

South Lanarkshire Council

Interim Management Letter 2010/11

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Letter 2010/2011 for
**South Lanarkshire
Council**
June 2011

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The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement. Our audit responsibilities and their limitations are explained in our letter of appointment.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at the Board or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

1. Introduction

Introduction

- 1.01 This report considers certain of the Council’s arrangements for the production of the financial statements, corporate governance and performance management reviewed during our visit to South Lanarkshire Council (“the Council”) during March and April 2011.
- 1.02 The table below outlines elements of our audit approach linking it to the work performed during the interim audit visit.

Our Audit Approach		Reference
Step 1	Gaining an understanding of your strategy, business objectives and associated risks to focus our audit on those risks that impact your financial reporting.	Section 2
Step 2	Understanding the controls that management has in place around the key areas of audit risk.	Section 3
Step 3	Validation of these key controls.	
Step 4	Detailed testing performed as necessary based on our assessment of the control environment and operation of management controls.	To be performed and reported during the final audit visit during July to September 2011

- 1.03 In addition, **Section 4** of this report covers a number of other auditing and accounting issues that we wish to bring to your attention following our interim audit visit. Progress made by the Council in implementing recommendations contained in our reports issued as part of the 2009/10 audit process has been reported separately in our **2010/11 Follow Up** report.

Findings and Recommendations

- 1.04 Our detailed findings and recommendations, which have been agreed with management, are included in **Sections 2-4** and in an Action Plan included as **Appendix 1**.

1.05 To assist management in assessing each audit finding and recommendation, we have assessed the risk to the organisation for each matter identified as follows:

Risk Assessment	Definition	Number
High	Significant control weakness requiring immediate attention by management	2
Medium	Control weakness identified which needs to be rectified but where there is no material impact on the achievement of the control objectives	4
Low	Minor control weakness identified	1
Total Recommendations		7

1.06 Management's progress in implementing the agreed recommendations included in the Action Plan at Appendix 1 will be followed up during the course of the Council's 2011/12 audit.

Acknowledgements

1.07 We would like to thank all managers and staff at the Council for the cooperation we received during the course of our fieldwork.

2. Step 1 – Gaining an Understanding

Step 1 – Gaining an understanding of your strategy, business objectives and associated risks to focus our audit on those risks that impact your financial reporting – utilising the Priorities and Risks Framework

- 2.01 As auditors, we are appointed to provide an independent and objective appraisal of the discharge by management of its stewardship responsibilities. Our principal objective is to perform an audit in accordance with the Audit Scotland Code of Audit Practice. In addition, we are required to comply with International Standards on Auditing (UK & Ireland).
- 2.02 The Priorities and Risks Framework (PRF) for Local Government is one element of the audit approach which has been designed to meet the requirements of the Code of Audit Practice and International Standards on Auditing (UK & Ireland).
- 2.03 As outlined in our External Audit Strategic Plan 2010/11, auditing standards require us to gain an understanding of the Council's business and its business environment. We have used the PRF document as a tool for discharging this duty and have highlighted some observations against each PRF element in the pages which follow, concerning:
- Vision and Strategic Direction
 - Partnership Working and Community Leadership/Engagement
 - Governance and Accountability
 - Performance Management and Improvement
 - Risk Management
 - Use of Resources (Financial Management)
 - Use of Resources (People Management)
 - Use of Resources (Procurement)

Vision and Strategic Direction

Vision and Strategic Direction

The Audit of Best Value and Community Planning Report published in 2009 praised the 'Vision & Strategic Direction' of the Council. This remains an appropriate view. The Council Plan, Connect, was originally established to 2011 but has been extended to cover the period to the local government elections in 2012.

A mid-term review was however carried out to ensure the plan remained relevant and continues to challenge the Council to improve. Regular progress reporting is undertaken at twice yearly intervals to inform members, employees and the wider public of the Council's progress.

2010/11 Efficiency Targets

On 1 February 2010 the Executive Committee approved the framework for the 2010/11 Revenue Budget, which included a savings target of 2% for each Resource. This resulted in an overall savings target for Resources of £10.789m for 2010/11.

Category	£m
Procurement	0.253
Asset Management	0.334
Workforce Planning	4.804
Shared Services	-
Streamlining Bureaucracy	0.027
Service Specific	5.371
Total	10.789

In addition there were savings of £4.989m in 'non-core' activities and £1.772m from increased charging. This brings the total efficiency savings to £17.550m. Resources also continue to review methods of service delivery and identify non-cash (time releasing) savings; these are monitored throughout the year and reported in the formal Efficiency Statement to Government.

2011/12 Budgeted Efficiencies

The Efficiencies agenda will remain in force to ensure efficiencies are being achieved before cuts are made, however given the reduced grant funding, savings cuts and efficiencies will both be required. The 2011/12 budget indicates £25.137m will need to be identified in 2011/12 to achieve a balanced budget. Efficiencies will represent a significant proportion of this balance with all resources still required to contribute 2% efficiency savings (Education 1%) in 2011/12, equating to around £8.1m, £9.7m when including contributions from efficiencies in procurement (£1m) and energy utilisation (£0.6m).

Reserves Strategy

The Council has prepared a medium term Finance Strategy to 2014. This includes a reserves strategy covering the three years of the comprehensive spending review to 2013/14, with the objective of assisting the Council in effectively managing its financial position during the period of economic recovery. The reserves strategy increases the unallocated general fund balance over the three year period, providing the Council with greater flexibility to manage its finances. The Strategy increases the General Fund balance from

<p>Vision and Strategic Direction (continued)</p>	<p>around £4.223m in 2009/10 to between £7.5m and £10m in 2013/14.</p> <p>The overall reserves balance was forecast in the financial strategy to decrease by the end of 2013/14 to £15.922m from £42.437m at 31 March 2010, reflecting the severity of the financial circumstances the Council is operating within to deliver balanced budgets during this period. The restructuring of reserves however moves funds from repairs and renewal funds and capital funds to the general fund where it can provide the Council with a contingency fund with greater flexibility for unforeseen events. Through in year savings, the Council was able to transfer additional funds to reserves at the financial year ends for both 2009/10 and 2010/11. In 2010/11 this amount totals £15.5m. The Reserves Strategy must still ensure that there are clear protocols for their establishment and use and that all reserves are being held for a clear purpose.</p>
<p>Partnership Working and Community Leadership / Engagement</p>	<p>The Council's partnership working is set out in 'Connect 2 Success 2009/10 to 2011/12', a Single Outcome Agreement (SOA) that received Government approval in July 2009. The SOA details the steps that the Council and its local partners are undertaking to contribute to the Scottish Government's National Outcomes. The SOA shares the same vision as the Council's Community Plan 'Stronger Together', which is designed <i>"To improve the quality of life for all in South Lanarkshire by ensuring equal access to opportunities and to services that meet people's needs"</i></p> <p>Partnership working is at the core of the Arbutnott review of shared services across the Clyde Valley. The Council has indicated actions around 'Property Sharing' and 'Local Management in Hubs' workstreams. The Council is also leading on one element of developments for the 'Integrated Health and Social Care Service' and contributing to work on other workstreams led by neighbouring Clyde Valley partners.</p> <p>At the Council's Executive Committee meeting on 1 December 2010 it was agreed to decline further participation in the shared support services work-stream and to continue to participate in the remaining work-streams. Detailed business plans are now awaited to inform the Council's future position.</p>
<p>Governance and Accountability</p>	<p>In gaining an understanding of the Council, work is performed to understand the governance structures and to identify any changes from prior years and any issues that could influence the overall operating effectiveness of the Council, its control environment, or potentially impact on our audit of the financial statements.</p> <p>Financial Resources Scrutiny Forum</p> <p>The Financial Resources Scrutiny Forum, consolidating the previous capital, trading services and revenue budget scrutiny forums, continued to embed itself during the year and evidence of continuous scrutiny and challenge was noted through the review of minutes of this forum.</p> <p>During the latter part of 2010 we undertook a review of the financial planning process in respect of the Council's financial gap identification and planning. This identified a number of recommendations in respect of the reporting and communication approach used in the Council's financial planning for 2011/12. This included improvements in the use of terminology, clarity over recommendations and linkage of papers. The Council has agreed and accepted all the recommendations made.</p>

Governance and Accountability (continued)

Governance

As in prior years we have considered the overall governance structures of the Council and have noted no significant change in the governance and reporting structures (see Risk Management below).

The key area of concern remains the ongoing position that the Council does not have a dedicated Director of Finance in place. Since October 2010 the Director of Finance and IT has not been in post and retired from the Council in April 2011. As an interim measure the Chief Executive is undertaking a joint role incorporating the Director of Finance responsibilities, while the Head of Finance is stepping up in parts of that role to address the gap in management.

The current arrangements, with the roles and responsibilities of a Director of Finance being shared amongst the Chief Executive and the Head of Finance are acknowledged by the Council as not being a long term solution. The Council should consider the options available to it and ensure a suitable structure is developed early in the new financial year.

Action 1

Performance Management and Improvement

A mid-term review of the Council Plan, Connect, has been carried out to ensure the plan remains relevant and continues to challenge the Council to improve.

Regular progress reporting is undertaken at twice yearly intervals to inform members, employees and the wider public of the Council's progress. At November 2010 the Council reported progress against its 290 performance measures:

Status	Progress	Number
Green	Timescale or target met	175
Amber	In progress	111
Red	Major slippage against timescale or targets	4
		290

Risk Management

The Council has incorporated Internal Audit and Risk Management within the Corporate Improvement Unit. This has been identified as a restructuring that will enable the Council to ensure the consistency of approaches across the Council, and to ensure that risk management arrangements are being aligned to the areas of Councils priorities and informing key council decision making and actions. This restructuring was approved in January 2011. The Council's approach to promote consistent risk management throughout the organisation continues to be implemented during 2011.

**Use of
Resources
(Financial
Management)**

Revenue Budget

The Council's revenue budget for 2010/11 projected a break-even position based on Net Services Expenditure of £724.779 million.

As at January 2011, a net underspend of £0.585 million existed against the phased budget of the general revenue account. The probable outturn exercise has forecast that the underspend will remain to 31 March 2011; with an overall underspend for the year of £2 million expected.

The Housing Revenue Account has recorded a break-even position to January 2011, and is forecast to maintain this position to the year end.

Capital Budget

The total general fund capital spending programme for the year is £128.517m, (2009/10 £150.2m). Current estimates suggest an outturn for the financial year of £124m, with spend to January 2011 around £10.290m behind profile. Management is taking steps to monitor progress and minimise underspends by the year end through regular budget scrutiny and individual project management.

The 2010/11 budget, including previous uplifts and carried forward balances from 2009/10 was originally £187.296m, this was revised in 2010/11 to £128.517m; still reflecting an ambitious capital programme during these challenging economic times, including the schools modernisation and roads improvement programmes.

The revised housing capital programme for the year is £42.033m, an underspend of £1.329m is anticipated in 2010/2011 following the bad winter weather.

Actual funding received to 21 January 2011 is £120.743m, 93.95%, of that required for the general fund capital programme. The revised budget and funding package reflects the reduced likelihood of capital receipts in the current environment, reduced from £14.5m to just £4.2m in 2010/11, with prudential borrowing reducing also to reflect the revised budget. Management continue to closely monitor the capital receipts position, through the Capital Officers Monitoring Group meetings, with £0.5m funded to January 2011.

2011/12 Budget

The 2011/12 budget setting process was carried out in an extremely challenging environment; with increased pressure to identify savings and increased uncertainty over funding levels and key assumptions, with delays to budget approvals from Westminster and therefore the Scottish Government, impacting the budget setting process. As described under 'Governance' the Council has also suffered changes in key members of management.

Despite these challenges, the Council has however completed the 2011/12 budget setting in advance of the start of the financial year.

The Council received approval from members in February for a net expenditure revenue budget of £715.521 million (2010/11 £724.779 million). This includes planned savings of £25.137m per below:

**Use of Resources
(Financial Management continued)**

Resource	2011/12 saving
	£000
Community	5,266
Corporate	1,042
Education	6,042
enterprise	3,931
Finance & IT	2,482
Housing & Technical	2,193
Social Work	3,931
All resources	250
Total	25,137

Future challenges

In addition to the budgetary pressures described above, there are additional pressures on the Council's spending. In particular the cost of waste is increasing to meet the Government and EU waste directives. Inflationary pressures in energy and fuel costs are unlikely to be met by grant settlements, yet continue to stretch above headline inflation. The Council also faces an increasingly aging population. These demographic changes place more financial pressure on the provision of older people services.

**Use of Resources
(People Management)**

Workforce Planning

A number of changes to the workforce establishment are required to achieve the required savings in 2011/12. The planned financial savings by resource are anticipated to result in a reduction of 329 posts.

Resource	FTE posts
	number
Community	35.0
Corporate	15.5
Education	80.4
Enterprise	69.7
Finance & IT	30.5
Housing & Technical	59.5
Social Work	37.1
All resources	2.0
Total	329.7

The Council aims to deliver the reduction in posts on a voluntary basis.

**Use of resources
(Procurement)**

Procurement efficiencies and savings

As can be seen from the breakdown of efficiency categories and as identified in the Medium Term Finance Strategy to 2013/14 the Procurement function is a key source of efficiencies and savings. The Finance Strategy to 2013/14 includes a contribution from in-department Procurement savings to ensure budgets are balanced over the period of the spending review. This will be achieved in part through the identification of efficiencies in contract spend and renegotiation of contracts to achieve savings where possible.

The savings requirements from Procurement include £1m in the 2011/12 budget. This has been identified as achievable from the Scottish Government utility contracts.

The centralised Strategic Procurement Department, originally established in 2009, has not been embedded within the Council and is currently under review. The Council is revisiting its procurement functions and determining improvements that are required. As a

**Use of resources
(Procurement
continued)**

result, the Council is still operating without an approved Procurement Strategy and has again received a low score from the Procurement Capability Assessment, within the 'non-conformance' range.

The timescale of this review should be a key focus for the Council as actions are required at the earliest opportunity to consider the sources of the essential savings required from procurement. The Council should ensure the review of the procurement function is robust and carried out in a timely manner to ensure any required actions can be implemented enabling the required savings to be realised. The review should also consider the below compliance performance ratings received from the Procurement Capability Assessment. The Council should identify not only areas where potential savings could be missed but where currently arrangement and processes are not commensurate with a procurement function delivering best value.

Action 2

3. Steps 2 and 3 – Understanding and Validation of Controls

Steps 2 and 3 – Understanding and validation of the controls that management has in place around the key areas of audit risk.

Systems of Financial Controls

- 3.01 Each year we review certain key financial controls that are in operation within the Council which forms a key part of our audit. This involves understanding the controls in place and then validating these controls. It is the responsibility of management to maintain adequate and effective financial systems and to arrange for an appropriate system of internal control. 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.
- 3.02 In line with International Standards on Auditing (UK&I) ISA 315 and ISA 330, systems must be validated at least every three years. In the intervening years, it is sufficient to confirm that no changes have taken place in the system and a single walkthrough test may be performed.
- 3.03 During our 2010/11 audit cycle, we tested the following key systems to ensure there were no significant changes in the controls:
- Cash, Bank & Treasury;
 - Payments & Accounts Payable;
 - Income & Accounts Receivable;
 - Payroll;
 - Housing Rents;
 - Non Domestic Rates; and
 - Council Tax.
- 3.04 The following areas have not been considered during this visit as are tested in detail at the year end audit visit.
- Housing Benefits;
 - Property, Plant and Equipment; and
 - Main accounting systems and manual journals.
- 3.05 We have reported the results of our testing and walkthroughs on an exception basis below. We have set out below any issues identified, along with recommendations for improvement.

Key Reconciliations

3.07 Detailed sample testing has been performed on a range of key reconciliations across the revenues and receivables departments, including Council Tax, Housing Rents and Sundry Debtors. This testing revealed an ongoing issue, reported in previous audit reports, regarding the timely completion of the reconciliations and evidencing a robust review process by someone of an appropriate level. The reconciliations were as follows:

- Sundry Debtors to the General ledger;
- Housing Rents – Academy to the General Ledger and Academy to Northgate; and
- Council Tax – Assessors system to Northgate.

3.08 Management should ensure all key reconciliations are completed and subject to a formal, robust review within a timely manner. Procedures should be developed to ensure alternative appropriate personnel are identified to complete these controls to cover absences. All reconciliations should be retained for audit purposes, evidencing when they were prepared and the review process that has been completed. Where electronic reconciliations are used and storage issues exist this could be performed by the reviewer saving a PDF version to a shared drive that is back up regularly.

Action 3

Payments and Creditors

3.09 The Council has been proactive to enhance the controls within the Accounts Payable Department regarding changes to supplier standing data, including bank details, following the incident in 2010 when a fraudulent request was received to change the bank details of a supplier. New controls require the independent verification of the bank account by Council staff prior to any change being made to an existing suppliers details; and are governed by a detailed checklist to ensure all required controls are being completed, with segregation of duties and review built into the process.

3.10 The controls outlined are in operation within the Accounts Department and apply to changes to supplier details. However, the Council also makes payments to other parties that are not governed by this control process. Resources can still require a payment to be made and they are responsible for raising the requests for payment and for obtaining and updating the payees details. It was identified through sample testing that the controls in place within Resources are not all consistent or designed to the same level as within Accounts Payable.

3.11 The Council should take the opportunity from reviewing its processes and controls surrounding changing supplier details to ensure these controls are spread and enforced consistently across the Council, across Resources as well as within Accounts Payable, to ensure robust controls are in place for obtaining or amending the details of other recipients of Council monies.

3.12 It is acknowledged that a memo has been sent to this effect in February 2011; this should be followed up with a review to ensure appropriate controls based on the risk to the Council have been implemented.

Action 4

Non Domestic Rates (NDR)

- 3.13 A control has been designed to sample check all amendments to the standing data on the Northgate system. Amendments made by NDR staff are audited by the Assistant Team Leader on a monthly basis confirming the selected changes to original supporting documentation to ensure accuracy and appropriateness. On assessment of this control we noted that other individuals within the NDR team have access rights to amend the standing data who would not be subject to this review.
- 3.14 The control to review amendments to standing data on the Northgate (NDR) system should be widened to ensure it incorporates potential changes by all individuals with access rights enabling them to make changes to standing data, ensuring there is no self review threat and all individuals' changes could be subject to a review.

Action 5

Payroll

- 3.15 A sample of 60 new starts and 60 leavers was tested. This revealed an issue that has been reported in prior years is still present, regarding the time it can take the Payroll Department to be notified of new starts and leavers. This increases the risk of overpayments being made. We found:
- 15 new starts were not processed until 14 to 27 days after joining;
 - 3 employees were not processed until after 28 days; and
 - 4 late notifications of leavers resulted in incorrect final payments requiring adjustments.
- 3.16 The Council should continue to consider the ability of 'peopleconnect' to assist in the prompt notification of starters and leavers between Resources, the Human Resources Department and the Payroll Department. Pending the completion of these projects Resources should be reminded of the importance of notifying the Human Resources and Payroll Departments to ensure overpayments are reduced.

Action 6

- 3.17 The Payroll Department has a control in place requiring all standing data changes to be prepared by one person and checked and reviewed by another. This maintains segregation of duties in processing and confirms the accuracy and appropriateness of all changes. It is understood however that this control requires the notification of the change to be made by the member of staff to the reviewer. To ensure a complete population of changes is being used as the basis to select those to check and authorise, a report of changes direct from the Payroll System is required.

- 3.18 A report should be developed to show all amendments to standing data made by payroll staff during a day or week. This report should be used by an appropriate level of staff, segregated from the processing of amendments, to ensure all amendments are being processed as per the designed controls; with appropriate review, confirmation of accuracy and evidence of rationale and the required change. This additional review could be performed on a sample basis, as practical, with evidence retained for audit purposes.

Action 7

Information Technology General Controls (ITGC)

- 3.19 ISA (UK&I) 315.93, requires the auditor to “...obtain an understanding of how the entity has responded to risks arising from IT.” IT General Controls (“ITGCs”) are controls put in place by management to mitigate those risks. ITGCs help ensure the continued proper operation of information systems to maintain the integrity of information and security of data.
- 3.20 As part of our work we have considered the controls operating within the Council’s IT systems. Our review considered the Council’s general IT environment as it relates to the network and key financial applications including Oracle FMS and HRMS, Northgate and Academy.
- 3.21 The review of IT Controls focused on the following four key areas, in respect of the above systems:
- Programme development, including separation of development and test environments from the live environment.
 - Programme change management, in particular how system upgrades are managed and tested and any modifications to the IT applications.
 - Computer operations, including disaster recovery arrangements and back up of data onto servers and testing of backed up data to ensure it can be restored.
 - Access to programmes and data, including a review of database administration access, removal of leavers from the network and physical security of IT assets.

4. Other Matters

Overall Arrangements for the Prevention and Detection of Fraud, Irregularity and Corruption

- 4.01 We have reviewed the Council's overall arrangements for the prevention and detection of fraud and corruption which we considered appropriate. This was performed through discussion of key risk areas with senior management as well as reviewing selected controls and documentation.
- 4.02 In addition to considering these overall arrangements, we review on a rotational basis the controls in place for the prevention and detection of fraud and corruption within key financial systems. We identified a number of control weaknesses during our review of the financial cycle processes, which have been set out in **Section 3** above. While these examples have not contributed to any fraudulent activity that the Council has uncovered, if these control weaknesses are not addressed, the opportunity and likelihood of fraudulent activity is increased.

IFRS Implementation

- 4.03 The 2010/11 financial statements will be prepared based on the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11. The Code is based on IFRS, adapted for the public sector, and requires a transition to be completed from the SORP basis on which the previous financial statements were based. These transition requirements mean as well as preparing the 2010/11 accounts under IFRS, authorities must restate their balance sheet at the point at which the Code is adopted (1 April 2009), and present restated comparatives for 2009/10.
- 4.04 The format of the financial statement will change with the primary financial statements comprising a Comprehensive Income and Expenditure Statement, Movement in Reserves Statement and Balance Sheet. As well as changes to formats, there will be significantly increased levels of disclosure in the accounts. As reported last year, 2010/11 is the first year in which the Council is required to report under IFRS.
- 4.05 The Finance Department, Estates and other Departments within the Council have already undertaken a significant amount of work relating to this transition and have now performed the majority of the work in relation to the opening balance sheet and restated 2009/10 figures. These efforts are recognised and if those involved in completing the IFRS transition project and preparing the 2010/11 financial statement maintain this focus and effort we do not foresee any significant issues at this stage in completing the project.
- 4.06 Our final opinion on the IFRS Opening Balance Sheet and 2009/10 Restatement will be the Audit Opinion provided in respect of the 2010/11 financial statements following our year end audit visit.
- 4.07 We commenced work on the opening Balance Sheet and 2009/10 restated comparatives in March 2011. The work performed to date has concluded that the approaches and methodologies used by management to identify required adjustments and to quantify adjustments and restated balances appear reasonable.
- 4.08 Areas where additional evidence will be required for the year end audit have been highlighted to management. These include confirmation of the valuation

basis used for assets reclassified under IFRS in formal valuation certificates and support for the rationale of assets classified as assets held for sale or remaining within Property, Plant and Equipment.

Internal Audit

- 4.09 As recommended by the International Standards on Auditing Standard (ISA) 610, “Using the Work of Internal Auditors”, we have liaised with Internal Audit during our interim audit visit to review their programme of work for the current (2010/11) financial year, to establish progress against the internal audit plan and review a summary of their completed reports to determine the main issues being reported. Where appropriate, this information has been used to tailor our approach and to allow us to focus on areas of greatest risk.
- 4.10 We are grateful for this support and are liaising with Internal Audit using their analysis to target journal testing planned for our year end audit.

National Fraud Initiative

- 4.11 The Council has taken part in the National Fraud Initiative (NFI) in Scotland programme. NFI brings together data from health bodies, Councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.
- 4.12 We have access to the NFI database, enabling us to monitor the progress made by the Council in investigating matches. We will liaise with the NFI Key Contact at the Council throughout the year in order to ensure that the recommended matches are investigated on a timely basis. An update on progress will be reported in the Annual Report 2010/11.
- 4.13 The Council completed a review of the 2009/10 NFI exercise prior to commencing the 2010/11 exercise to identify areas for improvement and ensure any ‘lessons learnt’ can be incorporated in to the 2010/11 NFI work.

Appendix 1. Action Plan

Action Point 1 – Finance Governance Structure

Finding		
A Director of Finance has not been in place for the entire period, with the Chief Executive incorporating this role during 2010/11.		
Action plan		
Finding rating	Recommendation	Responsible person / title
High	<p>The current arrangements, with the roles and responsibilities of a Director of Finance being shared amongst the Chief Executive and the Head of Finance are acknowledged by the Council as not being a long term solution. The Council should consider the options available to it and ensure a suitable structure is developed in the new year.</p> <p>Response</p> <p>A committee paper was presented to the Executive Committee in May 2011, outlining a revised structure for the Corporate Management Team, including the post of Executive Director of Finance and Corporate Resources. The recruitment process for the new post will be concluded by the end of August 2011.</p>	<p>Chief Executive</p> <p>Target date:</p> <p>September 2011</p>

Action Point 2 – Procurement

Finding

The centralised Strategic Procurement Department, originally established in 2009, has not been embedded within the Council and is currently under review. The Council is revisiting its procurement functions and determining improvements that are required.

Action plan

Finding rating	Recommendation	Responsible person / title
High	<p>The timescale of this review should be a key focus for the Council as actions are required at the earliest opportunity to consider the sources of the essential savings required from procurement. The Council should ensure reviews of the procurement function are robust but are also carried out in a timely manner to ensure any required actions can be implemented enabling the required savings to be realised.</p> <p>The review should also consider the below compliance performance ratings received from the Procurement Capability Assessment. The Council should identify not only areas where potential savings could be missed but where currently arrangement and processes are not commensurate with a procurement function delivering best value.</p> <p>Response</p> <p>The Head of Finance will conclude and report on the Review by the end of August 2011.</p>	<p>Head of Finance</p> <p>Target date:</p> <p>August 2011</p>

Action Point 3 – Key Reconciliations

Finding

Detailed sample testing has been performed on a range of key reconciliations across the revenues and receivables departments, including Council Tax, Housing Rents and Sundry Debtors. This testing revealed an ongoing issue, reported in previous audit reports, regarding the timely completion of the reconciliations and the evidencing of a robust review process by someone of an appropriate level. The reconciliations were as follows:

- Sundry Debtors to the General ledger;
- Housing Rents – Academy to the General Ledger and Academy to Northgate; and
- Council Tax – Assessors system to Northgate.

Action plan

Finding rating	Recommendation	Responsible person / title
Medium	<p>Management should ensure all key reconciliations are completed and subject to a formal, robust review within a timely manner. Procedures should be developed to ensure alternative appropriate personnel are identified to complete these controls in the absence of the regular person. All reconciliations should be retained for audit purposes, evidencing when they were prepared and the review process that has been completed. Where electronic reconciliations are used and storage issues exist this could be performed by the reviewer saving a PDF version to a shared drive that is back up regularly.</p> <p>Response</p> <p>The reconciliations are now completed timeously. Procedures are in place to review and sign off reconciliations by the Revenues Finance Advisor. Appropriate back up has been put in place to ensure this review process takes place as programmed.</p>	<p>Revenues Finance Advisor</p> <p>Target date:</p> <p>June 2011</p>

Action Point 4 – Changes to payee standing data within Resources

Finding

The Council makes payments to other parties that are not governed by the revised controls over changes to supplier standing data processed within the Accounts Payable Department. Resources can still require a payment to be made and they are responsible for raising the requests for payment and for obtaining and updating the payees details. It was identified through sample testing that the controls in place within Resources are not all consistent or designed to provide the same level of control as within Accounts Payable.

Action plan

Finding rating	Recommendation	Responsible person / title
Medium	<p>The Council should take the opportunity from reviewing its processes and controls surrounding changing supplier details to ensure these controls are spread and enforced consistently across the Council, across Resources as well as within Accounts Payable, to ensure robust controls are in place for obtaining or amending the details of other recipients of Council monies.</p>	Corporate Finance Manager
	<p>It is acknowledged that a memo has been sent to this effect in February 2011; this should be followed up with a review to ensure appropriate controls based on the risk to the Council have been implemented.</p>	Target date:
	<p>Response A review will be carried out to ensure Resources are following the necessary controls.</p>	31 July 2011

Action Point 5– Non Domestic Rate Amendments

Finding

A control has been designed to sample check all amendments to the standing data on the Northgate system. Amendments made by NDR staff are audited by the Assistant Team Leader on a monthly basis confirming the selected changes to original supporting documentation to ensure accuracy and appropriateness. On assessment of this control we noted that other individuals within the NDR team have access rights to amend the standing data who would not be subject to this review.

Action plan

Finding rating	Recommendation	Responsible person / title
Low	<p>The control to review amendments to standing data on the Northgate (NDR) system should be widened to ensure it incorporates potential changes by all individuals with access rights enabling them to make changes to standing data, ensuring there is no self review threat and all individuals' changes could be subject to a review.</p> <p>Response Agreed and now actioned.</p>	<p>Patrick Murphy, Head of Support Services, Housing and Technical Resources</p> <p>Target date: June 2011</p>

Action Point 6 – Timely processing of starters and leavers

Finding

A sample of 60 new starts and 60 leavers was tested. This revealed an issue that has been reported in prior years is still present, regarding the time it can take the Payroll Department to be notified of new starts and leavers. We found:

- 15 new starts were not processed until 14 to 27 days after joining;
- employees were not processed until after 28 days; and
- late notifications of leavers resulted in incorrect final payments requiring adjustments.

There is an increased risk of overpayments being made where leavers are not removed in a timely manner.

Action plan

Finding rating	Recommendation	Responsible person / title
Medium	<p>The Council should continue to consider the ability of ‘peopleconnect’ to assist in the prompt notification of starters and leavers between Resources, the Human Resources Department and the Payroll Department. Pending the completion of these projects Resources should be reminded of the importance of notifying the Human Resources and Payroll Departments to ensure overpayments are reduced.</p> <p>Response</p> <p>Terminations, new starts and change of hours will be carried out through People Connect from 20 June 2011.</p>	<p>Corporate Finance Manager</p> <p>Target date:</p> <p>20 June 2011</p>

Action Point 7 – Payroll Amendments to Standing Data

Finding

The Payroll Department has a control in place requiring all standing data changes to be prepared by one person and checked and reviewed by another. This maintains segregation of duties in processing and confirms the accuracy and appropriateness of all changes. It is understood however that this control requires the notification of the change to be made by the member of staff to the reviewer. To ensure a complete population of changes is being used as the basis to select those to check and authorise, a report of changes direct from the Payroll System is required.

Action plan

Finding rating	Recommendation	Responsible person / title
Medium	<p>A report should be developed to show all amendments to standing data made by payroll staff during a day or week. This report should be used by an appropriate level of staff, segregated from the processing of amendments, to ensure all amendments are being processed as per the designed controls; with appropriate review, confirmation of accuracy and evidence of rationale and the required change. This additional review could be performed on a sample basis, as practical, with evidence retained for audit purposes.</p> <p>Response</p> <p>The control to ensure all standing data changes are checked manages the risk of incorrect data being entered. The ability of the payroll system to produce audit reports as described will be explored, with recommendations on future controls being developed based on the outcome of the review, including in the IT service plan if necessary.</p>	<p>Corporate Finance Manager</p> <p>Target date:</p> <p>30 September 2011 for conclusion of Review</p>

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