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East Renfrewshire Council
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6 September 2021

Dear Margaret

East Renfrewshire Council - Review of internal controls in financial systems 2020/21

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 completed later than planned due to the additional work required around initial systems reviews of the new NPS benefit and council tax system and iTrent HR/payroll system and the testing of key controls. 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 2020/21.

Key System	Audit coverage
Payroll	√

Key System	Audit coverage
General Ledger	√
Trade Payables	√
Trade Receivables	√
Cash and Banking	√
Treasury Management	√
Council Tax	√
Carefirst	√
Housing Rents	√

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. The council introduced new systems during the year. The new payroll/HR system iTrent replaced resourcelink in November 2020. The Orbis benefits/council tax system was replaced by the NPS system in December 2020. Our testing was undertaken across the systems in place at the start of the year and also the new systems introduced during the year to ensure appropriate coverage of the controls in operation across the full financial year.
7. We recognise the challenges around system implementation and note that during this period council employees continued to work remotely. Additional workload has arisen during the year for the benefits/council tax teams around the increased level of council tax reduction and self isolation grants. Within Appendix 1 we have noted several areas for improvement around the new systems. In response to these findings, the audit team have undertaken additional controls and substantive testing to gain the required assurances for the financial statements audit.
8. We reviewed work internal audit undertook for cash income and banking, creditors payments and debtors control and on the balance transfers from the old to the new council tax system. 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 use their work to avoid unnecessary duplication of effort.

Risk identification

9. 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

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

Yours sincerely



John Cornett

Audit Director

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Appendix 1

Key findings and action plan 2020/21

Issue identified	Management response	Responsible officer / target date
<p>Superuser System access</p> <p>Superuser access provides full system access and functionality and therefore to retain effective system control such access is usually only granted to a small number of system users for administrative purposes. From our review of the superuser access of the finance ledger, payroll/HR system and Council tax/benefits system we noted:</p> <ul style="list-style-type: none"> • The finance ledger has 33 superusers with only 4 of these being council employees and the rest being system consultants. • Despite system functionality being available for all systems, reports showing superuser activity are not routinely created and reviewed to monitor activity. <p>A review of the finance ledger and bank detail changes activity during 2020/21 has been undertaken and confirmation obtained that no postings or changes have been made by superusers.</p> <p>There is an increased risk of fraud occurring due to staff having inappropriate/unnecessary access to key financial systems. Action should be taken to reduce the number of people with Superuser access and arrangements should be implemented to regularly review activity logs and ensure changes made by Superusers are appropriate.</p>	<p>The number of superusers has increased on all systems following advice from our data protection team that individual consultants should be added for transparency rather than one generic consultancy superuser set up for each system. The number of consultancy staff requiring access to these hosted systems is determined by the consultant organisations and not the Council. A list of all systems users is already reviewed annually.</p> <p>Consideration will be given to running/ reviewing quarterly reports on superuser activity for each system although this will be a major administrative burden as these must be run separately for each individual superuser.</p>	<p>Head of Accountancy/ Head of Human Resources/ Head of Communities, Revenues & Change</p> <p>December 2021</p>

Issue identified	Management response	Responsible officer / target date
<p>System access</p> <p>It is good practice to review system access and permissions on a regular basis. During 2020/21 a full review of system access did not take place on the housing rent, carefirst or resourcelink payroll system.</p> <p>Additionally, we noted that journal entries should be restricted to accountancy staff only. However, all staff with administrative access can process journals.</p> <p>There is an increased risk of fraud occurring due to staff having inappropriate access to key financial systems.</p>	<p>This will be undertaken by December 2021 for housing rent. The Housing Services Manager will lead for housing</p> <p>The CareFirst users were audited in December 2020 and the next audit is scheduled for December 2021. During each year users are updated based on starter and leaver information.</p> <p>There has been a transition from Resource link to iTrent in the last year and access and permissions were reviewed and set-up as part of this transfer.</p> <p>A process will now be set-up to ensure that there is an ongoing review of system access.</p> <p>With the exception of the creditors & debtors system leads all employees with approval for journal processing are Accountancy staff. This includes three staff members who are temporarily seconded to the Core Systems team but who are still required to contribute to accountancy work. No journals are processed by the creditors and debtors leads, however ledger figures are closely monitored by Accountancy and journals can be easily reversed if required.</p>	<p>Housing Rents – Head of Environment (Housing & Property) December 2021</p> <p>Carefirst – IJB CFO December 2021</p> <p>Resourcelink Payroll System – Head of HR December 2021</p> <p>Journals – Head of Accountancy</p>
<p>Housing Benefit reconciliation</p> <p>The housing benefit paid to ERC tenants has not been reconciled to the housing rent system since the introduction of the new housing benefit system.</p> <p>We have received a control spreadsheet showing each</p>	<p>Reconciliation of Housing Benefit system to the Housing Rent system has now been completed for FY 2020/21 and only 1 immaterial issue was identified. Going forward this reconciliation and compliance checks will be completed timeously and compliance</p>	<p>Head of Environment (Housing & Property) / Head of Communities, Revenues & Change December 2021</p>

Issue identified	Management response	Responsible officer / target date
<p>weeks rent rebate accepted onto the housing rents system from 14 December 2020. Reports from the housing rents system have been provided to verify the weekly payments for housing rents made in the latter part of 2020/21.</p> <p>Whilst we have been able to take assurance from this process arrangements should be established to implement a formal reconciliation process between the housing rent and housing benefit system to be established to ensure that values within the financial systems are accurate.</p>	<p>checks will be carried out on all Revenues, Benefits, Accounts Payable/Receivable and Business Support reconciliations.</p>	
Payroll Reconciliation		
<p>The payroll to ledger reconciliations for month 8 and week 32 were not prepared prior to the new payroll system going live.</p> <p>The reconciliations were prepared in July 2021 and we have assurance that no anomalies arose in the final payruns on the old system. However, there is a risk of financial misstatements not being identified promptly if reconciliations are not prepared and reviewed in a timely manner.</p>	<p>Old system was fully reconciled by the Core Systems Development Manager & Chief Auditor, but this was delayed due to focus on the implementation of the new iTrent payroll system. The new system in place since late 2020 involves a detailed costing file being posted to the ledger, rather than a summary file as in the past. The control check is now therefore that the journal balances to zero, removing the need for a detailed reconciliation.</p>	<p>Head of Accountancy November 2020</p>
Reconciliations		
<p>The financial statements are supported by information within the finance ledger and other key financial systems. We reviewed reconciliations across all financial systems and noted a lack of evidence of review by senior managers and the relevant finance business partner.</p>	<p>Reconciliations are being maintained, however they are not always being evidenced as having been reviewed by an appropriate senior manager. Where the reconciliations are carried out by staff out with Accountancy, the appropriate Finance Business Partner should ask senior management in the relevant department twice yearly to confirm that their reviews are up to date. Appropriate staff will again be</p>	<p>General - Head of Accountancy September 2021</p>

Issue identified	Management response	Responsible officer / target date
<p>Additionally, the daily reconciliation of income from ICON and posted to the council tax system has not been subject to sign off since the implementation of the new system in December 2020.</p>	<p>reminded to evidence such reviews.</p> <p>The daily reconciliation of income from ICON has been reviewed and a process in place going forward. Compliance checks will be carried out on all reconciliations.</p>	<p>Council Tax - Head of Communities, Revenues & Change</p> <p>December 2021</p>
<p>Further, we noted that the monthly treasury management reconciliations were prepared regularly but not subject to approval until the financial year end.</p> <p>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.</p>	<p>Monthly Treasury management reconciliations are currently completed and signed off by a senior member of staff</p>	<p>Treasury – Head of Accountancy</p> <p>August 2021</p>
Employee verification		
<p>No employee verification exercise was completed during 2020/21.</p> <p>We substantively tested employees joining and leaving the organisation and transferring to the new payroll system.</p> <p>We noted one overpayment relating to the continued payment of responsibility allowances after the employee had moved role. The overpayment is being recovered.</p>	<p>There is now better visibility for managers to view employee data through manager self service on iTrent. We are going to undertake this exercise in a different way and ask managers to check data held in the system including vacancies and notify HR of any changes.</p>	<p>Head of HR</p> <p>December 2021</p>
<p>We did however note lapses in the procedural controls around staff leaving the organisation. Our sample identified leavers forms not consistently being completed by managers. Delays in system access being removed and IT equipment being returned.</p>	<p>HR have a mandatory electronic leavers form process in place, once completed this is viewed on a leavers dashboard and leavers are removed from the HR/Payroll system. HR send a 4 weekly email reminder to staff about completing the leavers form.</p> <p>The IT equipment form is a separate process, HR will liaise with IT regarding how they can ensure this form is completed.</p>	<p>Head of HR</p> <p>December 2021</p>

Issue identified	Management response	Responsible officer / target date
<p>For new employees selected for review we identified instances of insufficient evidence to demonstrate contract acceptance and the provision of appropriate proof of identify documentation.</p> <p>Whilst we have identified weaknesses in the processes for employees joining and leaving employment with the council, we have been able to obtain sufficient assurance around the material accuracy and completeness of the payroll values being included within the financial statements.</p>	<p>Contract acceptance has already been addressed. A process has since been put in place whereby a report is received on a monthly basis showing who has or hasn't accepted the contract electronically, these individuals are then followed up to ensure this is completed.</p> <p>The proof of identification process is being addressed as part of the right to work checks process. A form will be completed to confirm copies of identification have been received.</p>	<p>Head of HR</p>

Council tax – suspense accounts

Whilst council tax reference numbers have remained the same, the NPS system added an additional digit as a check digit. The NPS system is not recognising these numbers and council tax payments are going to suspense accounts as opposed to being automatically posted against the customers account. A substantial amount of time and resource is currently being spent reviewing and clearing the suspense accounts.

The degree of manual intervention increases the risk of errors being made and from an efficiency point of view resources could be utilised more effectively to improve the control environment within council tax.

This issue was apparent when the new Revenues and Benefits system was implemented, and was rectified shortly thereafter. The NPS system does not recognise the 10-digit number and posts council tax receipts to customers accounts. There remains an issue with some payments going to suspense and this will be resolved with the next system upgrade due in September 2021.

Head of Communities, Revenues & Change
December 2021

Council tax - Billing

The council tax team are only dealing with bills from 2020 and 2021 due to data issues with the files. The previous Orbis system ran billing covering all years, whereas the NPS system runs billing year on year.

The billing process continues to be reviewed and this issue will be resolved through joint working with the NPS supplier. The NPS system reflects the customer position, however the

Head of Communities, Revenues & Change
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<p>No billing runs have been completed for 2019 or earlier since moving to NPS. There is a risk that backdated discounts and reliefs may not have been applied in the final four months of the financial year.</p>	<p>billing communication to the customer is outstanding.</p>	
<p>Council tax - Second officer checks</p> <p>Discounts and exemptions applied daily were subject to second officer checks on the Orbis system for the first seven months of the year. However, these checks were not in place between December 2020 and March 2021. There is a risk that errors are not identified and rectified promptly.</p>	<p>These checks are in place and will continue throughout FY 2021/22.</p>	<p>Head of Communities, Revenues & Change August 2021</p>
<p>Benefits – Processing backlog</p> <p>At the time of completing our audit work, there was a 5-month backlog in processing daily DWP/HMRC reports detailing changes to claimants' circumstances for benefits.</p> <p>Council officers have not taken any follow up action on benefits overpayments whilst the backlog remains as the processing of subsequent changes may alter the position.</p> <p>The processing of changes notified should continue and an exercise be undertaken to provide assurance around the impact of these changes. There is a risk that out-of-date benefit payments are being made.</p>	<p>The Benefits backlog is being worked through by the Benefits Team with support from the supplier, NPS.</p> <p>Recovery of overpayment debt continues and formal recovery processes will resume in due course.</p> <p>Analysis of the subsidy data confirmed that benefit payments were in line with expectations. Clearing the backlog on Housing Benefit changes are being prioritised during FY2021/22.</p>	<p>Head of Communities, Revenues & Change March 2022</p>
<p>Benefits – Quality and control checks</p> <p>Quality control checks within Housing Benefits have been suspended following the introduction of the new system. These checks include a sample review of cases processed by members of the benefits team.</p>	<p>These controls are in place and will continue throughout FY 2021/22 and evidence will be retained.</p>	<p>Head of Communities, Revenues & Change</p>

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<p>A further control is applied to individual benefits claims over £1,500. Two of the payment runs we requested since the introduction of the new system have not been provided. From review of the remaining reports three instances of individual payments over £1,500 have been identified. For each of these payments no evidence is available to demonstrate the control checks taking place.</p> <p>The low instance of £1,500 benefit payments provides assurance that these payments are not material values.</p> <p>Arrangements should be implemented to ensure that quality and control checks are actioned and evidenced. There is a risk that errors are not identified and rectified promptly.</p>		August 2021
<p>Benefits nightly mass calculation report</p> <p>Officers identified the nightly mass calculation report as a key control within the new system. Due to an error this report was not run between 25 February and 12 March. However, this had no impact on benefit payments made because, by fortuitous coincidence, the weekly payments were not issued due to an error processing the February report.</p> <p>For the other reports prepared we identified a lack of evidence of review for all reports.</p> <p>Arrangements should be established to ensure review processes are consistently applied. There is a risk that errors are not identified and rectified promptly.</p>	<p>This control is in place and will continue throughout FY 2021/22 and evidence will be retained.</p>	<p>Head of Communities, Revenues & Change</p> <p>August 2021</p>
<p>Benefits Entitlement Tracker</p> <p>Northgate provided an entitlement tracker to the council</p>	<p>The entitlement tracker review will be carried out and prioritised</p>	<p>Head of Communities,</p>

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<p>which compares the benefit awarded on Orbis with the benefit awarded on NPS. Officers have completed the review on council tax reduction, but the review of housing benefit awards is still underway.</p> <p>Until this review is complete any errors in the benefit awarded and recorded within the NPS system will not be identified and resolved. Work should continue to complete this comparison work.</p>	<p>once the Benefits backlog is cleared.</p>	<p>Revenues & Change March 2022</p>

Source: Audit Scotland