

Gregory Colgan  
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8 September 2020

Dear Gregory

### **Dundee City Council - Review of internal controls in financial systems 2019/20**

**1.** Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that the council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulation.

**2.** Our interim work is used to inform our approach to the audit of the annual accounts. Interim audit work includes controls testing, income and expenditure verification and wider dimension audit work. We set out our programme of work in the annual audit plan issued on 14 April 2020. Our interim audit work was interrupted by the outbreak of Covid-19 and the consequent suppression measures put in place by the UK and Scottish governments. This has meant that we have been unable to complete all our testing or our wider dimension work at the interim stage. We will, where possible, be completing programmed work alongside our annual accounts audit work or adjusting our audit approach as necessary.

**3.** Our annual audit plan indicated that we would submit a management report for the consideration of members at the June meeting of the Scrutiny Committee. As the full scope of our work has been delayed, we have elected to provide the shorter version of our interim reporting options, a management letter, concluding on work completed to date, which can be considered at the next meeting of the Scrutiny Committee.

**4.** Weaknesses identified represent those that have come to our attention during the audit work completed to date and are therefore not necessarily all of the weaknesses which may exist. It is the responsibility of management to decide on the nature and extent of the internal control system appropriate to the council.

### **Conclusions**

**5.** We concluded that system controls are operating as specified and that there are no issues which would impact on our audit approach. A few areas have been identified however, where a control could be strengthened.

**6.** We also report participation in the National Fraud Initiative (NFI) and have concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## Key control findings

### System coverage

7. The key systems that were tested at the interim audit stage were as follows:

- |                      |                       |
|----------------------|-----------------------|
| • General ledger     | • Accounts receivable |
| • Payroll            | • Accounts payable    |
| • Cash and banking   | • Housing rent        |
| • Budgetary control  | • Council tax         |
| • Non-domestic rates | • Housing benefits    |

8. We have concluded that overall, the system controls are operating as specified and that there are no issues which would impact on our audit approach. However, the following areas were highlighted where controls could be strengthened.

### General ledger

9. As highlighted in our 2018/19 management letter additions and changes to the ledger coding is restricted to the systems team, thereby providing segregation of duties in the maintenance of the ledger. However, there is no formal process for the requesting and approval of these changes. As highlighted last year no change to the current process is proposed by management.

10. Management accept that the risk of error in changes to the ledger remains but are of the view that given the experience of the systems team, errors are likely to happen very infrequently. Management noted that it is highly unlikely that any error could lead to a material distortion of the ledger and that any error would be highlighted by the individual that requested the change.

### Journal entries

11. The council introduced controls in January 2019 that require all journal entries to be independently authorised by a second staff member. Our download identified one journal which did not comply with the requirement to be independently authorised and was input and authorised by the same individual. We will review the details of this journal as part of our financial statements audit.

#### Management response

The transaction rules have been amended and all journals now require authorisation.

### Change of suppliers' bank details

12. When a supplier requests a change to their bank details, the accounts payable team are required to phone the supplier and sign and date the request, to confirm the change is authentic. From a sample of 30 bank details changes during 2019/20, there were 5 cases where there was insufficient supporting documentation for the change (2 where officers noted that the documentation is held in hard copy in the office). There is a risk that supplier's bank details could be changed erroneously.

#### Management response

Process has been reviewed and when a creditor is updated one officer inputs, another verifies and updates as approval of the change. This change is saved and the change request details are stored electronically against the creditor file.

## Reconciliation payroll to general ledger

**13.** The individual who previously undertook the payroll to general ledger reconciliation left the council in November 2019. This reconciliation has not been fully completed since the individual left with some differences in March 2020 still being investigated.

### Management response

Most of the remaining balance relates to Reworks of payroll for individual employees rather than differences in the posting of weekly or monthly payrolls. Also, lockdown made it impossible for some of the relevant (self-balancing) cash book entries to be created timeously. Every effort will be made to resolve these differences but the work required to do so is challenging to complete in the current homeworking environment.

## Payroll exception reporting

**14.** While it is clear that exception reporting is undertaken, several payroll exception reports in our test sample, did not indicate who had undertaken the review or when.

### Management response

Relevant payroll team members have been reminded to sign off and date all exception reports once checking is complete.

## Data downloads

**15.** To enable us to focus this testing on higher risk items, we have been provided with a download of all income and expenditure transactions posted to the ledger. We are currently working with our in-house data analytics team to further analyse this data and select a sample for testing. This will be completed as part of the financial statements audit.

## National fraud initiative

**16.** The National Fraud Initiative in Scotland (NFI) is a counter-fraud exercise coordinated by Audit Scotland. It brings together data from local government, health boards and other public and private sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud.

**17.** Matches are categorised into low, medium and high risk. High risk cases are prioritised for investigation, together with a sample of medium and low risk cases. The council has processes in place to ensure cases are reviewed timeously. The current NFI review highlighted 175 errors, with overpayments of £135,920 identified to date. NFI activity is reported annually to the Scrutiny Committee. An annual report on the NFI will be presented to the Scrutiny Committee in September 2020.

**18.** We have concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## Acknowledgement

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

Yours sincerely

Bruce Crosbie (Senior Audit Manager)