cash received from tenants and write offs are correctly recorded in the financial statements.</p> <p>In our 2016/17 Management Report we highlighted that a reconciliation between the ledger and the housing rents system was only performed at the year end and recommended that management should undertake more regular reconciliations to ensure that the ledger did not become inconsistent with the feeder system. In response, management stated that nothing substantive had come out of doing reconciliations more regularly and that they preferred to focus on the year end reconciliation.</p> <p>The 2017/18 annual reconciliation had an unexplained difference of £9,750 at 31 March 2018 which was subsequently written off. Finance and housing staff have attempted to identify the reason for this difference but have been unable to do so due to the volume of transactions involved. Internal Audit reported this issue in their Housing Rents report in August 2018 and recommended that work should continue to identify the cause of the imbalance to ensure that it does not persist in 2018/19.</p> <p><b>The lack of regular reconciliations between the financial ledger and the housing rents system increases the</b></p>	<p>Notwithstanding checks undertaken in both Housing and Accountancy, the reconciliation for 2018/19 has disclosed an unidentified variance of £6,231 This represents 0.03% of gross rental income. Whilst recognising there could be compensating errors included in the variance, it is not proposed to undertake further checking. Accountancy is developing coding structures to separate rent refunds and 'other' adjustments that are currently processed together as 'cash adjustments' on weekly housing journals. This will aid cross checking of sundry adjustments where it is considered variances are most likely to emerge. We will also await the results of audit testing of rents transactions to determine if any further actions are required.</p> <p><b>Risk accepted by management.</b></p>	<p>We will review the annual reconciliation between the ledger and the housing rents system to ensure that any differences have been investigated and explained. We will also substantively test a sample of housing rents transactions to ensure that they have been accurately processed through the housing rents system.</p>

Audit findings	Management response, responsible officer and target date	Additional audit procedures
<p>risk that significant time and resources will be required to explain any differences identified at the year end.</p>		
<p><b>5. Reconciliations of bank and feeder systems</b></p> <p>Audit review of bank and payroll reconciliations noted that there was not always evidence that they had been reviewed by a manager or independent officer. In addition, there is no senior manager review of council tax or non-domestic rates reconciliations.</p> <p><b>There is a risk that reconciling items are not investigated and frauds or errors are not identified in a timely manner.</b></p>	<p>Agreed in principle. Technology is changing how the control environment is operating and we intend to review the internal control checks currently in place and give consideration to their sufficiency and to whether any further measures require to be introduced.</p> <p><b>Responsible officer:</b> Payments Manager</p> <p><b>Target Date:</b> November 2019</p>	<p>We will review year end bank and feeder system reconciliations and sample test any significant reconciling items.</p>
<p><b>6. Care home payments</b></p> <p>Care homes are required to submit a fortnightly return outlining any changes to the level of care provided prior to payment being made. Last year we reported that our interim testing identified that payment is not withheld if these care schedules are not returned. Our 2018/19 audit testing confirmed that this is still the case.</p> <p><b>There is a risk that payments have been made to care providers for care services they have not provided.</b></p>	<p>The council takes the view this is a low risk given its on-going relationship with few care providers. The more likely scenario is that a care home advises the council of any changes promptly so that the Resource Allocation Panel (which meets weekly) can approve any changes necessary as this optimises the level of income available to the care home. We will await the results of the audit work but no change is proposed at present.</p> <p><b>Risk accepted by management.</b></p>	<p>We will substantively test a sample of payments to care homes who have not returned their fortnightly schedules to ensure that they are valid through confirmation to other records.</p>
<p><b>7. Awarding of non-domestic rates reliefs and exemptions – annual review</b></p> <p>Reliefs and exemptions awarded in previous years are not regularly reviewed.</p> <p><b>There is a risk that taxpayers continue to receive reliefs and exemptions they are no longer entitled to.</b></p>	<p>Over 1600 council tax review forms were issued in 2018/19, of which 85% were returned with the remainder being followed up in the current year. Work on non domestic rates reliefs is outstanding and having regard to workload priorities and staff resource levels this is likely to be carried into 2020/21.</p> <p><b>Responsible officer:</b> Taxation Manager</p> <p><b>Target Date:</b> March 2021</p>	<p>We do not consider this a key risk to our audit opinion and so no additional work will be done in this area. We have taken controls assurance from the checks undertaken on the award of new reliefs and deductions during the year and the annual canvass of council taxpayers in receipt of single person discounts.</p>



## Accounts preparation process

**14.** In response to the findings reported in our 2017/18 annual audit report, the finance team have reviewed their accounts preparation processes to address the issues identified during our audit of the 2017/18 annual accounts and have shared their revised working papers with us. In addition, the accounts document has been comprehensively reviewed in an effort to streamline the annual accounts. We have contributed to this process and, although we have yet to see the revised format, we commend this effort to focus and reduce the length of the financial statements.

## Wider dimension audit work

### Financial sustainability

The immediate financial position remains extremely challenging, and the council continues to rely on using reserves to balance its 2019/20 budget

**15.** In February 2019 the council approved a balanced net revenue budget of £204 million for 2019/20 for general services. This included the use of £5.1 million of reserves and required £10.1 million of savings to be achieved including £250,000 from the council's Improvement and Modernisation Programme (see paragraphs 20 and 21 below). Council tax was also increased by 4.79%. As in previous years, the planned savings for 2019/20 are made up of many small amounts.

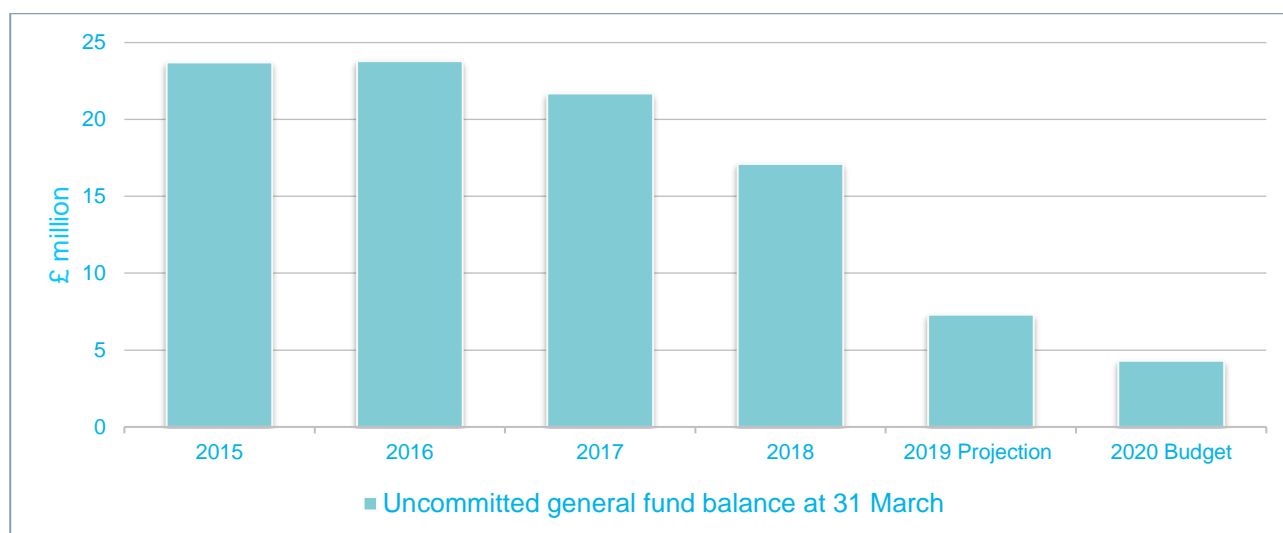
Uncommitted general fund reserves, which have been used to support the revenue budget in recent years, will be reduced to below the minimum level by 31 March 2020

**16.** The council considers the level of its general fund reserve when setting the budget each year. The council's approved reserves strategy is to hold £5 million as uncommitted reserves. In January 2019, the council agreed to breach this minimum level due to its challenging financial position. The 2019/20 budget assumes that £700,000 of the minimum balance will be used in 2019/20.

**17.** [Exhibit 2](#) provides a summary of uncommitted general reserve balances since 31 March 2015. This shows that the uncommitted general fund balance has been reducing since 2015/16 and is budgeted to be below £5 million (2.5% of gross expenditure) by 31 March 2020.

## Exhibit 2

### Uncommitted general fund reserves



Source: Moray Council Accounts 2014/15 to 2017/18, 2018/19 budget monitoring report (December 2018) and 2019/20 Budget papers

Medium term financial pressures are also significant, and the council will need to transform how it delivers services in order to achieve the savings required

**18.** Current projections indicate that the council continues to face significant funding gaps for 2020/21 (£12 million) and 2021/22 (£7.1 million). As noted above, uncommitted general fund reserves will be below the council's minimum level by 31 March 2020 and so all of this funding gap will require to be met by savings. To date, the council has achieved significant recurring savings on a year on year basis to deliver annual budgets. In order to achieve the level of savings required in 2020/21 and beyond, the council will have to transform how it delivers its services.

The council is developing an Improvement and Modernisation Programme but has yet to identify how it will transform service delivery within Education and Integrated Children's Services which accounts for nearly half its net expenditure. Members have limited time to make the difficult decisions required to achieve financial sustainability before available reserves run out

**19.** The council acknowledges, in its latest Corporate Plan, that sustainable service delivery will require extensive and detailed consideration of every aspect of what services the council can provide, to what scale and quality, and how services are delivered.

**20.** We reported last year that work had begun to develop an Improvement and Modernisation Programme to deliver the transformational change required to achieve medium and long term financial sustainability. Although work has continued during 2018/19 (see paragraphs 22 to 24), progress in developing projects to transform Education and Integrated Children's Services has been slower than expected. These services account for nearly half of the council's net expenditure and so transforming how these are delivered is essential to achieving financial sustainability.

**21.** Members have limited time to make the difficult decisions required to achieve financial sustainability before the council exhausts its available reserves. This will require effective political leadership and communication, and all councillors, not just the administration, to work effectively with officers and other stakeholders to identify and deliver the necessary savings. The Accounts Commission recognises the need for members to make difficult decisions and has published a report *Roles and working relationships in councils – are you still getting it right?*, to support them in their role.

A significant number of the council's properties (mainly schools) are in poor condition. The council cannot afford the £142 million investment required to bring its schools up to a satisfactory standard

**22.** As part of its Improvement and Modernisation Programme, the council reviewed its property portfolio during 2018/19. The resulting Property Asset Management Appraisal (PAMA) report was considered by members in December 2018. The report notes that the council uses 198 properties to deliver services, the majority of which are considered suitable for their intended use. However, a significant number of these properties (mainly schools) are in poor condition. The PAMA estimates that it would cost £151 million to bring all of the current property portfolio up to a satisfactory (B condition) standard of which £142 million relates to schools. The council cannot afford this level of investment and so must reduce, replace, and reconfigure its property portfolio if it is to protect front-line services and deliver sustainable schools for the future.

**23.** An improvement plan has been developed to address the recommendations included in the PAMA. This focuses on quick wins, highest financial returns and longer term strategic objectives. Key recommendations for completion by 31 March 2020 include:

- development of a schools' estate strategy



- completion of a review of corporate buildings (offices, depots and storage facilities)
- completion of the review of leisure facilities.

**24.** The council estimates that its review of corporate buildings could generate recurring savings of £0.2 million (revenue) and £0.25 million (capital). Additional staff costs, funded from reserves, have been approved to complete these reviews by 31 March 2020.

### The council has yet to develop medium or long term financial plans

**25.** In previous years we have reported that the council did not have medium or long term financial plans in place. Little progress has been made with this during 2018/19 as the council focussed on delivering a balanced budget for 2019/20 and developing its Improvement and Modernisation Programme as a basis for its medium and long term financial plans.

**26.** We will continue to monitor the council's progress in developing a sustainable model for service delivery over the summer and report our findings in our annual audit report in September 2019.

### Exhibit 3, no 1

## Governance and transparency

### EU withdrawal

The council has taken reasonable steps to prepare for EU withdrawal and has recognised that the loss of EU funding will place additional pressure on its ability to achieve financial sustainability. The impact on the wider Moray economy is also likely to be significant.

**27.** The UK was due to leave the EU on 29 March 2019. EU withdrawal will inevitably have implications for devolved government in Scotland and for Scottish public bodies including councils. As part of our interim audit we undertook a high level review of the council's preparedness for EU withdrawal focussing on three key areas: people, regulations and funding and concluded that it had taken reasonable steps ahead of the expected withdrawal date.

**28. Overall arrangements:** a detailed report on the implications of Brexit for the local economy was prepared by the council's Director of Economic Development, Planning and Infrastructure and considered by the Community Planning Board in September 2018. The council appointed a strategic and tactical lead for EU withdrawal in January 2019 and established an EU-Exit working group in February 2019. The EU-Exit working group was temporarily disbanded following the announcement that EU withdrawal would be delayed until 31 October 2019.

**29.** The Chief Executive has taken the lead for EU withdrawal and has liaised with Police Scotland who are leading Scottish preparations and have developed a national plan as part of the Scottish resilience framework. The Scottish Government is also providing organisations with regular advice and guidance. Preparations have been officer-led with limited reporting to councillors in 2018/19.

**30. People:** as at 31 March 2019, the council had identified the number of non-UK EU nationals it employs. Given the relatively small numbers involved (0.5% of employees), staffing was assessed as a low risk area which did not require any additional workforce planning. Contact was made with affected staff to ensure that they knew where to access information on settled status/ citizenship applications.

**31.** The council has also been in contact with major employers in the area including food production and agriculture businesses employing mainly low paid low skilled staff. These employers have confirmed that they have their own contingency plans in place for a 'no deal' exit.

**32. Regulations:** this is considered to be a low risk area for the council as the Withdrawal Act will transpose current EU regulations into UK law until any future amendments are actioned by the UK Government. There is a significant risk to the wider Moray area, however, and the council, through its membership of the Highlands and Islands European Partnership forum and other multi-organisation groups, is seeking to influence future regulatory frameworks and advocating for the development of a new regional policy.

**33. Supply chain:** the council has done limited work on its supply chain as it does not see this as a high risk area as most suppliers are locally based and ingredients for school meals are locally sourced.

**34. EU funding:** the council receives EU structural funding predominately to enhance employability services and also administers LEADER (rural development) funding as part of the Scottish Rural Development Programme. The Moray area received £33 million of European funding from the 2007-2013 programme of which £6 million was received by the council. Although this is not significant when compared to the council's annual budget of £204 million, the council's challenging financial position means this has been recognised as an additional pressure to achieving longer term financial sustainability within the council's risk register.

**35.** There remains significant uncertainty over the arrangements under which the UK will leave the EU or the point at which this will become clear. We will continue to monitor the council's preparations for EU withdrawal and provide an update in our 2018/19 annual audit report.

## Internal audit

Internal audit has been externally assessed as generally conforming with the Public Sector Internal Audit Standards. Audit & Scrutiny Committee members now have access to internal audit's full reports

**36.** In our 2017/18 annual audit report we noted that an external assessment against the Public Sector Internal Audit Standards (PSIAS) had not taken place as required by the Standards within five years of their introduction. The external assessment was completed in February 2019 and concluded that the council's internal audit service '*generally conforms*' with the PSIAS. Of the thirteen assessment areas, internal audit fully conforms with four, generally conforms with seven and partially conforms with two. The assessment identified twelve recommendations for improvement all of which have been accepted by management. We will monitor progress in implementing the agreed actions as part of our 2019/20 audit.

**37.** Last year we also reported that internal audit reports were not provided in full to members of the Audit & Scrutiny Committee which increased the risk of members being unable to properly scrutinise internal audit's findings. In response to our recommendation, the Internal Audit Manager now makes all reports available to all members via the members' portal.

## Wider dimension action plan

**38.** The wider dimension risks identified in the previous paragraphs are detailed in [Exhibit 3](#). These findings will help inform our annual audit report conclusions on each of the wider dimension areas.

## Exhibit 3

### Wider dimensions audit work - action plan 2018/19

Audit findings	Management response	Responsible officer and target date
<p><b>1. Financial sustainability</b></p> <p>The current level of service provision is not financially sustainable and the council has continued to rely on reserves to bridge its funding gap in 2019/20. An Improvement and Modernisation Programme is being developed but the council has yet to identify how it will transform service delivery within Education and Integrated Children's Services which accounts for nearly half of its net expenditure. Members have limited time to make the difficult decisions required to implement a sustainable financial model before available reserves are exhausted. In order to achieve this, all members, not just the administration, need to work together effectively and with officers and other stakeholders to identify and deliver the necessary savings.</p> <p><b>There is a risk that the council is unable to agree and implement a sustainable financial model for service delivery before its available reserves are exhausted.</b></p>	<p>A report to Council on 27 June 2019 set out proposals to strengthen the support for transformational change with a particular focus on Education.</p> <p>Additional resource has already been allocated to review of contracts for Integrated Children's Services.</p> <p>It is recognised that the timescale for transformational change in these areas is very challenging.</p>	<p><b>Responsible officers:</b></p> <p>Corporate Management Team / Head of Financial Services</p> <p><b>Target Date:</b></p> <p>February 2020</p>

Source: Audit Scotland

# Appendix

## Risks accepted by management and follow up of 2017/18 management report

Audit finding	Management response	Additional audit procedures
<p><b>1. Authorisation of Journals</b></p> <p>There is no authorisation of journals posted to the ledger.</p> <p><b>There is a risk that incorrect or fraudulent changes could be processed within the ledger system.</b></p>	<p><b>Management response 2016/17</b></p> <p>In the opinion of management there is no risk of fraud as journals are used to amend coding or make internal recharges within the general ledger and cannot result in cash payments. However, journal types and processes will be reviewed to ensure that this is the case and consideration given to authorisation procedures.</p> <p><b>Responsible officer:</b></p> <p>Head of Financial Services</p> <p><b>Target date:</b> January 2018</p> <p><b>Update from management 2017/18:</b> A review was undertaken of month 10 journals. Following review, management remain of the view that the risk of incorrect or fraudulent changes processed within the ledger system is extremely low.</p> <p>The benefit of authorisation of journals is outweighed by the cost of implementation and no further action is proposed.</p> <p><b>Risk accepted by management.</b></p>	<p>We will use data analytics to identify and test a sample of high risk journals.</p>
<p><b>2. Changes to Chart of Accounts</b></p> <p>The council does not have a formal process in place for recording new/ amended ledger code requests. Changes are made by the accountancy section following correspondence with the relevant department requesting the change but audit trails of changes were not evident.</p> <p><b>There is an increased risk of misclassification of transactions if there is no audit trail evidencing the basis for changes.</b></p>	<p><b>Management response 2016/17</b></p> <p>Nominals can only be created with the permission of a principal accountant and audit trail reports are available from the financial system</p> <p>This issue is considered to be low risk for the council however management will consider developing a procedure for review of amendments made to the chart of accounts and impact on disclosure.</p> <p><b>Responsible officer:</b></p> <p>Head of Financial Services</p> <p><b>Target date:</b> March 2018</p> <p><b>Update from management 2017/18 :</b> From January 2018 Accountancy is piloting a review of structure changes on a monthly basis. Nominal changes will be reviewed by a Principal Accountant and other structural changes reviewed by the accountants to</p>	<p>We will review the mapping of balance sheet codes from the ledger to the accounts using data analytics to identify any significant changes and to confirm that the mapping for the balance sheet is accurate and complete. This will confirm the overall net income/ expenditure.</p>

Audit finding	Management response	Additional audit procedures
	<p>confirm structure accuracy for management reporting and SeRCOP reporting</p> <p><b>Recommendation implemented on a pilot basis.</b></p> <p><b>Update from management 2018/19:</b> The pilot was abandoned in April 2018 due to resourcing and timing constraints. No issues were identified during the pilot period therefore there is no need to continue/ reinstate the pilot.</p> <p>Any amendments are usually discussed within the section and are usually done to comply with the legislation/LFR/POBE requirements or restructures within services for which there are procedures followed by the dept/HR and finally accountancy.</p> <p><b>Risk accepted by management.</b></p>	
<p><b>3. Refunds</b></p> <p>Prior to issuing refunds, the council does not check other systems to identify whether the taxpayer or tenant has any outstanding debts. Checks of prior year accounts are made within individual systems.</p> <p><b>There is a risk that the council does not receive all income due for the services provided.</b></p>	<p>This has been considered in terms of the council's ability to legally set off credit balances against various sums that may be payable to the council. This is reflected in the council's Debt Management Policy approved by Policy and Resources Committee in 2015.</p> <p>The council intends to investigate the use of a corporate debt module within the Financial Management System. This would provide linked enquiries for debt across all services.</p> <p><b>Responsible officer:</b></p> <p>Head of Financial Services</p> <p><b>Target date:</b> November 2017</p> <p><b>Update from management 2017/18:</b> The work undertaken on the implementation of a corporate debt system established that considerable work would be required to automate the matching of accounts from three different systems. The current practice of offsetting Accounts Payable and Accounts Receivable will continue.</p> <p><b>Risk accepted by management.</b></p>	<p>No further action – we report this as a value for money issue.</p>
<p><b>4. Payroll system access</b></p> <p>Five members of staff have access to both the human resources and payroll system areas of iTrent enabling them to create a new employee and make payments through payroll.</p> <p><b>There is a risk that weaknesses in segregation of duties could result in fraudulent payments.</b></p>	<p><b>Management response 2017/18</b></p> <p>Changes have been made to some HR access levels to streamline duties and a comprehensive review will be part of the consultancy work referred to above.</p> <p><b>Responsible officers:</b></p> <p>Head of Financial Services / Acting Head of HR and ICT</p> <p><b>Target date:</b> December 2018</p> <p><b>Update 2018/19:</b></p>	<p>No further action – matter closed.</p>

Audit finding	Management response	Additional audit procedures
	<p>Access levels have been reviewed and three of the five members of staff no longer have access to both the HR and payroll areas of the system. The two remaining members of staff continue to have access to all areas of iTrent as they are system administrators. Internal audit has conducted recent work in this area and made recommendations to further strengthen access controls.</p>	
<p><b>5. Transparency</b></p> <p>Internal audit reports are not provided in full to members of the Audit &amp; Scrutiny Committee.</p> <p>There is a risk that members are unable to properly scrutinise internal audit's findings.</p>	<p><b>Management response 2017/18</b></p> <p>Full internal audit reports will be placed on the members portal to mitigate the identified risk.</p> <p><b>Responsible officer:</b></p> <p>Internal Audit Manager</p> <p><b>Target date:</b> October 2018</p> <p><b>Update 2018/19:</b></p> <p>Full internal audit reports are now uploaded to the members portal.</p>	<p>No further action – matter closed.</p>
<p><b>6. Registers of Interest</b></p> <p>Members' register of interest forms do not ask members to consider the need to declare the financial or non-financial interests of family members.</p> <p><b>There is a risk that registerable interests of members are not adequately identified in the interests of openness and transparency.</b></p>	<p><b>Management response 2017/18</b></p> <p>The forms used are considered to be set out in accordance with the Code of Conduct. The Standards Commission Guidance is provided to councillors to assist their declarations of interest and that guidance includes reference to declaring financial or non-financial interests relating to family.</p> <p>This element will be highlighted when the six-monthly reminders about keeping declarations up to date are sent to members.</p> <p><b>Responsible officer:</b></p> <p>Democratic Services Manager</p> <p><b>Target Date:</b></p> <p>September 2018</p> <p><b>Update 2018/19:</b></p> <p>Reminders were issued in September as planned.</p>	<p>No further action – matter closed.</p>



# Moray Council

## Management report 2018/19

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
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