# East Dunbartonshire Council

## Management report 2019/20

AUDIT SCOTLAND

# 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. 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 will consider the results of this testing when determining our approach to the audit of the 2019/20 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.** Also, we carried out work on the audit dimensions as required by the *Code of Audit Practice*. This focussed on financial management, financial sustainability, governance and transparency and value for money.

## Conclusion

**4.** We did not identify any issues which present a risk of material misstatement for the 2019/20 financial statements. A number of areas where improvements could be made to existing procedures or where controls are not operating as expected are detailed in Exhibit 1 (Page 4) where 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 2019/20 annual accounts.

**5.** In general, appropriate and effective arrangements were in place financial management, financial sustainability, governance and transparency and value for money. We did identify some areas where there is scope for improvement as set out in Exhibit 1 (Page 4).

## Work summary

**6.** Our 2019/20 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals 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.

**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.

## Follow Up of Prior Year Issues

**9.** Our audit work in 2019/20 includes the follow up of agreed actions reported in our 2018/19 management report. Progress on the completion of prior year actions has been limited and there are a number of issues that require further work by officers:

**10. Payroll to General Ledger Reconciliations:** In our 2017/18 management report we highlighted that there were reconciling differences in each monthly reconciliation between the payroll bank account and the general ledger. This related to the process between the general ledger and payroll system when performing the BACS payment process where payments are made to employees in addition to their standard wages. Officers continue to investigate these payments with payroll staff on a monthly basis. The payments that still require to be investigated, as at January 2020, total £84,000. These reconciling items date as far back as 1 April 2016.

**11. Authorisation of journals:** In August 2018 finance officers were instructed that all journals should be prepared by and authorised by separate officers. From review of the 2019/20 journal control spreadsheet which lists all journals processed in year, there were 16 instances of journals not being authorised by a second officer. One of these journals did not have a record of the officer that uploaded or authorised the journal on the control spreadsheet. There is a risk that items may be mis-coded due to a lack of secondary review which could result in errors within the 2019/20 annual accounts.

**12. Housing Rents Arrears:** The current level of housing rents arrears is significantly above departmental targets and has risen significantly during the year. The overall department weekly target has only been met once in the 2019/20 financial year whilst the target for former tenant arrears has not been met at all. The current tenant arrears position has increased from £0.89 million as at 31 March 2019 to £1.164 million at the end of January 2020, whilst former tenants' arrears have increased from £1.46 million to £1.64 million over the same period.

## Risks identified

**13.** The key control and wider dimension risks identified during the interim audit are detailed in Exhibit 1 overleaf. These findings will inform our approach to the annual accounts audit where relevant.

**14.** 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

**15.** As a result of the COVID 19 restrictions we have been unable to complete our testing in relation to changes to supplier bank details. An update will be provided in our 2019/20 Annual Audit Report once this has been completed.

**16.** Whilst no errors have been identified as a result of our audit work to date, the control weaknesses set out below mean that additional work is required to allow us to obtain the relevant assurances for the audit of the 2019/20 financial statements. Specifically this will focus on changes to Payroll standing data, the validity of Council Tax and Non-Domestic Rates reliefs & discounts and Trade Payables testing.

## Exhibit 1
Key findings and action plan 2019/20

| Issue identified | Management response | Responsible officer / target date |
|---|---|---|
| **Feeder reconciliations**<br><br>Our audit testing identified some delays in the completion and review of feeder system reconciliations to the general ledger. These include:<br><br>• Payroll – 2 periodic reconciliations were completed more than 15 working days from the end of the reporting period.<br><br>• Trade Receivables – 1 reconciliation was completed 23 working days after the period end.<br><br>• Trade Payables – 4 reconciliations were reviewed more than 20 working days after the reconciliation has been completed.<br><br>• NDR – 1 reconciliation was reviewed 25 working days after the reconciliation had been completed.<br><br>There is a risk that significant discrepancies arise between financial systems where reconciliations are not performed on a timeous basis. | **Accepted**<br><br>The Council recognises the need for the timely completion of reconciliations and this has been an active consideration during the year.<br><br>The time taken to complete some reconciliations was in part due to resourcing issues which are being managed.<br><br>Whilst timeliness of reconciliation is a key audit consideration all required system reconciliations were completed prior to the conclusion of the next reporting period and no material issues remain.<br><br>Given the complexity of systems and some transaction it is reasonable to expect that some time will be required after period end to investigate and manage reconciling items. Whilst 25 days may be longer than ordinarily anticipated it is important to understand the wider context. Where there is an underlying reason for excessive time taken the Council will seek to provide this context. | Principal Accountant<br><br>**September 2020** |
| **User Access Rights**<br><br>There are a number of financial systems that do not use a standard proforma for requesting systems access for new users or amending current users access levels. These include the Housing Rents system (Saffron), the Axis Income Management system (AIM) and the Payroll/ HR system (iTrent).<br><br>There is a risk that inappropriate access levels may be granted, or access may be provided without sufficient authorisation. | **Accepted**<br><br>Finance teams will engage with those system administrators noted to set out the system security and governance improvements that using standardised form will bring.<br><br>The aim of this work will be to ensure that the administration and controls within the systems concerned will be established on a more formal basis. | Principal Accountants in Conjunction with Respective System Administrators.<br><br>**December 2020** |
| **Ongoing Review of Users Access**<br><br>There is currently no process in place to monitor and review the list of Saffron users in order to identify those users who have not logged on in for a significant period of time and therefore may not still require access to the system. | **Accepted**<br><br>This issue has been raised with Saffron Systems Administrators who will review current user accesses in line with the issue identified. | Saffron Systems Administrator<br><br>**August 2020** |

| Issue identified | Management response | Responsible officer / target date |
|---|---|---|
| Although IT provide details of all leavers to departments on a fortnightly basis there may be instances where employees change jobs, roles or responsibilities and therefore no longer require access to the Housing Rents system.<br><br>Due to staffing issues we note that this process has also not been completed on a regular basis for the Trade Receivables system during 2019/20.<br><br>**There is a risk that staff have access that is inappropriate or no longer required,** | | |
| **NDR Reliefs/ Discounts**<br><br>All reliefs and discounts processed within the Non-Domestic Rates system are reviewed and authorised by a second officer to ensure they have been correctly applied. From a sample of 10 reliefs/discounts selected we noted that 5 were authorised more than 10 working days after the discount had been processed and for another the evidence of the review was not dated.<br><br>**There is a risk that inappropriate or erroneous discounts and reliefs are not identified timeously after being processed.** | **Accepted**<br><br>Similar to the issue in relation to the feeder reconciliations this work is being carried out and reviewed. The Council acknowledge that this takes some time to complete and the need for this to be accelerated will be reviewed against the available resources. | Principal Accountant<br><br>**September 2020** |
| **Payroll Exception Reports**<br><br>A number of reports are produced prior to each payrun in order to identify exceptions that require further investigation by Payroll officers. Whilst we are satisfied that these reports are being produced in accordance with the prescribed frequency, there is no evidence that these reports have been reviewed or what action is undertaken to resolve each exception.<br><br>We have been advised that since April 2020, a spreadsheet is completed to evidence exception reports being produced and reviewed every payrun. However, this report only notes that reports are "complete". An improvement would be to initial, date and add any action points onto the schedule. Also, the spreadsheet does not individually note each of the exception reports, instead this just comes under the heading "reports". | **Accepted**<br><br>It is reassuring that auditors are satisfied that exception reports are being produced. Furthermore auditors acknowledge that additional controls have been enhanced these processes.<br><br>It is helpful therefore that further additional measures have been suggested and whilst the spreadsheet is merely a summary to demonstrate the checks are taking place such improvements will be considered for implementation. | Executive Officer – HR & OT.<br><br>**October 2020** |

| Issue identified | Management response | Responsible officer / target date |
|---|---|---|
| **Payroll Standing Data**<br><br>As part of our payroll testing we reviewed a sample of changes to employee bank details processed during the year in order to ensure that adequate supporting document was received prior to the change being processed. From a sample of 20 changes selected we identified 3 instances where appropriate supporting documentation was not obtained to support the change of standing data for an employee.<br><br>**There is a risk that inappropriate or erroneous changes are made to payroll standing data**.<br><br>Officers have confirmed however that when a bank change is processed by a member of the payroll team, senior payroll officers receive a notification on iTrent and sample checks are carried out on a random basis during the year. | **Accepted**<br><br>The requirement for all documentation to be obtained prior to auctioning a change will be reinforced to staff.<br><br>In addition Senior Payroll Officers will be required to increase the frequency of their checks to ensure that compliance is maintained and evidenced. | Executive Officer – HR & OT<br><br>**June 2020** |

Source: Audit Scotland

## Other audit work and discussions

### Review of internal audit work

**17.** 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 Public Sector Internal Audit Standards (PSIAS).

**18.** As at the end of December 2019 the internal audit plan was being well progressed with a total of 25 (74%) of 34 planned outputs being completed. From discussion with the Audit & Risk manager it was confirmed that the internal audit plan will continue to be delivered as planned but in the event of new or emerging issues being required the plan may be revised. Any material variation will be agreed by the Audit & Risk Committee and specified to ensure that appropriate assurances and the requisite governance assurances provided for the year end.

### National fraud initiative

**19.** The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public 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. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

**20.** Participating bodies received matches for investigation in January 2019. All recommended matches plus any further matches based on findings and the risk of error or fraud should have been investigated by 30 September 2019 and the results recorded on the NFI system.

**21.** We can confirm that as of the end of February 2020 the Council has investigated all high risk matches however it was noted that there was a single incidence where the results of one datamatch have yet to be uploaded onto the NFI system.

## Accessibility of Websites

**22.** As part of our wider scope audit work we reviewed the Council's Website against the requirements of the Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018 which came into force for public sector bodies in September 2018, with compliance due by September 2020. The regulations were introduced to ensure that public sector bodies make their website or mobile app more accessible by making it 'perceivable, operable, understandable and robust'.

**23.** From our review we note that the council has made reasonable progress in updating the council website to meet the requirements but note that further work is in order to achieve full compliance with the regulations. Areas for improvement include the addition of a toggle high contrast feature for visually impaired users, the provision of an audio description feature and the inclusion of subtitles for multimedia files.

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

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