East Dunbartonshire Council

Interim Audit Report 2016/17

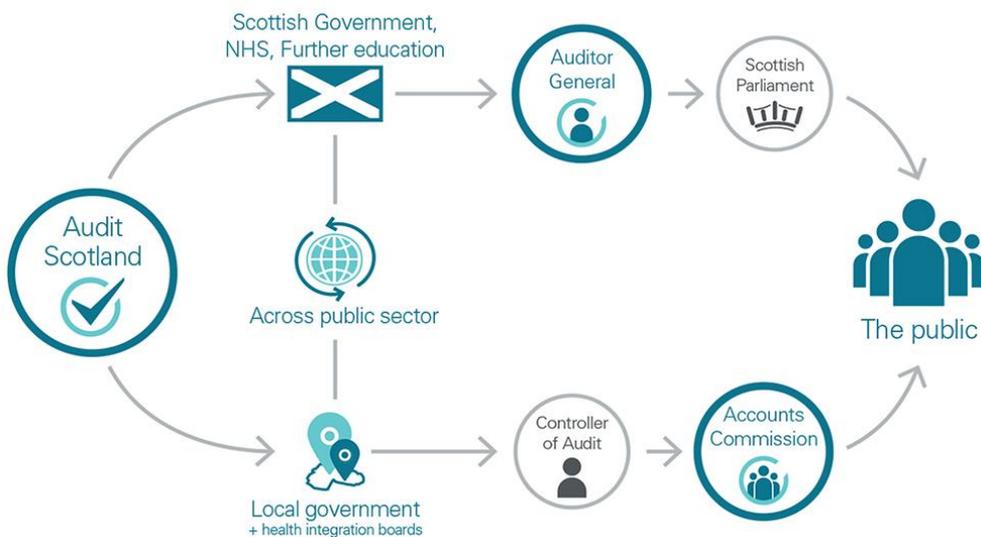**AUDIT** SCOTLAND

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at East Dunbartonshire Council (the council). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

3. Also, under the Code of Audit Practice (2016) we have carried out work on the wider dimension audit. This focussed on financial management, financial sustainability, governance and transparency and value for money.

Conclusion

4. In our review of the council's internal control systems for 2016/17 we identified a number of areas where controls were not operating as expected or where improvements could be made. These are summarised in Exhibit 1 overleaf. Where appropriate we will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.

5. In terms of our wider dimension audit work we are currently reviewing the financial planning arrangements of the council and completing a review of the role of boards. The full findings from this work will be shared with officers and will be reported within our Annual Audit Report which will be presented to the council in September 2017. One issue identified as part of this ongoing work has been included in this report for early consideration.

Work summary

6. Our 2016/17 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, our testing covered 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. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Risks identified

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

10. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to East Dunbartonshire Council.

Additional follow-up work

11. Whilst no errors have been identified as a result of our audit work to date, the control weaknesses set out in Exhibit 1 mean that additional audit work is required to allow us to obtain the necessary assurances for the audit of the 2016/17 financial statements. Specifically this will focus on the verification of the existence of a sample of employees and substantively testing payments to suppliers.

Exhibit 1
Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
Audit findings		
Changes to supplier details		
From discussion with officers we noted that the Oracle system cannot produce a report which lists changes to supplier details processed during the year. We also identified that, after changes to supplier details are processed, the original form requesting changes to supplier details is not retained.	The Council recognises that current system functionality is such that suitable manual controls needed to be established. This ensures the integrity of information for audit purposes. The Council recognised this issue and have updated the processes for making changes to supplier details. This included the roll out of manual forms to capture such	Strategic Lead: Organisational Transformation & Audit & Risk Manager Sept 2017
A manual log of changes to supplier details should be introduced to ensure there is an		

Issue identified	Management response	Responsible officer and target date
audit trail of changes to supplier details. **There is a risk that fraudulent payments are made to non-existent suppliers or that incorrect changes to current suppliers details are processed.**	revisions. Additional controls have also been specified to ensure that the application of changes is carried out by suitably senior staff with a review process in place following such changes being actioned. Documentation surrounding these processes will be retained for audit purposes. The Council recognises this as an important control required to safeguard against fraud and will undertake to provide required assurance to Audit Scotland, reviewing these current arrangements and reporting accordingly.	
New suppliers/ changes to suppliers details A large manual exercise is currently underway to ensure each supplier reference code in the Oracle system is matched with the supplier reference code in the procurement system (I-Proc). The documentation used as part of the matching process is not segregated from those forms used for changes to supplier details and therefore could lead to significant delays in supplier changes being processed. **There is a risk that changes to supplier details will not be completed on a timeous basis.**	The Council has undertaken to transform and streamline current operations to ensure the integrity of supplier codes between systems. Work is underway to transition from Alpha-numeric to numerical codes. Such work also reduces the risk of error, double keying as well as the need to match/reconcile orders as they are made, received, matched, paid and recorded. This exercise is key to improving internal controls processes. We will review the issues identified in terms of adequate segregation of duties, as this, as identified, may impact on the efficiency of this work.	Strategic Lead: Organisational Transformation Sept 2017
General ledger reconciliations A control spreadsheet is used to record and monitor which reconciliations between the ledger and key financial feeder systems have been received and where issues have arisen which require further action from the preparer. However, from our review of the control spreadsheet, we noted that review dates are not recorded and given that the spreadsheet is not locked for editing, it could in theory be altered by any officer with access to the shared drive where the spreadsheet is held. We also identified that a number of reconciliations, mainly relating to income, have not been performed in accordance with the prescribed frequency during the financial year. **There is a risk that financial discrepancies are not identified and resolved timeously.**	The Council will review the established system of general ledger reconciliations to ensure that these risks identified are mitigated. Whilst not recorded on the control spreadsheet review dates are included on individual reconciliations as evidence of oversight. Additional controls could be specified to lock the control spreadsheet, through saving the final version as a PDF or equivalent and this will be applied in the forthcoming financial year. The Council will also review the prescribed frequency of income reconciliations to ensure that these are sufficient and provide appropriate assurance.	Chief Finance Officer / Principal Accountant 30 April 2017

Issue identified	Management response	Responsible officer and target date
Council tax system access Officers in the income team have write access to the council tax system (Northgate) which enables them to change account information. This is beyond the remit of income officers. To ensure adequate segregation of duties, the council should consider providing read-only access to the Northgate system for income team members. **There is a risk of fraudulent changes being made to account information.**	The Council will review system rights and access so that this is appropriate in line with the risk identified. At present this risk is mitigated through the activities of the corporate debt team leader who carries out a system check each month to ensure that account changes made by anyone other than revenues and benefits staff, or corporate debt staff, are identified.	Chief Finance Officer 30 Sept 2017
Payroll employee verification There is currently no formal verification process to confirm the existence of employees on the payroll system. There is potential for fraud as a manager could create a fraudulent employee or not submit a termination form for an employee who has left and continue to claim their pay. **There is a risk of invalid employees being paid through the payroll.**	The integration of Payroll and Human Resources systems limits the possibility of irregularity as system revisions are equally reflected on both systems. Such improvements no longer require formal reconciliations between separate systems and this had provided tangible improvements including the reduced the possibility of fraud or error. Controls processes have been established as part of the new system implementation which limits opportunity for a post to be created without approval or management oversight. Workflow processes have been created to, for example, assisted in leaver notifications, checks around the role employed, establishment checks and personal documentation; all of which provide assurance over the integrity of the pay bill. In year verification of employee number has taken place as part of, for example the notification of SOM outcomes and ongoing service review however this will be enhanced to include the reconciliation of individuals to structures and regular engagement between finance and HR Business Partners.	Strategic Lead: Organisational Transformation Sept 2017

Issue identified	Management response	Responsible officer and target date
Payroll exception reports A number of exception reports are produced from the payroll system (iTrent) as part of the payroll billing process to identify potential anomalies in relation to employee pay. We noted that there is a lack of evidence to demonstrate that these reports have been reviewed by officers and followed up where appropriate. **There is a risk that issues identified within payroll exception reports are not investigated and resolved to ensure all payments are valid.**	In finalising individual payrolls a series of exception reports are often generated. Whilst each of these are subject to review it is generally only the final version that is retained to provide verification and backup to the integrity of the payments made. The last batch of reports for each payroll will reflect the final position before the payroll is closed off and the BACS payment is processed. The final reports are retained and earlier versions, that will have highlighted the entries to be reviewed, are destroyed as they do not reflect the latest pay calculations and those on the system. Some of the retained reports may not be shown as having been reviewed if the latest version doesn't reflect the need to make any further payroll amendments however these will be initialled going forward. The original reports will have been more clearly evidenced as being reviewed however it is not current practice to retain all versions of payroll output reports in paper form.	Strategic Lead: Organisational Transformation Sept 2017
Payroll system access There are no formal procedures in place to request advanced access to the iTrent system. Advanced access allows line managers to approve employee leave requests and certify sickness absence. Human Resources (HR) officers receive advanced access requests approved by line managers by email which are checked by HR officers. However, these emails are not routinely retained as evidence. A formal process should be introduced for approving advanced access to the iTrent system which ensures that appropriate levels of access are provided to relevant staff and evidence retained. **There is a risk that inappropriate access is provided to the payroll system.**	The Council has an established iTrent governance framework. The advanced access to the system is controlled through Human Resources Services Lead. Additional recording processes will be introduced with retrospective requests being logged to ensure that an appropriate audit trail is maintained.	Strategic Lead: Organisational Transformation May 2017

Issue identified	Management response	Responsible officer and target date

Wider dimension issues and risks

Financial management

Overall there are clear arrangements in place to report the financial position to the Policy & Resources Committee. Our review of the financial monitoring reports provided to committee noted that they include projected actual expenditure and variance against budget figures to the year end. However, the effectiveness of these reports could be improved by the inclusion of phased budget figures as well as actual expenditure and variance against budget to date for the period being reported.

There is a risk that potential overspends are not identified promptly and remedial action is delayed.

The Council recognises the need to provide clear and concise information as part of its financial reporting arrangements to promote understanding and aid scrutiny.

Changes have already been initiated within financial reports to promote the use of plain English, however Local Government finances are complicated and this continues to be challenging.

The Council welcomes the suggestions made by Audit Scotland; these have informed our regular cycle of meetings and have affected some of the changes made thus far.

Further developments, such as those suggested here, will be reviewed for inclusion in the first revenue monitoring report of the 2017/18 financial year.

Chief Finance Officer / Principal Accountant

30 Sept 2017

Data protection arrangements

In November 2016 the results of a data protection audit carried out at the council were published by the Information Commissioner's Office (ICO). The purpose of the audit was to provide the ICO and the council with an independent assurance of the extent to which the council is complying with the Data Protection Act (DPA). The council's overall assurance rating from the ICO was 'limited assurance' and the ICO report identified that there is considerable scope for improvement in the council's existing arrangements to reduce the risk of non-compliance with the DPA. The ICO report did not identify any instances of data loss.

The council should ensure that the issues highlighted in the ICO data protection audit report are adequately disclosed in the annual governance statement included in the 2016/17 financial statements.

The Council agrees that such disclosures within its Annual Governance Statement are appropriate and that these will be included in the Annual Accounts.

In response to the ICO audit the Council has implemented additional processes as part of a comprehensive action plan. The ICO audit report was presented to the Audit & Risk Committee with revised policy subsequently being agreed by the Policy & Resources Committee.

Strategic Lead: Legal and Democratic Services

&

Audit & Risk Manager

30 June 2017

Source: Audit Scotland

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

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