

Sarah Fortune  
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Dear Sarah

## East Lothian Council

### Management Letter 2020/21

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.

### System coverage

We have reviewed and tested the following key systems as part of the interim audit for financial year 2020/21:

General Ledger	Payroll
Trade Payables	Trade Receivables
Cash Receipting and Banking	Council Tax
Non-Domestic Rates (NDR)	Housing Rents

### 2020/21 Key findings

Control issue noted	Management response / resolution
<p><b>Changes to supplier bank details</b></p> <p>We first reported in our 2018/19 Management Letter that supporting documentation provided for a sample of changes to supplier bank details during the year did not evidence that the Council's checks had always been carried out. We planned to follow up and test this key control in 2019/20 however this was not possible as we were unable to access the evidence held by the Council due to the restrictions in place for the COVID-19 global pandemic.</p> <p>Similar restrictions were in place during the 2020/21 audit, whereby the reports detailing changes to supplier bank details could not be run in a WFH environment. Therefore, we were unable to test this control.</p>	<p>Information is held with a separate control sheet for each change to current supplier details. Further checks are done to ensure that the details are correct including asking for a form of authorised documentation to show that the supplier is who they say they are. The associated report detailing the activity during the year has been unable to be run to verify the details and this is currently under review.</p>

## Control issue noted

## Management response / resolution

The checks for changes to supplier bank details represent a key control against fraud. There is an increased risk of fraud and/or error if this control is not operating effectively. We will continue to work with management to determine how they can demonstrate to us that this control has been operating effectively during 2020/21.

### **NDR and Council Tax relief quality checks**

NDR - we confirmed during our 2020/21 controls testing that no quality reviews had been carried out in respect of property reliefs during the year and there was no independent checking of reliefs. Monthly performance reviews were suspended until October 2020 due to a software update issue and, the mid-year review of expected rates income was not carried out, as accurate data could not be obtained from the system. Regular quality reviews of discounts and exemptions should be recommenced as soon as possible and copies of supporting evidence for weekly reconciliations should be retained.

Council Tax - we confirmed that regular quality review checks for discounts and exemptions were not carried out during 2020/21. We also noted that the weekly updates of the standing data for changes reported by the Lothian Valuation Joint Board were not being reconciled on a weekly basis and there was insufficient evidence to confirm that an independent review was undertaken. Now that the service review has been completed regular quality reviews of discounts and exemptions should be recommenced as soon as possible. Weekly reconciliations of assessor reports should be prepared on a timely basis and reviewed by a party independent from the uploading of the information into Capita. There is a risk that NDR and Council Tax reliefs are incorrectly or fraudulently applied.

We have reported this previously in our 2019/20 Management Letter.

An automated report is run once a week to evidence any Business Rates reliefs amended in the past 7 days. The report is viewed by staff but a sample has not been evidenced. When an account is accessed, a review and quality check on the status of the account and any reliefs awarded is carried out. Management will ensure that they meet the recommendations as set out in this letter and sample check the weekly report as an additional review.

Throughout 2020/21 the Council remained in Business Critical activities and this has impacted upon normal scheduled work, with some being suspended or delayed due to work pressures. In early 2020/21 the focus for the Council Tax & Debt Management Team was to provide advice and support to anyone affected financially by Covid-19 who had concerns about paying Council Tax. The service has been impacted by the wider roll out of a wider integrated service review, and key staffing changes within the team. A Team Leader and Senior Officer is in place, and a monthly schedule of quality assurance will be implemented.

### **Council Tax reduction and Housing Benefit quality checks**

We confirmed during the 2020/21 controls testing that quality checks were not carried out during the year until January 2021. No other quality reviews have been undertaken by ELC in respect of Housing Benefit claims / cases during the year.

The DWP Housing Benefit Accuracy Review was originally scheduled to become mandatory for all Councils from April 2020 to improve accuracy of Housing Benefit and controls in place to mitigate the risk of fraudulent applications being processed. The initiative was to set targets for the reviews to be carried out including full case reviews, HB matching service referrals and self-employed reviews. Due to the Covid-19 pandemic the launch for 2020/21 was suspended however, the DWP asked councils to consider adopting the principals on a voluntary basis for 2020/21. East Lothian Council agreed to participate in 2020/21. The agreed start date was November 2020 however, there were delays experienced with meeting this

Business Critical activities have been in place during the financial year and this has impacted on the ability of the teams to deliver a normal workload. Pressures on staff resulting from Covid-19, remote working and the service review has resulted in delays carrying out quality checks in a regular manner. Additional workload from administering initiative such as Self-Isolation Support Grants and Financial Insecurity payments have impacted on the delivery of wider activity within the benefits service.

Management will continue to work to ensure that recommendations are met.

## Control issue noted

## Management response / resolution

date and the required reviews have only been carried between January - March 2021.

We have reported this previously in our 2019/20 Management Letter. There is a risk that Council Tax reductions and Housing Benefits were incorrectly or fraudulently applied.

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### Partnership Grant Payments

We were unable to obtain supporting evidence to confirm that controls over partnership grant payments were operating satisfactorily during 2020/21. We will work with management to determine how they can demonstrate to us that controls have been in place and have operated effectively during the year. We will carry out substantive testing of these grant payments as part of our 2020/21 financial statements audit.

Management will ensure that supporting information is provided as part of Audit final work.

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## Prior year controls testing – follow up

Our 2019/20 audit testing did not identify any significant control weaknesses. We did identify some less significant issues in relation to changes to supplier bank details, quality checks for NDR and Council Tax relief, and quality checks for Council Tax reduction and Housing Benefit. Progress against these actions has been considered and reported above together with our findings for 2020/21.

## Conclusion

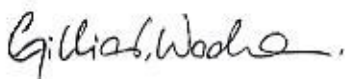
On the basis of audit work undertaken and for those key controls tested, we were able to conclude that appropriate and effective internal controls were in place for the General Ledger; Cash Receipting and Banking; Payroll and Trade Receivables. We are unable to conclude that appropriate and effective internal controls were in place for Trade Payables; Housing Rents; Council Tax and NDR. We will continue to work with management to determine how they can demonstrate to us that controls have been operating effectively in these areas during 2020/21 and/or carry out additional substantive as part of our 2020/21 financial statements audit as appropriate.

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



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Cc (email):

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