

8

June 2020

Jim Lamond  
Head of Council Resources  
East Lothian Council  
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Dear Jim

### **East Lothian Council Management Letter 2019/20**

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.

### **COVID-19**

We were not able to fully complete our planned programme of audit work to assess the key controls of the main financial systems due to the exceptional circumstances resulting from the COVID-19 global pandemic.

### **Planned system coverage**

The following table summarises the key systems that we planned to test during our interim audit for financial year 2019/20.

<b>Key System</b>	<b>Planned External Audit Coverage</b>
Payroll	√
General Ledger	√
Trade Payables	√
Trade Receivables	√
Cash Receipting and Banking	√
Council Tax	√
Non-Domestic Rates	√
Housing Rents	√

### **Extent and limitations of testing**

Auditing standards require us to confirm and evidence that the key controls in the key financial systems are operating effectively.

Prior to the COVID-19 global pandemic, we were able to meet with Finance and Payroll officers to discuss some of the key financial systems, update and document our understanding of the systems and, identify the key controls in place.

Council officers were proactive and helpful in progressing the areas of work which could be advanced remotely. Together with the work carried out before COVID-19, we were able to test and confirm that some of the key controls were in place and were operating effectively.

Unfortunately, for a number of key controls, we could not fully test their operation as some of the required evidence was held in the council's offices. Due to these circumstances we cannot take assurance that certain key controls were operating effectively. As a result, we plan to carry out additional substantive procedures during our financial statements audit, to enable us to gain the required assurances on the following areas:

- Trade Receivables
- Trade Payables
- Grant Payments

### Prior year controls testing

A full programme of controls testing was carried out as part of our 2018/19 audit. This included a full initial system review of the following systems:

- General Ledger
- Cash Receipting and Banking
- Council Tax
- Non-Domestic Rates (NDR).

Our 2018/19 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 could be taken. Progress against these actions are considered below, together with our audit findings for 2019/20.

### 2019/20 Key findings

**Changes to supplier bank details** - We 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. We will work with management to determine how they can demonstrate to us that this control has operated in 2019/20.

**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 noted in our 2018/19 Management Letter that some progress had been made for 2018/19. This control has now been fully implemented.

**Payroll standing data** - We reported in our 2018/19 Management Letter 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 2018/19 financial year. The standing data checks were retained for 2019/20 and this control is now in place.

**NDR and Council Tax relief quality checks** - We reported in our 2018/19 Management Letter that the quality checking of processed applications for NDR and Council Tax relief was carried out sporadically, was not applied to the entire population of processed applications and a record of checks was 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. Our 2019/20 audit work found that the quality checking of NDR

and Council Tax reliefs was evidenced but was not carried out consistently during the year, nor were any checks carried out on claims processed by the Team Leader.

**Management Resolution:** The Revenues and Benefits service has been undertaking a significant service review to combine all business functions within one integrated service, the implementation of which is still at an early stage. The requirement to undertake quality checks is being formally considered as part of the implementation of the wider service review. **Responsible Officers:** Revenues & Benefits Service Managers

**Council Tax reduction and Housing Benefit quality checks** – Our 2019/20 audit work found that the processing of Council Tax reduction claims and Housing Benefit reductions is not subject to an approval process and, there is no longer a control in operation to quality-check the accuracy of the input. Quality checking has not been in operation since the Training and Development Officer role ceased in March 2019.

**Management Resolution:** The Revenues and Benefits service has been undertaking a significant service review to combine all business functions within one integrated service, the implementation of which is still at an early stage. The requirement to undertake quality checks is being formally considered as part of the implementation of the wider service review. **Responsible Officers:** Revenues & Benefits Service Managers

## National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

East Lothian Council demonstrated a good level of engagement with the most recent NFI exercise. 3,640 individual matches were identified, of which 578 were high risk matches. Internal Audit have reviewed all 578 high risk matches and have also reviewed other matches that were selected using a risk based approach.

Overpayments of £115,719.62 were identified, which have been fully recovered by the Council. The results of this exercise contribute to the provision of assurance that the Council's anti-fraud controls are working effectively.

## Conclusion

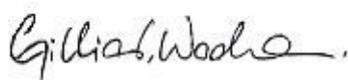
On the basis of audit work undertaken and for those key controls tested, we were able to conclude that appropriate and effective internal controls, with the exception of those noted above, were in place for the General Ledger, Cash Receipting and Banking, Payroll, Council Tax, Non-Domestic Rates and Housing Rents. For those areas where we are unable to conclude, or take controls assurance, we plan to carry out additional substantive procedures during our financial statements audit, to enable us to gain the required assurances.

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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