

East Lothian Council

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Management report 2022/23



 AUDIT SCOTLAND

Prepared by Audit Scotland

5 June 2023

Audit findings

Introduction

1. This report contains a summary of the key control weaknesses identified during the interim audit work carried out at East Lothian Council. This work included initial system reviews of the main financial systems to determine the extent to which we can rely on key internal controls to gain assurance over the processes and systems used in preparing the annual accounts. We consider the results of this work when determining our approach to the audit of the 2022/23 annual accounts.

2. 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 audited body:

- has systems of 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.

3. Also, we are in the process of carrying out wider-scope work as required by the [Code of Audit Practice](#). This work is focussed on financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes. Work on the Best Value thematic review of the effectiveness of council leadership in developing local strategic priorities is in progress.

Conclusion

4. We identified several internal control weaknesses as summarised in [Exhibit 1](#) overleaf. As a result we do not intend to place reliance on these internal controls for our audit of the 2022/23 annual accounts. Instead, we will extend our substantive audit testing of income and non-pay expenditure to obtain the required assurance to support our audit opinion. This may be chargeable as the audit fee is based on the council having a robust system of internal controls operating effectively throughout the financial year. We will confirm any additional fee with the Finance team following an assessment of the additional work needed to gain assurance in these areas.

Work summary

5. Our 2022/23 initial system reviews covered key controls in the following systems: general ledger, accounts receivable (income and debtors), accounts payable (expenditure and creditors), payroll, housing rents, council tax, non-

domestic rates, Mosaic social care case management, PECOS purchase to pay, non-current assets, and cash and bank.

6. International Standards on Auditing (ISAs) require auditors to understand an audited body's system of internal control including its control environment, risk assessment and control activities. The revised *ISA 315: Identifying and assessing the risks of material misstatement* increases the focus on understanding IT applications and the risks arising from the use of IT. Our initial systems reviews have therefore covered some additional areas and IT systems this year.

7. In accordance with *ISA 330: the auditor's response 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 take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. This is the case for non-domestic rates. Also, 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 the course of our audit is gratefully acknowledged.

Risks identified

9. The key control risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

10. Any 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 East Lothian Council.

11. We are following up some outstanding queries; if we identify any further weaknesses on concluding these queries we will discuss them with management. Any significant matters would be reported in the Annual Audit Report.

Exhibit 1

Key findings and action plan 2022/23

Issue identified	Management response	Responsible officer/target date
<p>1. Feeder systems integration checks</p> <p>There is no automated interface between feeder systems (payroll, non-pay expenditure and income) and the general ledger.</p>	<p>Consistency in reconciliations is being considered and 2022/23 reconciliations will be available as part of the Audit process.</p>	<p>Service Manager – Corporate Accounting / 31 March 2024</p>

Issue identified	Management response	Responsible officer/target date
<p>Data files are manually integrated into the general ledger. This manual integration increases the risk of error .</p> <p>There is no consistent approach across finance for integration of feeder systems. For accounts payable and payroll integrations, officers check the total amount and numbers of transactions to ensure the data has been correctly integrated into the ledger, but there is no evidence of this check retained as an audit trail.</p> <p>The council cannot demonstrate that the internal control has been operating effectively throughout the year.</p>	<p>The P2P team will be reviewing all integrations to the ledger to seek a consistent approach for the organisation.</p> <p>The Council is in early stages of looking at a new financial ledger system and the need for efficient integrations and audit trails will be reflected as part of the process.</p>	
<p>2. Accounts payable feeder systems reconciliation</p> <p>There is no reconciliation documented to identify and resolve differences between the accounts payable feeder system and the general ledger when feeder system files are integrated into the general ledger. Differences may arise for valid reasons (e.g. credit notes) but there is no reconciliation to demonstrate this.</p> <p>The council cannot easily demonstrate that the integration of feeder systems into the general ledger is accurate and complete.</p>	<p>Full period closedowns will assist in easier identification of batches input to the financial ledger. Consistency in backing and supporting evidence will enable quarterly samples to be done by a senior manager and then signed off at an appropriate level.</p> <p>The Council has a Purchase to Pay project ongoing and work on credit notes and mismatches is being progressed through this team.</p>	<p>Service Manager – Corporate Accounting / 31 March 2024</p>
<p>3. System administrator access</p> <p>System administrator access allows users to alter the standing data in a system. There are 8 users who have system administrator access to the general ledger. There is no spot check or regular audit log review</p>	<p>We will identify a system report that will ascertain administrator access and any tasks that have been carried out. This report will be spot checked to review amendments on a quarterly basis and signed off at an appropriate management level.</p>	<p>Service Manager – Corporate Accounting / 31 March 2024</p>

Issue identified	Management response	Responsible officer/target date
<p>to check what users have amended when logging in as a system administrator, to ensure that all changes are authorised.</p> <p>There is a risk that incorrect or unauthorised changes may be made to the ledger and not identified on a timely basis.</p>	<p>We will consider setting up separate access rights and log in details for general use and administrator access.</p> <p>A quarterly review of access rights will be carried out in 2023/24 to ensure controls are in place.</p>	
<p>4.Checks on changes to supplier bank details</p> <p>This is a common area of attempted fraud. Procurement staff and accounts payable staff can amend supplier bank details and checks are carried out with suppliers to confirm that requests are genuine. There is no completeness check of changes made in a period, to identify that all the changes made are genuine and authorised (i.e. to identify unauthorised changes due to internal fraud or error).</p> <p>There is a risk that an unauthorised amendment to supplier bank details would not be identified until the supplier reported non-payment of an invoice.</p>	<p>An Internal Audit report concluded "A member of staff without any responsibility and systems capability to make payments should have responsibility for setting up the details of organisations and individuals, with payment details currently being set up through the Creditors team."</p> <p>A resource has been identified who has no responsibility or systems capability to make payments to set up payment details once all checks have been made. This was implemented in April.</p>	<p>The recommendation has already been implemented.</p>
<p>5.Senior officer ledger access</p> <p>A review of general ledger user access indicated that the Director of Finance has user access which allows her to post journals. Access levels should reflect the tasks required of each user: it is highly unlikely that the Director would ever need to post journals.</p> <p>Senior officers posting journals is considered a risk factor for management override of controls.</p>	<p>This access has been revoked and there is evidence that no journals have been posted since 2016.</p> <p>The quarterly review mentioned in point 2 would also be used to check controls on access rights are being adhered to for senior officers.</p>	<p>The recommendation has already been implemented.</p>

Interim substantive audit testing of income and expenditure

12. We requested supporting documentation for a sample of income and expenditure transactions in April to be tested during the interim audit. We have not yet received the documentation so this testing will instead be carried out as part of the final accounts audit. Our planned audit approach for payroll expenditure is to use substantive analytical procedures at the year-end and have requested information from payroll to support this testing.

Wider-scope audit work

13. Our wider-scope audit work is currently in progress and will be reported in our Annual Audit Report. We are also carrying out Best Value work for a thematic review, directed by the Accounts Commission across all councils, of the effectiveness of council leadership in developing new local strategic priorities following the May 2022 elections. This work includes engagement with council members and officers. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

14. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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