

Jim Lamond  
Head of Council Resources  
East Lothian Council  
John Muir House  
Haddington  
EH41 3HA

4 June 2018

Dear Jim

**East Lothian Council**  
**Review of internal controls in key financial systems - 2017/18**

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 East Lothian 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.

**Overall conclusion**

2. On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for those key financial systems reviewed by us.

**System coverage**

3. The following table summarises the key systems that we have tested in our interim audit for financial year 2017/18:

Key System	Audit coverage
Payroll	√
General Ledger	√
Trade Payables	√
Trade Receivables	√
Council Tax	√ (including internal audit reliance)
Non Domestic Rates	√ (including internal audit reliance)
Housing Rents	√
Cash Receipting and Bank	√

## Key findings

4. Our audit testing identified several areas where existing controls could be improved in relation to employee validation, retention of documentation for checks on updates to payroll standing data, changes to supplier bank details and revenues systems IT access.
5. **Employee Validation** - In our 2016/17 Interim Audit Report we reported that there were no arrangements in place to periodically confirm the existence of employees on the payroll. The council responded that compensating controls were in place including monthly financial monitoring discussions held with budget holders and the production of monthly starter/leaver reports circulated to managers.

The effectiveness of this control could be further enhanced by requiring budget holders to formally confirm the accuracy of the staffing lists provided to them as part of the monthly budget financial monitoring process.

**Management Resolution:** Officers have agreed that budget holders will be required to confirm the accuracy of the staffing lists provided to them as part of the budget monitoring process on an annual basis.

6. **Payroll Standing Data** - Key payroll system standing data, for example tax bands/thresholds and annual pay increases, are updated on an annual basis and checked by the Payroll team to confirm that the data has been updated correctly. Evidence of these checks has not been retained so it was not possible for audit to confirm that this completed for the 2017/18 financial year.

**Management Resolution:** Officers have agreed that evidence of checks to payroll system standing data updates during each financial year will be retained until the completion of the annual audit process.

7. **Changes to Supplier Bank Details** - Our 2016/17 Interim Audit Report reported that documentary evidence of the checks performed by the council prior to processing requests to change supplier bank details, could not be provided.

In 2017/18, we attempted to repeat the test for a sample of changes to supplier bank details processed during the year. Due to changes following a system upgrade in September 2017, the Council could only provide a report of changes processed up to August 2017. We were therefore unable to re-perform checks on changes made from September 2017 to March 2018. If the council is not able to produce reports of all changes to supplier bank details, there is a risk that fraudulent or incorrect changes could be processed without being detected.

**Management Resolution:** Officers have agreed to investigate this issue further with IT and the system supplier to identify an appropriate solution.

8. **Revenues Systems IT access** - Our 2016/17 Interim Audit Report reported that authorised 'User Access Request' forms for access to revenues systems (including council tax, Benefits, NDR and income management) were not held for a small number of system users. For 2017/18, we planned to place reliance on work performed by Internal Audit to obtain assurance in this area.

Internal Audit completed testing for a sample of users with access to the NDR system during 2017/18 and they also found a small number of cases that authorised User Access Request forms were not held for all users tested.

**Management Resolution:** Internal Audit have reported their findings separately and agreed an action plan with management.

### **Internal audit**

9. We have placed reliance on the work of internal audit in 2017/18. We found internal audit work to be well documented and supported by appropriate evidence. Therefore, we placed reliance on their findings and thereby avoided unnecessary duplication of effort.

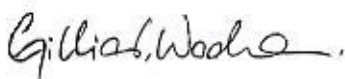
### **Risk identification**

10. The issues identified in preparing this management letter are only those which have come to our attention during our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to East Lothian Council. We would stress however, that an effective system of internal control is an essential part of the efficient management of any organisation.

### **Acknowledgement**

11. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during our interim audit from staff at East Lothian Council is gratefully acknowledged.

Yours sincerely



Gillian Woolman

Cc (email):

Sarah Fortune, Service Manager Business Finance

Liz Denovan, Corporate Finance Manager

Mala Garden, Internal Audit Manager

Fiona Currie, Committees Officer - Democratic Services