

# South Lanarkshire Council

Management report 2020/21



 **AUDIT SCOTLAND**

Prepared for South Lanarkshire Council  
May 2021

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at South Lanarkshire Council during February to May 2021.
2. Our interim work included testing of key controls within financial systems and verification to source documentation of significant income and expenditure transactions up to January 2021. As the income and expenditure verification testing was performed prior to the 2020/21 financial year end, the need for additional testing will be considered as part of the financial statements audit to ensure sufficient audit coverage for the full year is achieved.
3. We will consider the results of this testing when determining our approach to the audit of the 2020/21 annual accounts.
4. 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 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 and detecting error, fraud, or corruption
  - complies with established policies, procedures, laws, and regulations.

## Conclusion

5. We did not identify any issues which present a risk of material misstatement for the 2020/21 financial statements. Whilst no errors were found, control weakness identified mean that some additional audit work will be required to allow us to obtain the necessary assurances for the audit of the 2020/21 financial statements. Specifically, this will focus on extending our substantive testing of journals and verifying the existence of a sample of employees.

## Work summary

6. Our 2020/21 testing covered key controls in the following systems:

• Trade payables	• Council tax
• Trade receivables	• Non-domestic rates
• Cash and bank	• Housing benefits
• Payroll	• General ledger

**7.** In accordance with International Standard on Auditing (ISA) 330:

The Auditor's Responses 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 place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Where possible we place reliance on the work of internal audit to avoid duplication of effort.

**8.** The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during our audit is gratefully acknowledged.

**Risks identified**

**9.** [Exhibit 1](#) sets out the risks identified from our interim audit work.

**10.** 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 the council.

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**Exhibit 1**  
**Key findings and action plan 2020/21**

Issue identified	Management response	Responsible officer / target date
<p><b>Payroll validation</b></p> <p>Employee validation checks to confirm the existence of employees provides assurance on the completeness and accuracy of payroll records and is an important control within any payroll system.</p> <p>The last formal exercise to positively confirm the validity of payroll data was carried out in 2019/20, with part of this exercise incomplete due to the Covid-19 pandemic.</p> <p><b>Risk:</b> In the absence of a validation exercise there is a risk that payments are made to individuals not in the employment of the council.</p>	<p>Management are aware of the risks, but the following measures are in place to mitigate these:</p> <ul style="list-style-type: none"> <li>• Managers have the responsibility to check their employee lists on the Personnel/Payroll system and highlight anomalies.</li> <li>• Internal budget monitoring arrangements are in place which will identify any errors.</li> <li>• Following recruitment exercises managers are instructed to ensure they alert Personnel in the event that a new employee does not start.</li> <li>• An exercise to carry out an employee personal data check is planned for 2021 which will highlight anomalies and employees who no longer work for the council.</li> <li>• A self-service termination process will be introduced from June 2021 which will allow employees to initiate their resignation online, thus and improving the process.</li> </ul>	<p>Laurane Rhind December 2021</p> <p>Laurane Rhind June 2021</p>

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Issue identified	Management response	Responsible officer / target date
<p><b>Approval of journal entries</b></p> <p>The council's financial ledger is the system for recording all transactions and preparing the financial statements. Journal entries are how the council's financial ledger is manually updated. To minimise the risk of error and fraud we would expect each journal entry to be prepared and authorised by different members of staff. This control is not in operation.</p> <p><b>Risk:</b> 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. We have previously reported this as an area of risk and management have asserted that any risk is mitigated by other controls in place.</p>	<p>As reported in previous years' audit reports, management are aware of this risk but would highlight that this is mitigated by the other controls in operation which include:</p> <ul style="list-style-type: none"> <li>• The provision of 4 weekly reports listing journals with a value of over £100,000 to relevant managers for review.</li> <li>• Internal budget monitoring arrangements which should identify and correct any significant mis-postings.</li> <li>• Restrictions on which staff are able to complete journals and the ledger codes that they can post to.</li> <li>• Electronic audit trail within the system of who has raised and approved all journals; and</li> <li>• No risk of cash loss to the council as journals only move money around the ledger.</li> </ul>	<p>Not applicable – no planned action.</p>

Source: Audit Scotland

## Grant claim certification work

**11.** We have arranged to complete the sample testing for the 2020/21 education maintenance allowances (EMA) claim in June 2021. The results of this testing will help inform our opinion on whether the claim is fairly stated and in accordance with the EMA guidance issued by the Scottish Government. We are required to certify the claim by 31 July 2021.

## Audit timetable

**12.** Audit Scotland's intention was to view 2020/21 as a transitional year. The [Guidance on planning the audit](#) provisionally set audit deadlines for 2020/21 which started to transition back to pre Covid-19 timescales but in an incremental manner. We reported in our 2020/21 Annual Audit Plan that we were working to the transition deadline for this year's audit.

**13.** An [addendum](#), to the 2020/21 planning guidance was issued by Audit Scotland in April 2021. This recognised the ongoing impact of the Covid-19 suppression measures. Audit Scotland has therefore concluded that it is no longer viable to continue to view 2020/21 as a transitional audit year and that the later deadlines set for 2019/20 (30<sup>th</sup> November) remain appropriate. We have agreed with management to work the revised deadline for the audit of 30<sup>th</sup> November, [exhibit 2](#).

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## Exhibit 2

### 2020/21 Audit timetable

Audit Output	Original target date	Revised target date
Annual Audit Report	27 October	By 30 November
Independent Auditor's Report	27 October	By 30 November

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The revised target dates included are those specified in the addendum to Audit Scotland's Planning Guidance 2020/21.

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### Audit team

14. Our audit team membership has changed since the date of our initial appointment. We include details of the current team in [appendix 1](#).

### Publications

15. 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).

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# Appendix 1: The Audit Team

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The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:

## **Fiona Mitchell-Knight FCA**

### **Audit Director**

✉ [fmitchell-knight@audit-scotland.gov.uk](mailto:fmitchell-knight@audit-scotland.gov.uk) ☎ 0131 625 1937

Fiona is the engagement lead for the audit of South Lanarkshire Council and will sign off the independent auditor's report on the council's annual accounts.

## **Andrew Kerr CA**

### **Senior Audit Manager**

✉ [akerr@audit-scotland.gov.uk](mailto:akerr@audit-scotland.gov.uk) ☎ 0131 625 1788

Andrew will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced, and concluded within time.

## **Gemma McNally CA**

### **Senior Auditor**

✉ [gmcnally@audit-scotland.gov.uk](mailto:gmcnally@audit-scotland.gov.uk) ☎ 0131 625 1972

Gemma will lead the audit team and will be the main contact for the audit of the financial statements and governance.

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)