

# East Renfrewshire Council Management report 2018/19



 AUDIT SCOTLAND

Prepared for East Renfrewshire Council

May 2019

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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 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 2018/19 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. No significant key control weaknesses were identified from our interim audit work. This will enable us to take planned assurance for our audit of the 2018/19 annual accounts. As summarised in [Exhibit 1](#) overleaf we did identify several areas where controls could be further strengthened.

4. Progress has been made actions agreed in our 2017/18 Management Report. However as noted in paragraphs 12-15, there are a number of areas raised in 2017/18 where progress has been limited.

## Work summary

5. Our 2018/19 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

6. 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

**7.** We have completed our assessment of the council's internal audit function. This included a review of the range and quality of work carried out and consideration of the external assessment carried out against the Public Sector Internal Audit Standards. We have found that the internal audit function has sound documentation standards and reporting procedures in place and that it complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

**8.** In line with our 2018-19 Annual Audit Plan we have reviewed the following pieces of internal audit work to determine whether we could use them to avoid duplication of audit resource and effort, We have completed this review and concluded that there are no issues that prevent us from using this work as planned:

- Council Tax – Reductions/Liability
- Creditor payments
- Payroll

**9.** Progress has been made in the implementation of actions recommended on the way Internal Audit reports are being reported to the Audit and Scrutiny Committee. We will continue to monitor progress on the Audit and Scrutiny Committee's review of Internal Audit work.

## Audit and Scrutiny Committee

**10.** We regularly attend the meetings of the Audit and Scrutiny Committee and two matters have come to our attention:

- We note from attending the Audit And Scrutiny Committee that some of the discussion between members can be adversarial along party political lines rather than being focussed on the remit and function of the Committee to seek assurance about the effective and efficient operation of systems and processes in place within the council.
- We also noted that officers of the council are not always present to answer scrutiny questions on reports presented to the Audit and Scrutiny Committee.

**11.** Both of these issues are having an adverse impact on the effectiveness of scrutiny by members.

### [Exhibit 1: Action Plan 5](#)

## Follow up of prior year issues

**12.** We have followed up progress made with the action plan agreed in our 2017/18 Management Report. Progress has been made against 3 out of the 6 actions agreed. Progress against the remaining actions is limited.

**13.** We reported in 2017/18 that there were £70,000 representing 120 payroll overpayments made due to late paperwork for leavers and other changes to staff conditions being received by payroll. As part of the 2018/19 payroll audit, Internal Audit have reported that there a high number of leavers forms not being completed by managers. In 2018/19, there was £45,000 comprising 142 payroll overpayments recorded with late paperwork being the reason. In addition, the key employee verification exercise which is undertaken annually by the council to ensure the validity of staff on the payroll, was not undertaken until mid March. The outcome of this exercise is still to be reviewed by officers and we will report any significant findings to members at a later date.

[Exhibit 1: Action Plan 6](#)

14. In 2016/17, the council had agreed that finance business partners would perform a 6 monthly review of all feeder reconciliations. We are remain satisfied that the reconciliations are being completed from the main systems, However, there remains a number of reconciliations which are not been being appropriately evidenced as being reviewed (payroll and rent allowances recorded in the ledger to the housing benefit system and main bank account). It is important that these reconciliations are reviewed to ensure that any differences are dealt with promptly and that the finance ledger reflects all transactions accurately at all times. In order to gain full assurance on the operation of the reconciliations, 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 uncleared suspense account balances. This same matter was reported to you as part of our 2017-18 audit in our Management Report on 21 June 2018.

[Exhibit 1: Action Plan 2](#)

15. We reported in 2017/18 that there was no listing of originators from whom accountancy staff would accept Xcel uploader journals from. Management had agreed to implement a list of authorised journal originators and that this would be maintained by Accountancy. This authorised list has not yet been prepared.

[Exhibit1: Action Plan 3](#)

16. 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.

## Key Findings

17. Our interim audit identified a number of opportunities to further strengthen existing controls and processes as detailed in [Exhibit 1](#) below. Where appropriate, we will use these findings to inform our approach to the financial statements audit.

18. 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.

## Exhibit 1 Key findings and action plan 2018/19

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<b>1. Systems Access</b>		
An annual review of systems access to payroll, ICON (cash receipting) and General Ledger is currently being completed by council officers. Annual access checks on Council tax, housing rents remain to be completed. Also, confirmation that employee declarations for all staff with supervisor access within the payroll/HR system, which allows data input into both payroll and HR access have yet to be provided. We will review the outcome of the system access reviews and	The systems access review should be complete by 31 July 2019. We will continue to carry out annual reviews as required once the new core systems have been implemented.	Head of Accountancy ICON/Payroll/ General Ledger 31 July 2019 & Annual
	The annual review of Council Tax system access has commenced and will be completed by 31 July 2019.	Senior Revenues Manager – Council Tax 31 July 2019

Issue identified	Management response	Responsible officer and target date
<p>assess the impact of the results on our planned audit approach.</p> <p><b>There is an increased risk of fraud occurring due to staff having inappropriate access to key financial systems.</b></p>	<p>OHMS annual access check will be completed by end June 2019.</p> <p>The employee declarations for all staff with payroll/HR supervisor access are being reviewed with the recent changes to the teams (due to secondments &amp; retirements) and will be provided.</p>	<p>Principal Officer Tenant Management and Customer Co-ordinator Housing Rents (OHMS)</p> <p>30 June 2019</p> <p>Head of HR and Corporate Services (HR)</p> <p>31 July 2019</p>
<p><b>2. 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 evidenced as having been reviewed by senior managers and the relevant finance business partner.</p> <p><b>There is a risk that the finance ledger does not accurately reflect the full financial data from the feeders and the financial statements are mis-stated.</b></p>	<p>Senior managers and Finance Business Partners will be reminded to evidence review of feeder reconciliations.</p>	<p>Head of Accountancy</p> <p>30 June 2019</p>
<p><b>3. Main Ledger: Journal uploads</b></p> <p>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.</p> <p><b>There is a risk that staff upload journals prepared by staff who are unaware of accounting or budgeting requirements.</b></p>	<p>Accountancy staff check all journals prior to upload to mitigate the risk of errors in journals prepared by non accountancy staff.</p> <p>In moving to the new financial system later in 2019/20 processes for journal approvals/uploads will be further reviewed and confirmation of authorised originators considered.</p>	<p>Head of Accountancy</p> <p>December 2019</p>
<p><b>Audit dimensions – issues and risks</b></p>		
<p><b>4. Non-Domestic Rates</b></p> <p>The Service Level Agreement for the billing and collection of Non-Domestic Rates with Renfrewshire Council is currently out of date. Members recently approved an extension to this contract without competition, however</p>	<p>The Service Level Agreement which is in place has been under review. It has been updated and content discussed with legal. It will be finalised and signed with Renfrewshire Council by 30 June 2019.</p>	<p>Senior Revenue Manager</p> <p>30 June 2019</p>

Issue identified	Management response	Responsible officer and target date
<p>the report to members did not report the value of this contract (approximately £60,000 pa). This is an omission which would have allowed members to make a more informed decision of the future of the contract.</p> <p><b>There is a risk that the services for billing and collection of Non-Domestic rates is currently without a service level agreement with the provider.</b></p>		
<p><b>5. Audit and Scrutiny Committee</b></p> <p>Discussion between members can be adversarial along party political lines rather than being focussed on the remit and function of the Committee to seek assurance about the effective and efficient operation of systems and processes in place within the council. We also noted that officers of the council are not always present to answer scrutiny questions on reports presented to the Audit and Scrutiny Committee</p> <p><b>There is a risk that scrutiny and challenge the Audit and Scrutiny Committee is not effective.</b></p>	<p>Arising from the recommendations in the Best Value audit Report, a temporary member of staff has been appointed to support the Clerk/committee.</p> <p>Early work already carried out since the appointment has been the development of a Guide to Scrutiny and Review, the purpose of which will be to assist Members in performing their scrutiny role.</p> <p>The draft guide which will be a resource available to all Members, will be presented to the Audit &amp; Scrutiny Committee for consideration at its meeting on 20 June and thereafter presented to the full Council for consideration on 26 June. In addition the Head of Accountancy now acts as Advisor to the Committee and attends all meetings.</p> <p>Committee procedure in relation to officer attendance at meetings is that officers will attend for in depth questioning at the committee's request. This ensures that officers have the opportunity to be fully briefed and prepared to answer any questions from the committee when they attend. This is considered to enhance efficiency and effectiveness as committee and officer time can be scheduled appropriately.</p>	<p>Democratic Services Manager</p> <p>30 June 2019</p>
<p><b>6. Staff Leavers</b></p> <p>As we reported in 2017/18 and by Internal audit in 2018/19, there remains delays by the line managers in notifying payroll of employees leaving the council or changing terms and conditions. A review of 2018/19 payroll overpayments reveals that £45,000 or 142 cases of overpayments identified in year relate to late documentation being received by payroll. In addition, the annual employee verification review has been delayed with the results currently being reviewed by officers</p>	<p>As mentioned many of the late payments relate to receipt of late documentation to Payroll. To increase awareness about the need to inform payroll there is a monthly reminder email sent to all managers asking for them to notify HR/Payroll of any changes e.g. leavers, contract changes.</p> <p>A communication will be sent to Leadership Group reminding managers of their responsibility and highlighting the level of overpayment.</p>	<p>Head of HR &amp; Corporate Services (Monthly)</p> <p>31 July 2019</p>



Issue identified	Management response	Responsible officer and target date
<p>There is a risk that staff leaving the council may be overpaid.</p>		
<p><b>7. Staff Capacity</b></p> <p>From discussion with officers during the completion of our interim testing, issues have been raised in relation to the ongoing capacity of staff within their current roles. It was noted that a number of annual verification processes such employee existence checks have been delayed and remain incompleted to date.</p> <p><b>There is a risk that the current and extra demand on resources could place further pressures on staff capacity</b></p>	<p>Ongoing demand pressures on Councils coinciding with budget constraints and transformation initiatives are recognised by the Corporate Management Team. Service performance and key project progress are monitored 6 monthly and monthly respectively and, where required, additional resources can be applied (e.g. use of Modernisation Fund to cover costs of Core Systems project staff secondments).</p> <p>The case cited of employee checks arose from exceptional circumstances – secondment of experienced staff to the Core Systems project coincided with the delayed national pay award for both LGE and teaching staff causing a delay in issuing the annual verification process for employees. This will be completed in July. This is considered a reduced risk as since the introduction of this check managers have visibility of their employee details through myinsider. The introduction of the new Core System with updated hierarchy will allow for closer governance in this area and future checks will be redesigned. (Mar 2020)</p>	<p>CMT (6 monthly &amp; monthly)</p> <p>Head of HR &amp; Corporate Services</p> <p>31 July 2019</p> <p>31 March 2020</p>
<p><b>7. Standing Orders</b></p> <p>The Standing Orders for the operation of council business have not been reviewed since 2013.</p> <p><b>There is a risk that the council's Standing Orders do not reflect current committees, posts or member requirements on attendance.</b></p>	<p>The Council's Standing Orders (SO No.53) state that the Council shall review its Standing Orders at least once in its lifetime.</p> <p>A Standing Orders Review group has been established and met, and a revised set of Standing Orders have now been drafted.</p> <p>These will be presented to the full Council following the summer recess.</p> <p>Matters in relation to number and composition of committees are dealt with in the Scheme of Administration, and any reference in the Standing Orders to attendance at meetings is in accordance with legislative provisions and therefore will not be amended in the revised Standing Orders</p>	<p>Democratic Services Manager</p> <p>October 2019</p>
<p><b>8. Fraud Policy &amp; staff awareness</b></p> <p>The anti-fraud policy and the whistleblowing policy has not been reviewed since February 2015. In addition, no information could be found in relation to raising staff awareness of current fraud arrangements</p> <p><b>There is a risk that this document is out of date and does not reflect current posts or officer requirements on attendance.</b></p>	<p>The Anti-Fraud and Bribery Strategy and the Whistleblowing Policy have recently been reviewed and will be submitted to the Corporate Management Team in June 2019. Once approved, a staff awareness campaign will then follow.</p>	<p>Chief Executive Business Manager/ Policy and Employment Law Advisor</p> <p>31 August 2019</p>



Source: Audit Scotland

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**19.** 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 2018/19

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