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Dear Stephen

West Dunbartonshire Council – Interim audit testing 2019/20

1. We carried out interim audit testing during February to May 2020. This letter sets out the outcome of our testing and the issues and risks identified.

Audit approach

2. The main focus of our testing was the verification to source documentation of significant income and expenditure transactions (including staff costs) up to the end of February 2020. As this testing was performed prior to the 2019/20 financial year end, the need for additional testing will be considered as part of the financial statements audit to ensure sufficient audit coverage for the full year is achieved.

3. In addition to this, 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 West Dunbartonshire 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 regulations.

4. To comply with the requirements of the International Standards on Auditing, *ISA 315: identifying and assessing the risk of material misstatement*, we considered whether West Dunbartonshire Council's key accounting and internal financial controls are adequate to prevent material misstatements in the financial statements. During the interim audit we reviewed the key controls in the following systems:

- General Ledger
- Accounts Receivable
- Accounts Payable
- Payroll
- Cash & Bank
- Non-Domestic Rates
- Council Tax
- Housing Benefit

5. This work involved carrying out walkthroughs of the key controls in each system, and targeted testing, to confirm they were operating as expected. This covered a number of areas including reviewing reconciliations, payroll validation checks, payroll exception reporting and changes to supplier bank details. We will use the results of this testing to determine our approach during the 2019/20 financial statements audit.

Overall conclusion

6. From our interim testing we identified one area which represents a risk of material misstatement for the 2019/20 financial statements. We have reported this at point 1 in [appendix 1](#), along with the other issues identified from our testing. These issues will be reflected in our audit approach and will require us to complete additional testing on NDR reliefs to obtain the required assurances for our audit of the 2019/20 financial statements.

Risk identification

7. The issues identified in preparing this management letter are only those which have come to our attention during the course of 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 West Dunbartonshire Council.

Reporting

8. We will report the issues identified from our interim testing, along with the conclusions from the financial statements audit, within our 2019/20 Annual Audit Report.

Acknowledgement

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

Yours sincerely



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Appendix 1

Key findings

No.	Issue identified	Management response	Responsible officer and target date
1	<p>NDR relief sample testing</p> <p>From a sample of 15 NDR reliefs selected for testing, no evidence was retained for five of these to show that a member of staff had checked the relief was correct and valid.</p> <p>Risk: Without a secondary/supervisory check, errors could go unnoticed and invalid reliefs could be granted. This could result in a financial loss to the council.</p>	<p>Of the 15 reliefs selected, the 5 which state 'held no evidence of checking', related to Small Business Bonus (SBB) and Empty Property Relief (EPR) and a single Mandatory Relief. It must be noted none of the SBB or EPR requires review by a Supervisor under current FSC procedure. This is due to the nature of the qualification for such reliefs – they either qualify or they don't e.g. SBB requires a premises to be subject to the Rates regime and the rateable value to be less than £18,000. There is nothing to check on these applications.</p> <p>The single mandatory relief oversight for recording the Supervisor review is noted, however was correct in terms of meeting NDR requirements. Staff will be reminded of the requirement to retain evidence of such supervisory checking.</p>	<p>Section Head – Finance Service Centre</p> <p>Actioned</p>
2	<p>Delays in completing and reviewing feeder system reconciliations</p> <p>Our testing of the Housing Benefit, Non-Domestic Rates and Council Tax reconciliations found that the majority of the sample tested had not been completed within the expected timescale of no later than one month after the period end or reviewed within one month of completion.</p> <p>Risk: Potential errors are not identified, investigated and resolved in a timely manner.</p>	<p>The target of 100% completion within one month of period end is impacted on times when resources are allocated to other areas which are not within the teams planned work for the year. During 2019-20 the team were heavily involved in a major project for a new integrated housing management system which involved substantial testing with reconciliations</p> <p>The target completion during 2020-21 should be improved as there are currently no major projects planned which will impact on the reconciliations team. Section Head of Financial Administration and Governance will continue to monitor this during the year.</p>	<p>Section Head - Financial, Administration & Control</p> <p>31 March 2021</p>
3	<p>Unreconciled NDR differences</p> <p>From our testing of the January 2020 NDR reconciliation, we noted a number of unreconciled items dating back to October 2019. Whilst the reconciliation team were</p>	<p>There is a record of actions taken in the back up papers held as hard copies on file in the office and not on the front summary sheet that audit were supplied with. Audit should have</p>	<p>Section Head - Financial, Administration & Control</p> <p>Actioned</p>

No.	Issue identified	Management response	Responsible officer and target date
	<p>aware of these issues, the explanations for the unreconciled differences and proposed action had been not noted or recorded on the reconciliation.</p> <p>Risk: Potential errors are not identified, investigated and resolved in a timely manner.</p>	<p>been supplied with this additional information during the audit.</p> <p>The items described as “unreconciled” are not actually unreconciled but are actually “unactioned” reconciliation changes</p> <p>Staff have been advised that any action taken should be recorded on electronic files going forward.</p>	
<p>4</p>	<p>Changes to Supplier Bank details</p> <p>Our sample testing of changes to supplier bank details found one instance where there was no evidence on file that a check had been undertaken to verify existing bank details, or other standing data, with the supplier prior to processing the change. In response we undertook additional testing to test all supplier bank detail changes in the year and confirmed that this was an isolated control weakness</p> <p>Risk: Failure to perform this control exposes the council to financial and reputational risks if fraudulent payments are made.</p>	<p>The service acknowledges there was an oversight in terms of no evidence being retained within the file to confirm verification took place in one isolated instance. It should be noted by amending bank details the Council’s finance system automatically emails the supplier to advise that the change has occurred and to advise immediately should this action not be expected. Therefore additional security measures are in place to mitigate risk. Team members have been reminded to ensure all verification is retained on file for appropriate audit tracking.</p>	<p>Section Head – Finance Service Centre</p> <p>26 June 2020</p>
<p>5</p>	<p>Employee Verification exercise</p> <p>Eight out of the 13 strategic leads missed the deadline for responding to the employee verification exercise. The latest respondent was on 11 October 2019, 3 weeks after the deadline.</p> <p>Risk: Irregularities in payments to staff are not identified on a timely basis.</p>	<p>The process of Payroll Audit was simplified in 2019 to allow for timeous responses from the service areas. Clear communication were issued to all the Strategic Leads at the outset and following deadline reminders were issued to leads who did not respond. An update of late returns was also provided to the Strategic Lead, People and Technology. Eight Strategic Leads were still late to submit their return in 2019. In 2020, Payroll will continue to ensure regular reminders are sent to ensure timely returns.</p>	<p>Business Support Manager</p> <p>1 November 2020</p>