

South Lanarkshire Council

Interim Audit Report 2016/17



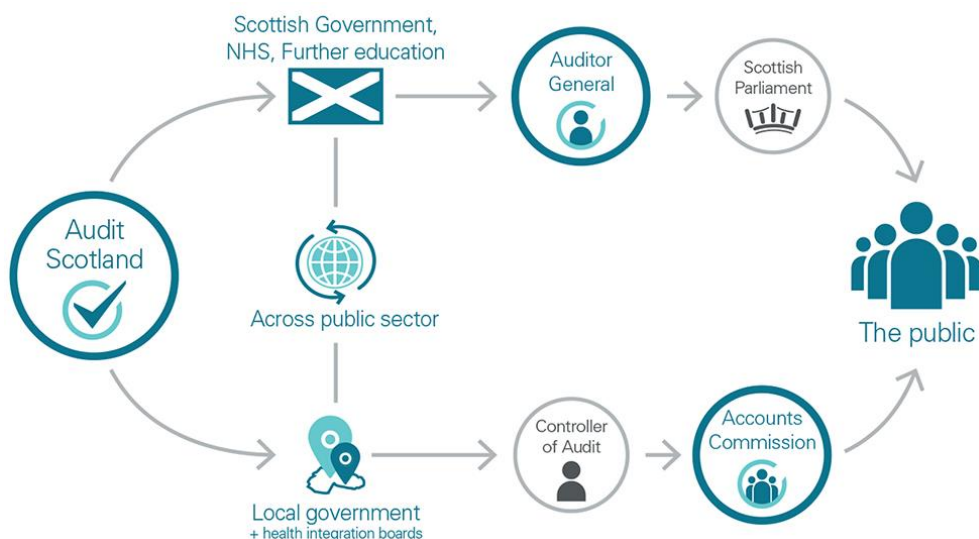
 AUDIT SCOTLAND

Prepared for South Lanarkshire Council
June 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. Audit Scotland's Code of Audit Practice requires the external auditor to assess the adequacy of internal control operating over financial systems. In carrying out this work at South Lanarkshire Council our objective was to gain assurance that the council:

- has systems for the 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 approved policies, procedures, laws and regulations.

2. Audit Scotland's Code of Audit Practice also sets out external auditors' duties in respect of the wider dimension of public sector audit, exhibit 1. Accordingly, our interim audit work included a review of aspects of the council's financial management, financial sustainability, governance and transparency and value for money.

Exhibit 1

Public sector wider dimension audit



3. This report contains a summary of the key issues arising from our interim audit work and we will use the results of this work to inform our approach to the audit of the council's 2016/17 financial statements.

4. This report includes only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made. It is the responsibility of management to decide on the extent of the internal control system appropriate to the council.

Conclusion

5. In the main, we found that controls were operating satisfactorily although we identified two areas where controls could be strengthened and one wider dimension risk, [Exhibit 2](#)

6. In addition, we identified some issues of an administrative nature which we have discussed with management. However, these have not been formally reported as we do not consider that they represent significant weaknesses in the council's system of internal control.

7. In terms of our wider dimension audit work we are currently reviewing the financial planning and resource management arrangements of the council and completing a review of the role of boards, as it applies to councils. The findings from this work will be reported in our annual audit report, which will be presented to the council in September.

Work summary



8. Our testing covered key controls in a number of areas including:

- | | |
|-----------------------------------|---|
| • Bank reconciliations | • IT access |
| • Payroll controls | • Budget monitoring |
| • Authorisation of journals | • Feeder system reconciliations |
| • Change of supplier bank details | • Controls for preventing and detecting fraud |

9. 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.

Risks identified

10. The key control and wider dimension risks identified during the interim audit are set out at [Exhibit 2](#). These findings will inform our approach to the financial statements audit where relevant.

Additional audit work

11. Whilst no errors have been identified as a result of our audit work to date, the control weaknesses mean that additional audit work is required to allow us to obtain the necessary assurances for the audit of the 2016/17 financial statements.

Specifically this will focus on extending our substantive testing of journals and verifying the existence of a sample of employees.

Exhibit 2

Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
Audit findings		
<p>Approval of journal entries</p> <p>The council's financial ledger is the system for recording all transactions and preparing the financial statements. Journal entries are the means by which the council's financial ledger is manually updated. To prevent error and fraud each journal entry should be prepared and authorised by different members of staff. Audit testing identified that the majority of journals processed up to the end of period 12 of 2016/17 had been prepared and approved by the same officer.</p> <p>The ability of officers to approve their own journals increases the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger.</p>	<p>Management advised that they are aware of this risk but highlighted that it is mitigated to an extent by the other controls in operation which include:</p> <ul style="list-style-type: none"> the provision of 4-weekly reports listing journals with a value of over £100,000 to relevant managers within Resources for review, internal budget monitoring arrangements which should identify and correct any significant mis-postings, restrictions on which staff are able to complete journals and the ledger codes that they can post to, electronic audit trail within the system of who has raised and approved all journals, and No risk of cash loss to the Council as journals only move money around the ledger. 	<p>Not applicable - Risk accepted and no planned action.</p>
<p>Confirmation of payroll standing data</p> <p>The payroll masterfile contains all of the standing data required for the system to calculate and make payments to employees (for example, rates of pay, allowances, bank details etc.). To ensure that payments are made at the correct rates and only to valid employees, payroll standing data should be periodically validated to the records of employing services (Resources).</p> <p>The last formal exercise to positively confirm the validity of payroll data with managers within Resources was carried out in 2015.</p> <p>The lack of an annual employee confirmation exercise increases the risk that payroll errors are undetected.</p>	<p>Personnel advised that they are currently conducting a verification exercise and will consider the results of this to determine how regularly this should be undertaken in the future. Management also advised that this risk is mitigated to an extent by the other controls in operation which include:</p> <ul style="list-style-type: none"> the checking of payroll data is part of every manager's responsibilities and they have the facility to check their employees' information at any point via the online People Connect system, and regular internal budget monitoring arrangements should identify any payroll overspends. 	<p>Personnel Manager 31 August 2017</p>

Issue identified	Management response	Responsible officer and target date
<p>Status of Risk and Audit Scrutiny Forum</p> <p>The purpose of an audit committee is to provide to those charged with governance (i.e. the Council) with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.</p> <p>The “Audit Committee Principles in Local Authorities in Scotland” guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) sets out a number of principles for audit committees and notes that it is good practice for them to be formally constituted committees reporting directly to the council. They also include as an appendix suggested terms of reference for local authority audit committees.</p> <p>The current terms of reference of the council's Risk and Audit Scrutiny Forum (RASf) are limited. The forum has not been delegated the responsibility to approve the annual accounts for signing as their role is only to consider audit reports, and other relevant matters, and to report to the Executive Committee.</p> <p>In view of the limited authority of the RASf there is a risk that the status of the forum may not promote the most effective level of scrutiny of governance and performance.</p> <p>We recommend that the Council review the reporting line of the RASf and consider, with reference to best practice, whether the powers to authorise and or approve (for example the audited annual accounts) are appropriate.</p>	<p>The Risk and Audit Scrutiny Forum is a formally constituted body of the Council with an agreed terms of reference that reports to Executive Committee. In 2009, the Council's former arrangements in relation to an audit committee were compared to best practice and an action plan developed to address the identified gaps. The specific terms of reference for the Risk and Audit Scrutiny Forum were approved by Executive Committee in 2009 and have been reviewed and presented to Executive Committee for approval in subsequent years.</p> <p>The Forum is tasked with a responsibility to consider and monitor the implementation of the annual Audit Plan together with the impact and effectiveness of the Audit Planning process; to review and consider all relevant matters from internal and external audit reports; to consider and review the external audit planning memorandum and to monitor the Council's Good Governance and risk management responsibilities. The Forum is deemed to consist of those charged with governance within South Lanarkshire Council and discharge the functions attached to this responsibility. The Forum has the authority to endorse the reports presented to them. A report is not presented to Executive Committee until the Forum have endorsed and ensures appropriate scrutiny of subject areas before these are referred to Executive Committee for approval.</p>	

Other audit work and discussions

Substantive verification testing

12. To obtain sufficient assurance for the 2016/17 financial statements audit over the occurrence, completeness, accuracy, recognition and classification of income and expenditure, we supplement our testing of controls with substantive verification of a sample of income and expenditure transactions.

13. To enable us to focus this testing on higher risk items, we have been assisted by the council's internal audit service which has provided us with a download of all income and expenditure transactions posted to the ledger. We are currently

working with our in-house data analytics team to further analyse this data and select a sample for testing. This will be completed as part of the financial statements audit.

Decluttering of 2016/17 accounts

14. In February 2017 finance officers requested a meeting to discuss how they could improve the overall presentation and flow of the annual accounts by removing unnecessary information. To assist with these discussions we invited the Local Government Technical Adviser from Audit Scotland's Technical Services Unit to attend the meeting to share his views on how he felt local government accounts could be improved based on his involvement in the production of the 2015/16 Local Government financial overview report.

15. During the meeting finance officers outlined a number of areas they had already identified could be removed or simplified. We also discussed other potential changes that could be made to make the financial statements more accessible and understandable to users. Based on these discussions finance officers have produced an updated template which will be used for the 2016/17 accounts.

Charities update

16. Members of the council act as trustees for 80 trusts. Each trust has been included in one of three registered Scottish charities. Some trusts are of considerable age and beneficiaries may no longer be easily identifiable in the simplistic terms of the documents of a bygone era. For example, the James Alexander Coal Bequest was set up for the purposes of "providing coal for the poor of the village of Leadhills". Consequently, funds have accumulated in some trusts as no disbursements have been made for a number of years.

17. To ensure that funds can be used to benefit residents of South Lanarkshire, officers from finance and legal services are currently preparing a scheme of amalgamation and rationalisation for approval by trustees (members) and the Office of the Scottish Charity Regulator (OSCR).

18. This amalgamation and rationalisation will simplify trusts and make funds more readily accessible to current and future potential beneficiaries.

Housing benefit subsidy claim testing

19. As part of our work in support of our certification of the 2016/17 housing benefit subsidy claim, we undertake detailed testing on a sample of cases to confirm that benefit has been awarded in accordance with regulations, and that the correct level of subsidy has been claimed.

20. We have met with the Benefits and Revenues Adviser to select our sample of cases and testing is now underway. The results of this testing will help inform our opinion on whether the subsidy claim is fairly stated and in accordance with specified terms and conditions which we are required to provide by the certification deadline of 30 November 2017.

Publications

21. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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