

# East Renfrewshire Council Management Report 2017/18



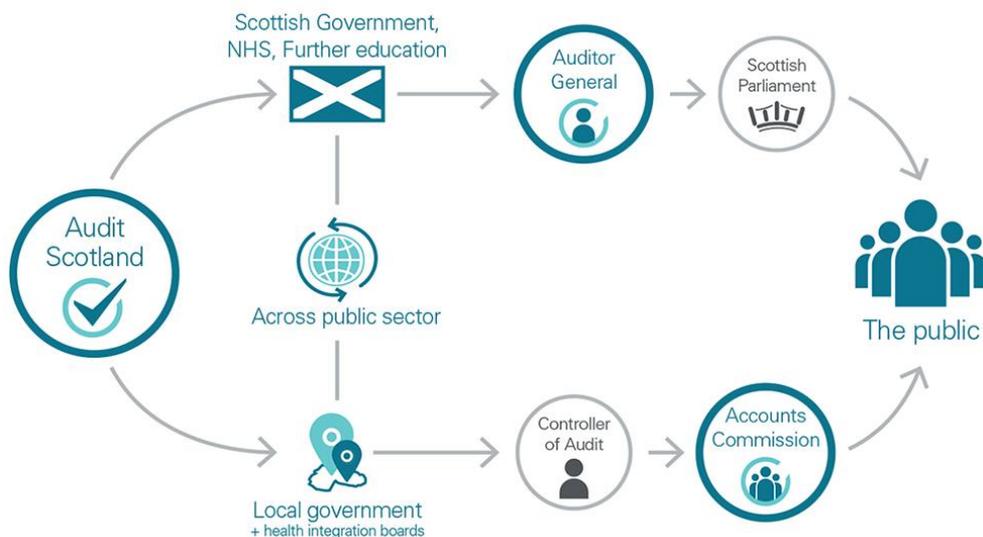
 AUDIT SCOTLAND

Prepared for East Renfrewshire Council  
June 2018

## 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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# Contents

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Audit findings	4
Introduction	4
Conclusion	4
Work summary	4
Risks identified	5
Additional follow-up work	5

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at East Renfrewshire 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 2017/18 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.

## Conclusion

3. Our audit testing did not identify any significant control weaknesses. As summarised in [Exhibit 1](#) we did identify several areas where controls could be strengthened and we will be carrying out limited additional work in response to these findings to allow us to take planned assurance for our audit of the 2017/18 financial statements.

## Work summary

4. Our 2017/18 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, 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.



**Bank reconciliations**



**Payroll controls**



**IT access**



**Budgets**

5. 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.
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.

## Risks identified

7. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#).
8. 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 Renfrewshire Council.

## Additional follow-up work

9. As a result of our interim audit work, we have identified that a small amount of limited additional audit work will require to be carried out as part of the financial statements audit, on the year end feeder reconciliations. This will ensure that we are able to place reliance on the systems of internal control currently in operation.

## Follow up: Creditors

10. We reported in 2016/17 on significant control failures relating to creditors. These related to duplicate payments and supplier bank details changes. A further report on these weaknesses was prepared by Internal Audit in October 2017. The work completed as part of our interim audit has focused on the period since the Internal Audit report.
11. It is clear that progress in improving procedures has been made by the council, and officers have been proactively reporting this progress to members:
  - A revised staffing structure has been implemented. This is currently being staffed by a number of temporary posts and agency staff although approval has recently been obtained to recruit for these posts on a permanent basis.
  - A quality review process has been implemented whereby for invoices under £10,000, 25% checks are completed prior to each payment run. This increases to 100% for new staff. A full 100% check of all invoices over £10,000 is also carried out and involves a qualified accountant, prior to release of a payment run.
  - New procedures have been implemented for processing changes to suppliers' bank account details.
  - Further training has been provided on AP Forensics and AP Forensics is now completed before each payment run to identify any potential duplicate payments.
  - A review has been undertaken on the suppliers list. This identified over 3,000 potential duplicate suppliers and we are advised that these potential duplicates have now been marked for deletion from the system.
12. Furthermore, the council has introduced a comprehensive compliance system which produces weekly reporting on processing activity and accuracy. The weekly reports provide management with details of trends on processing errors detected through the quality procedures in place and they also report on the bank amendments reviews that are undertaken. This allows management to identify issues with individuals or spot trends and ensure staff training can be targeted. These reports are also reviewed by the Director and Head of Accountancy on a monthly basis.
13. We tested in our audit a sample of 30 payment runs to ensure the additional checks noted above were being completed. In all instances evidence was available of the checks being completed as per council procedures. From this review it is clear that while potential duplicates & processing errors are still being made these are being detected before payment is made and used to inform staff training and quality control.

14. Our review found that there is not a formal process to record duplicates or what steps have been undertaken to recover overpayments. No formal record is kept of how much money is owed to the council where duplicate payments have been made. Only after a few weeks will this be passed over to corporate debt but again the procedure for this is not clear.

**Refer action plan 1**

15. We selected a sample of 30 supplier bank changes from daily reports of changes that are now prepared and stored on info@work. Our review highlighted one case where supplier bank details had been entered using documentation which did not meet the standards required to confirm appropriate verification. This supplier had previously been paid by cheque and bank details had been received from the supplier asking to move onto automated bank payments.

**Refer action plan 3**

**Follow up of Prior Year agreed Actions**

16. As part of our interim testing, we reviewed progress against actions agreed by management in response to our 2016/17 Management report. All actions have been implemented apart from the following issue:

17. The council had agreed that finance business partners would perform a 6 monthly review of all feeder reconciliations. From our review, we are satisfied that the reconciliations are being completed from the main systems, However, there is evidence of reconciliations not taking place in a timely manner (housing rents and Carefinance) and reconciliations not been being appropriately evidenced as being reviewed (Logotech, payroll and rent allowances recorded in the ledger to the housing benefit system). It is important that these reconciliations are completed timously and are reviewed to ensure that any differences are dealt with promptly and that the finance ledger reflects all transactions accurately at all times. A small amount of additional work will be required by ourselves to ensure that all year-end reconciliations are appropriately completed and that they do not contain large amounts of reconciling items or suspense account balances.

**Refer action plan 4**

**Exhibit 1**

**Key findings and action plan 2017/18**

Issue identified	Management response	Responsible officer and target date
<p><b>1. Creditors: Procedures on recovering duplicate payments</b></p> <p>The council has been reviewing and strengthening all procedures within the creditors team during 2017/18. However, they have yet to introduce a procedure for the recovery of monies paid out to duplicates. There is no formal record of amounts identified as duplicates and no systematic record kept of these amounts having being received.</p>	<p>Before every payment run, we run a system to check for potential duplicate transactions (i.e. AP Forensics). The system flags transactions which need to be manually checked prior to payment. Management receive weekly reports on the outcomes of these checks.</p> <p>In 2017, Internal Audit report ran a 'catch all' duplicate report for the 28 month period 01/04/14 – 03/08/17. Results of this exercise were reported to elected members in 2017 and have systematically been worked through by the Creditors team to ensure recovery. An update report on this recovery</p>	<p>Head of Business Change &amp; Revenues Services</p> <p>December 2018</p>

Issue identified	Management response	Responsible officer and target date
<p><b>There is a risk that duplicate payments may not be recovered by the council.</b></p>	<p>work was passed to Internal Audit in April 2018 for review.</p> <p>As an extra check (on top of AP Forensics being run prior to every payment run) an additional report has been run for the period 04/08/17 – 31/05/18 and this is currently being reviewed and will be used to inform improvements to our Standard Operating Procedure (SOP) to ensure the correct process is being conducted and that there is a clear procedure for generating updates on the status of accounts that have been recovered or transferred to Debtors for recovery.</p>	
<p><b>2. Creditors: Segregation of Duties</b></p> <p>Under the new structure, team supervisors will process invoices, but are also responsible for carrying out the AP Forensics checks and also for preparing the payment runs.</p> <p><b>There is a risk that the errors could go undetected as a result of supervisors checking and approving their own work</b></p>	<p>Supervisors are no longer processing invoices including uploads.</p> <p>In exceptional circumstances appropriate segregation of duties would allow a supervisor who has not been involved in creating the payment run to process invoices.</p> <p>This will be added to the SOP for keying an invoice.</p>	<p>Head of Business Change &amp; Revenues Services</p> <p>June 2018</p>
<p><b>3. Creditors: Supplier bank details changes</b></p> <p>A sample of supplier bank details changes were reviewed. In one instance, we found that the supporting documentation to be non-compliant with council documentation standards.</p> <p><b>Bank details being changed contrary to council procedures increases the risk of a loss of resources to the council.</b></p>	<p>Bank detail changes are reported and checked daily. A Standard Operating Procedure exists to ensure consistency within the team and this is currently with Internal Audit for review.</p> <p>There is also a further pre-payment check on any recent changes made to a supplier as part of the over/under £10K checks.</p> <p>Reports on these checks of changes to bank details are considered weekly by management to identify any areas for improvement or patterns of note.</p> <p>The instance highlighted in the audit has been double-checked with the supplier and evidence has been provided to external audit to verify that payments have been correctly received and that bank details held on the system were accurate.</p>	<p>Head of Business Change &amp; Revenues Services</p> <p>September 2018</p>
<p><b>4. Main Ledger: Feeder reconciliations</b></p> <p>A significant amount of the data in the finance ledger is derived from the system feeders. While reconciliations between the ledger and the feeder systems are undertaken, we found evidence that reconciliations are not always completed in a timeous manner and are not always evidenced as having been reviewed by the finance business partner.</p> <p><b>There is a risk that the finance ledger does not accurately reflect</b></p>	<p>Whilst reconciliations have been carried out by staff throughout the year, supervisors will be reminded of the need to evidence that they have checked these promptly.</p>	<p>Head of Accountancy</p> <p>July 2018</p>

Issue identified	Management response	Responsible officer and target date
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the full financial data from the feeders.

**5. Main Ledger: Journal uploads**

A control log for journals which are uploaded through Xcel uploader is maintained by accountancy staff. The control log shows the name of the originator of the journal and states who processed the journal. However, there is no listing of originators that accountancy staff will accept journals from.

A list of authorised journal originators will be maintained by Accountancy.

Head of Accountancy  
July 2018

**There is a risk that inappropriate journals are uploaded to eFinancials.**

**Audit dimensions - issues and risks**

**6. Staff leavers process**

The employee verification exercise undertaken during 2017/18 found an instance where an employee had not been removed from payroll 6 months after leaving the council. This has resulted in a payroll overpayment. The reason for this was that there were considerable delays by the line manager in notifying payroll/HR of the employees leaving date. A further review of payroll overpayments reveals that over 50% (120 cases) of overpayments identified in year relate to late documentation being received by payroll. In addition, the review of user access has highlighted a significant number of instances where the employee has left but that access to systems has not been removed.

A communication will be made to the Leadership teams and managers highlighting the Leavers' Checklist process and timeline required with regards to any leaver which can affect HR, Payroll and systems access across the Council. Any future instance of overpayment will be referred to the Head of Service to allow them to investigate recurring causes and implement corrective actions.

Head of Human Resources  
September 2018

**There is a risk that staff leaving the council may be overpaid and that security is compromised due to employees' access not being removed.**

As mentioned above, the list of all corporate system users has recently been reviewed and updated. Any further in year changes should be advised as part of the Leavers' Checklist procedures.

Source: Audit Scotland

**18.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# East Renfrewshire Council

## Management Report 2017/18

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