South Lanarkshire Council

Interim Audit Report 2017/18

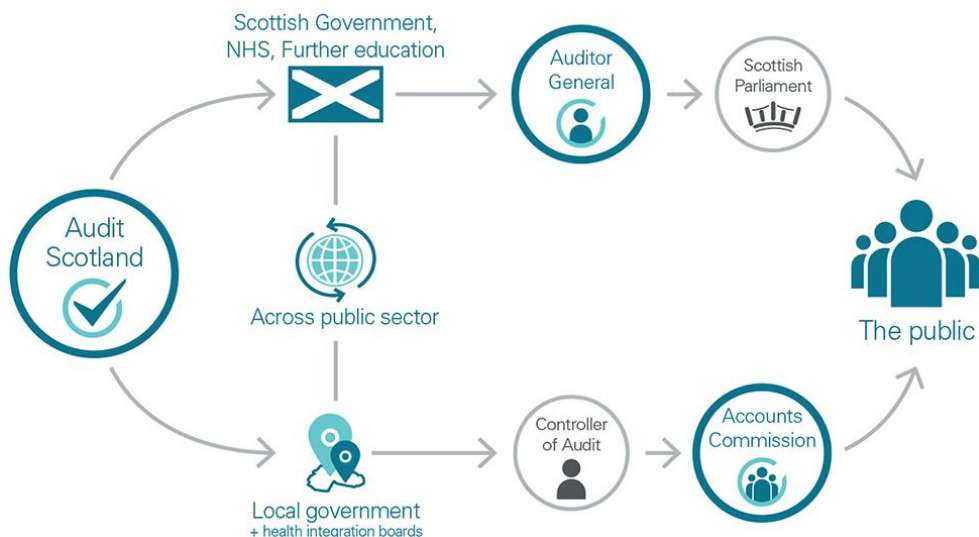**AUDIT** SCOTLAND

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 South Lanarkshire Council during January to April 2018.

2. Our interim work included testing of key controls within financial systems and verification to source documentation of significant income and expenditure transactions up to December 2017. As the income and expenditure verification testing was performed prior to the 2017/18 financial year end, the need for additional testing will be considered as part of the financial statements audit to ensure sufficient audit coverage for the full year is achieved.

3. We will consider the results of this testing when determining our approach to the audit of the 2017/18 annual accounts.

4. 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.

5. We are also required to carry out work on the audit dimensions as set out in the Code of Audit Practice. We are currently reviewing the arrangements in place to measure and monitor performance across the Council, and the extent to which the authority is able to demonstrate that this helps drive continuous improvement. The findings from this work will be reported in our Annual Audit Report, which will be presented to the Council in September.

Conclusion

6. We did not identify any issues which present a risk of material misstatement for the 2017/18 financial statements. However, we have reported in Exhibit 1 a number of other issues and risks to management for consideration. Where we will be carrying out additional work in response to the finding this is included along with the issue identified. This additional testing will enable us to take planned assurance for our audit of the 2017/18 annual accounts.

Work summary

7. Our 2017/18 testing considered key controls in a number of areas including:

- Bank reconciliations
- Payroll controls
- Authorisation of journals
- Change of supplier bank details

- IT access
- Budget monitoring
- Feeder system reconciliations
- Controls for preventing and detecting fraud

8. 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 coverage and make the best use of available audit resources.

9. 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

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

11. Any weaknesses included in this report are only those that have come to our attention as a result of our normal audit procedures; consequently, this report should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made. It is the responsibility of management to decide on the extent of the internal control system appropriate to the council.

Additional audit work

12. Whilst no errors have been identified as a result of our audit work to date, the control weaknesses identified mean that additional audit work is required to allow us to obtain the necessary assurances for the audit of the 2017/18 financial statements. Specifically this will focus on extending our substantive testing of journals and verifying the existence of a sample of employees.

Exhibit 1
Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
Financial statements issues and risks		
Approval of journal entries The council's financial ledger is the system for recording all transactions and preparing the financial statements. Journal entries are the means by which the council's financial ledger is manually updated. To prevent error	As reported last year, management advised that they are aware of this risk but highlighted that this is mitigated to an extent by the other controls in operation which include: • The provision of 4 weekly reports listing journals with a value of over £100,000 to	Not applicable – no planned action.

Issue identified	Management response	Responsible officer and target date
and fraud we would expect each journal entry to be prepared and authorised by different members of staff. During 2016/17 we identified that this control is not in operation within the Council as management believe any risk is mitigated by the other controls in place as set out within the 'Management response' column. **As the ability of officers to approve their own journals increases the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger, we will extend our journal testing to gain assurance that significant and high risk journals have been correctly processed.**	relevant managers within Resource Directorates for review, • Internal budget monitoring arrangements which should identify and correct any significant mis-postings, • Restrictions on which staff are able to complete journals and the ledger codes that they can post to, • Electronic audit trail within the system of who has raised and approved all journals, and • No risk of cash loss to the council as journals only move money around the ledger.	
Confirmation of payroll standing data The payroll masterfile contains all of the standing data required for the system to calculate and make payments to employees (for example, rates of pay, allowances, bank details etc.). To ensure that payments are made at the correct rates and only to valid employees, payroll standing data should be periodically validated to the records of employing services (Resources). We established as part of our 2016/17 testing that the last formal exercise to positively confirm the validity of payroll data with managers within Resources was carried out in 2015. During 2017/18 Personnel conducted a full staff verification exercise but only received 79% of responses (details of around 2,500 out of 12,000 staff not confirmed). We noted that the lowest response rates related to Education (43%) and Social Work (76%) who also had the highest levels of outstanding staff overpayments at 31 December 2017 (£0.121 million and £0.054 million respectively). **The lack of a fully complete employee confirmation exercise increases the risk that payroll errors are undetected. To address this risk we will extend our testing to include the verification of payroll information for a sample of**	The payroll verification exercise is being repeated in Education Resource Directorate during May 2018 to improve the response rate. The request to Education Managers was accompanied by communication from the Executive Director to support managers in their completion of the returns. As of end of the exercise the response rate was 88%, with a follow up now planned to target remaining responses. Payroll data verification is one of tools used to ensure employees are correctly set up and paid. As reported last year, management advised that the risk of payroll errors is mitigated to an extent by other controls in operation which include: • Checking of payroll data is part of every managers responsibility and they have the facility to check their employees information at any point via the online People Connect system, and • Regular internal budget monitoring arrangements should identify any payroll overspends. Overpayments overall are a small percentage of the total Council paybill. There appears no obvious link to non-completion of the payroll data verification exercise. All overpayments are pursued to ensure repayment, and repayment plans or debtors accounts are in place for the majority of outstanding amounts.	Personnel Services Manager June 2018 (for update on Education position)

Issue identified	Management response	Responsible officer and target date
employees from across Resource Directorates.		

Audit dimensions issues and risks

Issue identified	Management response	Responsible officer and target date
Blue (disabled parking) badges We established through discussions with the Benefits and Revenue Manager that the Council do not actively pursue the return of blue badges in the event of the death of the badge holder. **There is a risk that these blue badges could be fraudulently used, or sold on.**	The Blue Badge team receive updates on deceased customers through Tell Us Once. The badge is then cancelled through the Blue Badge national system and the Parking Unit are informed. 1,398 badges for deceased customers were cancelled last year. This was a combination of Tell Us Once and direct contact from customer representatives. The Council website and any related correspondence stipulates that a Blue Badge should be returned when the holder is deceased. The approach has been to avoid contacting next of kin to request the return of a blue badge, on the basis that it could be deemed inappropriate and insensitive. The Council relies on parking wardens identifying inappropriate use. 46 incidents of misuse were reported last year (for live blue badges, not badges from deceased individuals) and of these, 3 were cancelled. This is a negligible proportion of the number of blue badges in use (15,488). Given the relatively low levels of reported misuse, no further action is proposed.	Not applicable – no planned action.
Policies and procedures As part of our interim work we reviewed the Council's current policies to establish whether they were up-to-date and regularly reviewed. This identified two policies which did not appear to have been reviewed for a number of years: • Code of Conduct for Employees (dated September 2011) • Fraud Whistleblowing for Third Parties policy (dated December 2011) **There is a risk that these policies do not reflect current practices and requirements.**	The Code of Conduct for Employees has recently been reviewed and the latest version (March 2018) is available on the Council's intranet. The policy on Fraud Whistleblowing for Third Parties has been revised and will be presented to the Finance and Corporate Resources Committee on 20 June 2018.	Not applicable – both policies have now been updated.

Other audit work and discussions

Review of internal audit accounts payable work

13. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the

work of internal audit wherever possible and as part of our planning process we carried out an assessment of the internal audit function at the Council. This confirmed that the internal audit function has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

14. During the year the internal audit team undertook a comprehensive review of the operation of all of the controls over the payables function, including the controls for the iProcurement system. We have reviewed this work, with reference to International Standard on Auditing 610 - Using the work of internal auditors, to confirm that we can place reliance on these controls for the 2017/18 financial statements audit.

15. Review of internal audit's work concluded that this had not identified any weaknesses in the payables control environment that could result in a material misstatement in the information produced from the system. As a result we are able to place reliance on the operation of these controls for the 2017/18 financial statements audit.

Housing Repairs initial systems review

16. During April 2018 we met with representatives from the Council's housing repairs team to establish the key controls over the completion and charging for housing repairs. In support of these controls we obtained copies of key policies, procedural guidance and other evidence demonstrating how the controls should operate in practice. This work was undertaken as part of our wider code of audit practice responsibilities rather than to provide assurance for the financial statements audit.

17. We have now developed tests for each of the key controls identified and plan to undertake targeted testing as part our 2018/19 audit activity to confirm that the controls are operating as expected.

Cyber Resilience

18. Like all organisations, the Council faces the risk of cyber attacks targeting ICT systems, networks and infrastructure. The threat to public sector organisations is very real as evidenced by a recent "WannaCry" ransomware attack on the NHS. While there is a persistent risk from new threats and vulnerabilities which may result in unauthorised access and subsequent damage or interruption to its IT services, the Council maintains an awareness of such risks by running internal and external vulnerability scans. The council is an active member of the NCSC's Cybersecurity Information Sharing Partnership (CiSP), which is a valuable source of intelligence on developing cyber threats. In mid-April US and UK intelligence agencies issued a joint technical alert describing a global assault on routers, switches, firewalls, and network intrusion detection hardware by Russian state-sponsored cyber hackers.

19. The Council has committed to fully implementing the Scottish Government's Cyber Resilience Public Sector Action Plan by the end of 2018. This includes achieving the associated Cyber Essentials Plus accreditation. Cyber Essentials is a scheme sponsored by the National Cyber Security Centre that aims to guard against the most common cyber threats and demonstrate commitment to cyber security. The Council aims to be in the position to achieve the Cyber Essentials Plus accreditation by October 2018.

20. Like the Internet, the Public Services Network (PSN) is made up of different networks which are connected together. To provide the performance, resilience, and security required by the public sector, the PSN is unified by an agreed set of standards with which all users, suppliers and customers must comply. These standards, the PSN Codes and Conditions, are administered by the Cabinet Office's Digital Service.

21. Each year the Council submits an application for continuing Public Services Network (PSN) accreditation. Following an IT Health Check assessment by an independent assessor the Council completed a remediation action plan which it

sent with its PSN submission. Following a period of work completing these remediation actions, the updated PSN application is now with the Cabinet Office for assessment.

Performance, outcomes and improvement best value work

22. As part of our 2017/18 audit work we are reviewing the Council's Performance Outcomes and Improvement arrangements. This considers how performance is measured and monitored across the Council, and to what extent the authority is able to demonstrate that this helps drive continuous improvement. It also looks at how the Council's corporate priorities have been embedded within the organisation and reflected within plans of each Resource Directorate.

23. This fieldwork is currently being conducted and the findings will be reported within our 2017/18 Annual Audit Report.

Grant claim certification work

Education maintenance allowances claim

24. We have arranged to complete the sample testing for the 2017/18 education maintenance allowances claim in June 2018. The results of this testing will help inform our opinion on whether the claim is fairly stated and in accordance with the EMA guidance and processes issued by the Scottish Government which we are required to provide by the certification deadline of 31 July 2018.

Housing benefit subsidy claim

25. Each year, the Council makes a claim to the Department for Work and Pensions for subsidy in respect of housing benefit paid out by the council (£88.5 million in 2016/17). As the Council's external auditors, we are required to certify that the claim is fairly stated and in accordance with specified terms and conditions.

26. As part of our work in support of our certification of the 2017/18 housing benefit subsidy claim, we undertake detailed testing on a sample of cases to confirm that benefit has been awarded in accordance with regulations, and that the correct level of subsidy has been claimed. At present, we have nothing to report in this regard.

Publications

27. All of our reports will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

South Lanarkshire Council

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