

East Lothian Council

Interim Audit Report 2016/17



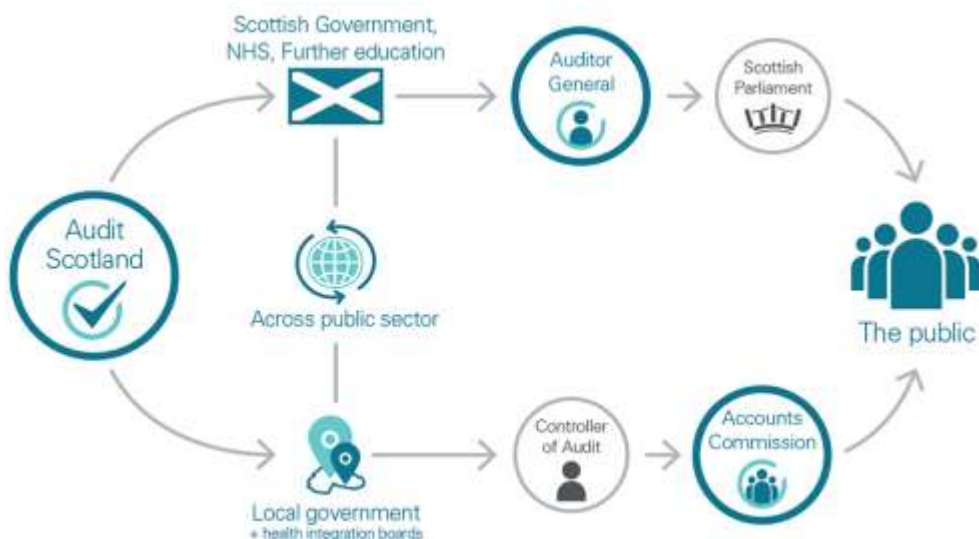
 AUDIT SCOTLAND

Prepared for East Lothian Council
June 2017

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.
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- 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 Lothian 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 audit approach during the 2016/17 financial statements audit.
2. Our responsibilities under the Code of Audit Practice (2016) 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, we have carried out work on the wider dimension audit. This focussed on financial management and governance and transparency.

Conclusion

4. We identified several control weaknesses as summarised in [Exhibit 1](#) overleaf 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 2016/17 financial statements.
5. The matters raised in this report should be considered as part of the Accountable Officer's assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement.
6. 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.

Work summary

7. 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.

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 effort.

Internal Audit areas of reliance

9. Our 2016/17 Annual Audit Plan set out our planned areas of reliance on internal audit. To support our audit opinion on the financial statements we intended to place formal reliance on the following planned internal audit reviews.

- Housing Rents
- Housing Benefit and Council Tax Reduction

10. The reports are due to be presented to the June 2017 Audit and Governance Committee. Once available we will review both reports and determine if we can place reliance on the work performed to reduce our testing during 2016/17 final accounts. The work performed will also be used to inform our 2017/18 programme of work.

Risks identified

11. The key control risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

12. 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 Lothian Council.

Exhibit 1

Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer / target date
Audit findings		
<p>Employee validation (ref. 4053)</p> <p>Although there is a process in place to remove leavers from the payroll, there are currently no arrangements in place to periodically confirm the existence of employees on the payroll.</p> <p>There is an increased risk of fraudulent payments to non-existent employees.</p>	<p>Payroll reports are downloaded onto a finance payroll database and are monitored as part of on-going monthly financial monitoring. This will include details of any leavers and forms the basis of financial monthly monitoring discussions with budget holders.</p> <p>In addition monthly reports are produced and circulated to managers around leavers and starters. This is used alongside the payroll database to inform financial monitoring.</p>	<p>Service Manager (HR & Payroll)</p> <p>Service Manager (Business Finance)</p>
<p>Changes to suppliers' details (ref. 3883)</p> <p>From observation of the checks performed</p>	<p>There has been an on-going issue being able to access historic files on our scanning system and we are</p>	<p>Service Manager (Corporate Finance)</p>

Issue identified	Management response	Responsible officer / target date
<p>to verify a request to change supplier bank details, we were satisfied with the process in place. However when we tested a sample of changes made during 2016/17, no documentary evidence of the checks performed could be provided.</p> <p>There is a risk that sufficient checks may not have been performed resulting in fraudulent payments.</p>	<p>actively working with our scanning provider to resolve this issue.</p> <p>Evidence has now been provided to support the sample testing and controls</p>	<p>On-going discussions with provider</p>
<p>Sample checking of NDR discounts (ref. 3747)</p> <p>There are currently no arrangements in place for sample checking by senior officers of Non Domestic Rates (NDR) discounts and reliefs awarded.</p> <p>The sample checking mitigates the risk of fraudulent claims being awarded for NDR relief.</p>	<p>Weekly sample checks are now in place carried out by the Business Rates Team Leader</p>	<p>In place</p> <p>Service Manager (Revenues)</p>
<p>Quality checking of Council Tax Reduction (ref. 3748)</p> <p>Although an effective system of quality checking for council tax reduction awards is currently in place, officers confirmed that this system has only been in place since December 2016, therefore not in place for the full financial year.</p> <p>The quality checking process mitigates the risk of fraudulent applications for council tax reduction.</p>	<p>The Quality Assurance process which is now in place also includes a sample of checks on cases which have already been processed.</p> <p>A Quality Assurance Strategy is in the process of being developed which will include the enhanced QA monitoring and review.</p>	<p>In place</p> <p>Service Manager (Benefits)</p>
<p>Spot checking of Council Tax relief (ref. 3811)</p> <p>A 10% sample check is performed on council tax refunds by the team leader. Additional spot checks are performed on other council tax areas including reward of discounts and reliefs, however the level of checks performed during 2016/17 was insufficient as the last checks were done in May 2016.</p> <p>The absence of a regular spot checks on council tax reliefs increases the risk of misstatements due to fraud or error not being detected and corrected.</p>	<p>Weekly spot checks are now in place.</p>	<p>In place</p> <p>Service Manager (Revenues)</p>
<p>Access to Revenues systems (ref. 3934)</p> <p>We reviewed User Access request forms covering access to Revenues systems (including Council Tax, Benefits, NDR and Income Management) for a sample of 15 staff. Forms were not available for 3 staff who had access set up before the current arrangements came into place. Of the completed forms reviewed, 4 had not been</p>	<p>The service regularly re-issues user forms to review access and remind users of their responsibilities.</p> <p>The Information Security Form is currently being reviewed and will be reissued to all system user, reminding users of their access and responsibilities.</p>	<p>Service Manager (Revenues)</p>

Issue identified	Management response	Responsible officer / target date
authorised by the employee's line manager. There is a risk that employees could have incorrect access to functions within the Revenues system.		
Source: Audit Scotland		

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

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