



Paul Manning
South Lanarkshire Council
Almada Street
Hamilton
ML3 0AA

28 March 2013

Our ref: CDR/MK

Dear Paul

Interim Management Letter for Year Ending 31 March 2013

We conducted our interim fieldwork commencing 25 February 2013. The purpose of the visit was to update our understanding of South Lanarkshire Council ("the Council") processes, controls and associated risks to inform and direct our year end audit.

It is the responsibility of management to maintain adequate and effective financial systems and to arrange for an appropriate system of internal control. As your auditors, for the purposes of our audit assurance, we evaluate significant financial systems and associated controls within the Council. In practice, we do not examine every financial activity and as a result it cannot be expected that we will have identified all weaknesses or areas for improvement that may exist.

The prime responsibility for the prevention and detection of fraud and irregularities also rests with management. Management has a duty to take reasonable steps to limit the opportunity for corrupt practices. It is our responsibility to review the adequacy of these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity may have occurred and remain undetected.

We updated our understanding of the controls in place over budgetary control, treasury, income and receivables, payments and payables and cash and bank and noted no significant changes to the control environment. We have also updated our understanding of and performed detailed testing over standing data change controls over payroll. We identified two areas where the control environment could be strengthened and these are detailed in Appendix 1.

In addition we have scoped and planned the testing of Council Tax, Non Domestic Rates and Housing Benefits which will be placing reliance on the work of Internal Audit. We have met with the Audit Manager to agree the extent of this work and prepared audit plans for the work upon which we will be placing reliance. We are grateful for the assistance of Internal Audit and look forward to working together.

We would like to take this opportunity to thank all management and staff that for their assistance during our visit.

Yours sincerely

Cameron Revie
Partner

1.1 Ensuring changes to employee information are processed on a timely basis

<i>Finding</i>		
Our review of payroll starters and leavers noted the following exceptions where amendments to system standing data were not made on a timely basis: - From a sample of 25 we found one instance of a new start that was entered into the payroll system 52 days after the employee had commenced employment. This led to the requirement of an emergency BACS payment to the employee, rather than a routine payroll payment. - We also found one example of a leaver being deactivated from the payroll system 34 days after the date which they terminated employment with the Council. It was noted that the explanation for this late amendment was delayed completion of paperwork by the employee's line manager. This led to an overpayment being made to the ex-member of staff. We recognise that the Council's Payroll department has a detective control in place to identify overpayments. In this case the control was effective and the overpayment was identified and recovered. From our discussion with payroll personnel we recognise that in some instances an employee may terminate employment with no notice, and in these instances it is difficult to ensure timely removal from the system. However where notice is provided, line managers must ensure HR is notified as soon as possible.		
<i>Action plan</i>		
<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
Low	Line managers within each Resource area should be reminded that amendments should be made to the system as soon as possible, to prevent an employee missing pay runs and to prevent overpayments. Delays in actioning changes increases the risk of error to the Council. Management response: Through personnel managers meetings this issue is discussed regularly, and monitoring reports are prepared and presented to senior management on a quarterly basis. All identified underpayments are rectified immediately, and all overpayments are subject to a debt recovery process. A formal reminder will be issued to Resources to highlight to managers the importance of timely notifications of changes.	Head of Finance, Head of Personnel, Finance and Corporate Resources <i>Target date:</i> May 2013

1.2 Assessing the operating effectiveness of the procurement scrutiny process

<i>Finding</i>		
At the end of 2012 and the early part of 2013 the Council developed a new scrutiny process to add rigour to the internal review and approval procedures for the Council's procurement arrangements. In broad terms, relevant high risk / high value contracts will be subject to scrutiny by independent Council staff at key stages of the procurement process to ensure compliance with EU and Council regulations and improve the quality and evidence of decision making for procurement contracts. The effectiveness of the implementation of the new scrutiny process is critical to ensure that Councils' procurement arrangements are fit for purpose to delivery efficiencies, while also ensuring compliance with legal requirements. As with all local authorities this is an area of high risk operationally, financially and in respect of the Council's reputation. At the time of our fieldwork the scrutiny process had recently been approved by the Corporate Management Team.		
<i>Action plan</i>		
<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
High	A review of the operating effectiveness of the new procurement scrutiny process should be undertaken to ensure that the scrutiny process provides the intended assurance for the Council. Management response: The scrutiny process will be reviewed following the completion of the initial round of scrutinies, to ensure the expected outcomes are being achieved, and to identify any areas where improvements could be made.	Head of Finance, Finance and Corporate Resources Target date: October 2013