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M McCrossan  
Head of Accountancy (Chief Financial Officer)  
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16 September 2020

Dear Margaret

### East Renfrewshire Council - Review of internal controls in financial systems 2019/20

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 Renfrewshire 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.

2. Our interim audit work was interrupted by the outbreak of Covid-19 and the consequent suppression measures put in place by the UK and Scottish governments. This resulted in delays in completing our audit testing and wider dimension work. We have elected to provide the shorter version of our interim reporting options, a management letter, concluding on the work completed to date.

### Overall conclusion

3. 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

4. The following table summarises the key systems that we have tested in our interim audit for financial year 2019/20.

Payroll	√
General Ledger	√
Trade Payables	√
Trade Receivables	√
Cash and Banking	√
Treasury Management	√
Council Tax	√

Carefirst

√

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Housing Rents√

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## Key findings

- 5.** Our audit testing did not identify any significant control weaknesses. We did identify some less significant issues which have been noted in Appendix 1. These have been discussed with management so that appropriate actions could be taken.
- 6.** Due to current Covid-19 situation and staff working at home, we have been unable to complete our full controls testing on the payroll system. This will require additional testing to be completed during our year-end work. We will report back any issues with this work in our Annual Audit Report.
- 7.** We placed reliance on internal audit work on accounts payable, accounts receivable, housing rents and on the balance transfers from the old finance ledger as part of the general ledger review. We re-performed some tests to gain assurances on the adequacy of the work. We found internal audit work to be well documented and supported by appropriate evidence. Therefore, we were able to place reliance on their findings and thereby avoid unnecessary duplication of effort.

## Risk identification

- 8.** 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 East Renfrewshire Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

## 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 the East Renfrewshire Council is gratefully acknowledged.

Yours sincerely



John Cornett

Audit Director

# Appendix 1

## Key findings and action plan 2019/20

### Payroll reconciliations

Following the introduction of the new finance ledger in September 2019, the reconciliation of the payroll system to the ledger has been undertaken by Internal Audit through the use of the IDEA audit software. There is no formal output from this review with an email being provided by the Chief Internal Auditor confirming that the review has been completed and noting any differences.

We are able to take assurance from this review, however a formal reconciliation process should be developed to ensure a proper audit trail and to provide evidence of differences being actioned.

Interim reconciliation arrangements will continue until the new payroll/HR system goes live later this year. The reconciliation process will then be reviewed and ongoing arrangements confirmed once the new system and structures are fully implemented.

Head of HR  
January 2021

### System reconciliation

Due to the introduction of the new finance ledger, the monthly reconciliation of Carefirst invoices to the ledger is currently being completed by the Core Systems team. However, the reconciliation methodology is still being developed and does not record who performed the reconciliation, when it was performed or if it was reviewed/approved.

We are able to take assurance from the reconciliation process, however a formal reconciliation style and procedure for review should be developed to ensure a clear and consistent audit trail.

The reconciliation process for Carefinance and the new ledger system is quite cumbersome given the system constraints. HSCP finance continue to work with Core Systems colleagues to develop, streamline and hand over the process to HSCP. This is currently a work in progress and the associated procedures are being reviewed and revised as this develops.

IJB CFO/ Head of Accountancy  
December 2020

### System Access

It is good practice to review access to systems on a regular basis. We were unable to confirm if such a review of access had been undertaken in relation to the Cash & Banking system and the Carefirst system within the last year. Additionally, we found an instance within the general ledger where staff access had not been amended following new roles and that access to processing journal entries was provided to staff other than the accountancy team.

There is an increased risk of fraud occurring due to staff having

The annual review of cash & banking system users was delayed due to the impact of the COVID pandemic. This will now be carried out in the coming months, however updates relating to staffing changes have been applied as required on an ad hoc basis.

The Carefirst User review scheduled for the end of March was delayed due to the impact of COVID-19. The system access is updated on an ad-hoc basis as specific changes are notified. The scheduled review will be undertaken as we move through response and recovery.

Head of Accountancy  
November 2020

IJB CFO  
December 2020

inappropriate access to key financial systems.

Managers will be reminded to update permissions as team roles change in future.

Head of Accountancy  
October 2020

Whilst no non accountancy related staff have processed journal entries on the new Integra system, action has now been taken to restrict this permission only to accountancy related staff in future.

Head of Accountancy  
September 2020

### Main Ledger: Feeder reconciliations

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.

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.

Appropriate staff will again be reminded to evidence review of reconciliations, however this has been rendered more difficult in recent months due to the impact of the COVID-19 pandemic and the move to remote working.

Head of Accountancy  
October 2020

### Payroll Overpayments

We reported in 2018 and 2019 on the level of payroll overpayments that had occurred due to line managers not completing the appropriate paperwork and submitting to payroll. During 2019/20, payroll overpayments of £67k were noted due to submission of late forms (2018/19 £45k) this relates to 142 cases (148 cases 2018/19).

A risk remains that due to late submission of forms, the council suffers a loss.

HR has already introduced measures to address this including a formal electronic leavers form and a monthly email reminder sent to managers reminding them of the deadlines for the submission of leaver/contract change information. The process is under review as we move to the new system and further measures proposed include monthly reports to Directors of the level of late notifications in their area and weekly contact with line managers to confirm that new starters have joined on their agreed start date.

Head of HR  
January 2021