

# South Lanarkshire Council

Management report 2018/19



 AUDIT SCOTLAND

Prepared for South Lanarkshire Council  
June 2019

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# Audit

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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 March to May 2019.
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 2019. As the income and expenditure verification testing was performed prior to the 2018/19 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 2018/19 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 the financial statements
  - 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.
5. In addition, we carried out work on the audit dimensions as required by the [Code of Audit Practice](#). This included reviewing the council's preparedness withdrawal from the European Union and the council's process for monitoring the risk of dependency on key suppliers. Further work on the wider dimensions will be included in our annual audit report.

## Conclusion

6. We did not identify any issues which present a risk of material misstatement for the 2018/19 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 2018/19 financial statements. This will focus on extending our substantive testing of staff costs.

## Work summary

7. Our 2018/19 testing covered key controls in the following areas:

- |                                   |   |
|-----------------------------------|---|
| • 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 |

8. 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.

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

10. [Ex hib it 1](#) sets out the risks identified from our interim audit

11. 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.

## Exhibit 1

### Key findings and action plan 2018/19

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<b>1. Payroll validation</b> <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><b>Risk: Payments are made to individuals not in the employment of the council.</b></p>	<p>Management has confirmed that a validation exercise will be performed every two years with the next planned for 2019/20.</p>	<p>Laurane Rhind, Personnel Manager</p> <p>End March 2020</p>
<b>2. Late notification of new starts</b> <p>From our sample of 15 new starters, 3 were not added to the payroll timeously due to late notification by the Personnel Service.</p> <p>As a result of late notification, the payment of salary/wages had to be made outwith the normal payrun.</p> <p>We also found that, in the quarter ending 31 December 2018, 126 payments were made outwith the normal payrun.</p> <p><b>Risk: Increased administrative time and financial costs of processing pays outwith the normal payrun.</b></p> <p><b>Staff costs are not properly accounted for at year end.</b></p> <p><b>Increased potential for fraud/error.</b></p>	<p>The Personnel Service works to ensure new starts are added timeously in all cases. Process improvement have been made to enhance controls.</p> <p>Reminders on processes for new starts and further training will be issued for managers and personnel staff.</p> <p>The majority of payments made outwith the normal payrun are due to overtime. It is noted that 126 equates to less than 0.3% of the total number of payroll payments made in any quarter.</p> <p>The introduction of a self-service approach should minimise payments made outwith the normal.</p>	<p>Laurane Rhind, Personnel Manager</p> <p>Sept 2019</p> <p>Laurane Rhind, Personnel Manager</p> <p>End March 2020</p>
<b>3. Payroll overpayments</b> <p>Our review of the council's overpayment reports up to 31 December 2018, found that there were some 200 outstanding salary/wage overpayments valued at some £0.236 million. Of these, 15 (£21,237) do not have repayment plans in place.</p> <p><b>Risk: Overpayments are not recovered resulting in financial loss to the council.</b></p>	<p>The Council pursues all overpayments vigorously. These can arise due to a number of reasons including an employee leaving with no notice.</p> <p>Of these 15 overpayments without repayment plans, 12 now have a plan in place. The remaining 3 continue to be pursued.</p> <p>As a percentage of total salaries paid for the year, the outstanding overpayments without an arrangement in place equates to 0.01%, a minimal value.</p> <p>System solutions to assist processing employee changes are being explored.</p>	<p>Laurane Rhind, Personnel Manager</p> <p>End March 2021</p>

Issue identified	Management response	Responsible officer and target date
<p><b>4. 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: 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.</b></p>	<p>Management believe any risk is mitigated by the other controls in place.</p> <p>These 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 within Resource Directorates 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

## Other audit

### Dependency on key suppliers

12. The collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and underperformance of suppliers that are experiencing difficult trading conditions.
13. Management has informed us that the council carries out due diligence checks on financial information for new contractors and obtains external advice on higher value contracts.
14. Management has informed us that the council has in place arrangements to ensure that all contracts are subject to some level of regular performance appraisal and that
  - As a minimum this is performed on an annual basis, with certain contracts having both monthly and annual performance reviews.
  - The performance appraisals deal with general compliance areas across the contract including service delivery, finances and health and safety.

### National fraud

15. The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken

properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

16. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Match investigation work should be largely completed by 30 September 2019 and the results recorded on the NFI system. The latest position for the council is summarised in [exhibit 2](#). We will monitor the council's progress throughout the year and will provide an update in our 2018/19 annual audit report.

## Exhibit 2

### National Fraud Initiative

#### Total number of matches



22,877

#### Completed/closed investigations



2,582

Source: NFI website

## Openness and

17. In our 2018/19 annual audit plan we identified that the council's Privacy Policy, Information Compliance Policy and Data Protection Access Request Form referred to the now superseded Data Protection Act 1998. The council's Privacy Policy has been updated and renamed the Data Protection Policy. The Information Compliance Policy and Data Protection Accession Request Form have also been updated. We have reviewed these documents and have confirmed that they now refer to the appropriate regulations.

## Grant claim certification

### Education maintenance allowances claim

18. We have arranged to complete the sample testing for the 2018/19 education maintenance allowances claim in June 2019. 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 2019.

### Housing benefit subsidy claim

19. Each year, the council makes a claim to the Department for Work and Pensions for subsidy in respect of housing benefit paid out by the council (£84.5 million in 2017/18). As the council's external auditors, we are required to certify that the claim is fairly stated and in accordance with specified terms and conditions.
20. As part of our work in support of our certification of the 2018/19 housing benefit subsidy claim, we will 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. We are required to certify the claim by 30 November 2019.

## **Publications**

- 21.** All of 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) in due course.

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