

Jim Lamond
Head of Council Resources
East Lothian Council
John Muir House
Haddington
EH41 3HA

27 May 2019

Dear Jim

East Lothian Council - Review of internal controls in financial systems 2018/19

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that East Lothian 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 or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulation.

Overall conclusion

On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for those key financial systems reviewed by us.

System coverage

The following table summarises the key systems that we have tested in our interim audit for financial year 2018/19.

Key System	External Audit coverage
Payroll	√
General Ledger	√
Trade Payables	√
Trade Receivables	√
Council Tax	√
Non-Domestic Rates	√ (including internal audit reliance)
Housing Rents	√
Cash Receipting and Banking	√

Key findings

Our audit testing did not identify any significant control weaknesses. We did identify some less significant issues in relation to changes to supplier bank details and quality checks for NDR and Council Tax. These were discussed with management so that appropriate actions can be taken.

Employee validation – We reported in our 2017/18 Management Report that the effectiveness of controls over employee validation could be improved by requiring budget holders to formally confirm the accuracy of the staffing lists provided to them as part of the monthly budget financial monitoring process. Officers agreed that budget holders will be required to confirm the accuracy of the staffing lists provided to them as part of the budget monitoring process on an annual basis. We note that some progress has been made for 2018/19 and will be fully implemented for 2019/20.

Payroll standing data - In our 2017/18 Management Report we reported that evidence of the checking of changes to payroll standing data was not retained meaning it was not possible to confirm that the checks had been completed for the 2017/18 financial year. Officers agreed that evidence of checks of payroll standing data for each financial year will be retained until the completion of the annual audit process. This was not retained for 2018/19. We understand that this process will be in place effective from the 2019/20 financial year.

Changes to supplier bank details - Supporting documentation provided for a sample of changes to supplier bank details during the year did not evidence that the Council's checks had been carried out for ten changes from a sample of 15. The Council requests confirmation from suppliers of the previous bank details and the date and value of the last three payments from the Council before changes to bank details are processed. This represents a key control against fraudulent activity and these checks should be evidenced and retained for every change to suppliers' bank details.

Management Resolution: Agreed to review

- The procedures for enacting any changes to bank account details requests has been reviewed, and any change of bank details form must be supported by a completed form / request prior to the bank account details being changed.
- Regular spot checks are now in place to ensure that this process has been followed.

NDR and Council Tax quality checks - Our 2018/19 testing found that the quality checking of processed applications for NDR and Council Tax relief is carried out sporadically, is not applied to the entire population of processed applications and a record of checks is not maintained. This control would be improved if checks were carried out on a stipulated percentage of all processed applications (hard copy and electronic), including those completed by Team Leaders, at a prescribed frequency. A record of all quality checks carried out and any subsequent action taken should be retained until completion of the annual audit process.

Management Resolution: Agreed to review

- The process for quality checks is being reviewed and will be in place for 2019/20

We have placed reliance on internal audit work for Non-Domestic Rates during 2018/19. We found internal audit work to be well documented and supported by appropriate evidence. Therefore, we can place reliance on the internal audit findings and avoid unnecessary duplication of effort.

Risk identification

The issues identified in preparing this Management Letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to East Lothian Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Acknowledgement

The contents of this letter have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit from East Lothian Council is gratefully acknowledged.

Yours sincerely

Gillian Woolman, Audit Director

Cc (email):

Sarah Fortune, Chief Operating Officer Finance

Fiona Currie, Committees Officer - Democratic Services

DRAFT