AUDIT SCOTLAND

West Dunbartonshire Council

Review of key internal controls 2014/15

Prepared for West Dunbartonshire Council June 2015

Contents

Key contacts

Dave McConnell, Assistant Director
dmcconnell@audit-scotland.gov.uk

Elaine Boyd, Senior Audit Manager
eboyd@audit-scotland.gov.uk

Laurence Slavin, Senior Auditor
lslavin@audit-scotland.gov.uk

Audit Scotland

4th floor (South Suite)

8 Nelson Mandela Place

Glasgow

G2 1BT

Switchboard: 0131 625 1500

Website: www.audit-scotland.gov.uk

Summary

Introduction

1. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan the audit and develop an effective financial statements audit approach.

2. We seek to gain assurance that the audited body:

    *   has systems of recording and processing transactions which provides 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.

Summary of findings

3. Overall we are satisfied that the West Dunbartonshire Council's (the Council) governance arrangements and internal control systems are operating as planned. The Council has made good progress implementing the actions agreed in our 2013/14

Review of Governance Arrangements and Main Financial Systems report.

4. In our review of the Council's governance arrangements and internal control systems for 2014/15 we identified some areas where improvements could potentially be made to improve the efficiency and effectiveness of the service. These issues are summarised in the table at appendix A of this report which also sets out the agreed action to be taken in response to audit findings.

5. It is the responsibility of management to decide on the extent of the internal control systems appropriate to the Council. Any weaknesses identified represent those that have come to external audit's attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist.

Audit Findings

Systems of internal control

6. Our audit approach included planned controls assurance on the key financial systems of:

- main accounting
- payroll
- trade receivables (debtors)
- trade payables (creditors)
- cash, income and banking
- council tax billing and collection
- non domestic rates billing and collection
- housing rents
- treasury management
- information and communication technology (ICT)
- governance

7. To obtain our controls assurance, testing strategies were developed and work completed during January to May 2015. Our review involved the identification and assessment of the risks inherent in the key systems, and the adequacy of the procedures and controls in place to address these risks.

8. As documented in our Annual Audit Plan issued in March 2015 we planned to place reliance on the work of internal audit in the following areas:

- main accounting
- council tax collection and refunds
- payroll - leavers and transfers
- NDR recovery and enforcement
- council tax and NDR valuation - new properties

9. We have completed our review of these internal audit files and concluded that we can place reliance upon the work performed. There were some areas within internal audit areas of responsibility where we deemed it necessary to perform additional testing. This was due to the areas of focus in internal audit's work programmes and ours being different as opposed to any weaknesses in the internal audit team's work. We have agreed to ensure closer co-ordination between internal and external audit work in 2015/16.

10. Areas where improvements could be made are highlighted below.

Trade Payables (Creditors)

11. **Exception Reporting** – In 2011/12 and 2012/13 we highlighted that there was no exception reporting to identify outstanding invoices past their payment due date. An

exception report is now in place, however, the department are not utilising this as effectively as they could be. Explanations of why invoices are not paid are not documented for a large number of items.

Action Plan 1

Housing Rents

12. **Saffron Request Forms** – Forms detailing changes to the Saffron rent system are not subject to timely review. Sample testing carried out indicates that exception reports may not be reviewed until three months after the change was processed.

Action Plan 2

Treasury Management

13. **Reconciliations** - Upon review of a sample of treasury management reconciliations it was established that these are not prepared and reviewed within a reasonable timescale following the period end. Of a sample of 16 reconciliations tested, 13 were not reviewed until over a month after the reconciliation was performed with some taken longer than three months.

Action Plan 3

Payroll

14. **Access to Own Payroll Records** – In our 2011/12 Review of Governance and Main Financial Systems report we highlighted that payroll staff have access to edit their own pay records without their being appropriate controls in place to manage this. The Council implemented an appropriate monitoring control which they enhanced in 2013/14 after we recommended further improvements. During 2014/15 the key officer responsible for this control has left the Council and there is now a lack of clarity over who is taking ownership for its performance. As a consequence it has not operated effectively in 2014/15.

Action Plan 4

Council Tax Billing

15. **10% Council Tax Discount Sample Checking** – The granting of council tax discounts are not subject to authorisation, however the Council conduct a 10% audit on discounts to ensure they have been awarded appropriately. The sample is selected to ensure every officer who processes discounts is subject to audit. During 2014/15 this control was not performed between 22 September 2014 and 31 March 2015. This has been explained as being due to a fault with the reporting system which has been logged with the Council's ICT

department. Whilst the fault with the reporting system has contributed to the failure of this control, the process to ensure the control is taking place needs to be reviewed as it took in excess of six months for the issue to be highlighted to the relevant officers.

Action Plan 5

Information and Communication Technology

16. **Disaster Recovery Plan (DRP) -** A DRP is a documented process or set of procedures to recover and protect the Council's ICT infrastructure in the event of a disaster. In 2013 the ICT department produced a high level DRP supported by several detailed procedures covering the recovery of a particular application / system. Further work to complete the supporting documentation associated with the DRP was delayed due to competing priorities and remains outstanding. It is also noted that the approach to disaster recovery will involve further change upon completion of the ICT Modernisation Project and shared data centre projects.

Action Plan 6

17. **Use of Unsupported and Older Software** - Microsoft ended support for Windows XP and Microsoft Office 2003 on 8 April 2014; this means that if a security flaw is discovered, Microsoft have no obligation to release an update to fix it. The Council purchased a Microsoft Enterprise Agreement as part of their ICT Modernisation Project. Under this agreement, they are

replacing the older unsupported software products, Windows XP and Microsoft Office 2003, with the more up-to-date products of Windows 7 and Microsoft Office 2010. However, the Council is still using and relying on some unsupported software. The Information Commissioner has recently warned this could become a serious problem. This risk will increase as more vulnerabilities are discovered, creating more opportunities for an attacker to exploit and potentially gain unauthorised access to systems.

Action Plan 7

18. **One Internet Connection -** The Council has a single internet network connection capable of both sending and receiving data (the main connection). A second connection is in place for transmitting data out of the Council, which, means the Council could send data out to stakeholders should the main connection be offline. However, there is no second connection to the internet for receiving data. This means, in the event of the main connection failing, stakeholders will be unable to send information into the Council.

Action Plan 8

19. **Cyberattack Response Plan -** As the number and frequency of cyberattacks increases it is likely that one or more of these attacks will eventually breach the Council's defences. Developing a Cyberattack Response Plan detailing how to

assess and handle such an incident, both technically and managerially, will reduce the recovery time from such an incident.

Action Plan 9

Forward Planning

20. **Transport Infrastructure Assets** - The 2014/15 accounting Code confirms that the 2016/17 Code will adopt the measurement requirements of the Code of practice on transport infrastructure assets (the transport code) for transport infrastructure assets, i.e. measurement on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

21. This will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement including a restated balance sheet at 1 April 2015. It is essential that finance staff, asset management practitioners and engineering professionals work together to develop an action plan in order to achieve successful implementation. A robust project plan should be built on authority-specific information provided through an impact assessment which is designed to identify gaps in current data, systems and processes. The Council have developed a project plan but recognise that further work is required in order to progress the actions identified in it.

Action Plan 10

Appendix I: Action plan

The table below sets out the recommendations to improve the control environment.

No.	Para Ref.	Issue	Responsible officer	Management response / Planned action	Target date
1	11	**Trade Payables – Exception Reporting** Further work is required by the creditors department to ensure the open items report is used more efficiently and effectively. This includes documenting reasons for invoices being outstanding. **Risk:** The Council might be subject to adverse publicity or financial penalties due to non-compliance with supplier's payment terms.	Section Head – Financial Administration & Control	The work completed in the review of the exception reports will be documented in more detail and will include follow up comments to provide detail as to the outcome of the review.	30 September 2015

No.	Para Ref.	Issue	Responsible officer	Management response / Planned action	Target date
2	12	**Housing Rents – Saffron Request Forms** Forms detailing changes to the Saffron rent system are not subject to timely review. **Risk:** Potential erroneous amendments to housing rent accounts may not be highlighted and corrected in a timely manner.	Business Support Manager	The Systems and Improvements Team have been asked to ensure that amendment forms are signed off on the day checked.	Complete
3	13	**Treasury Management – Reconciliations** Treasury Management reconciliations are not subject to timely review. **Risk:** Reconciling items or errors may not be subject to the requisite level of scrutiny in order that they can be investigated timeously.	Finance Manager	Reconciliations will be reviewed within one month of the reconciliation period.	30 June 2015
4	14	**Access to own Payroll Records** The monitoring control report to review access to own payroll records must continue to be monitored timeously. **Risk:** Potential for payroll employees to make inappropriate changes to their own payroll records.	Business Support Manager	This report has been reinstated with immediate effect and will continue to be produced each month.	Complete

No.	Para Ref.	Issue	Responsible officer	Management response / Planned action	Target date
5	15	**10% Council Tax Discount Sample Checking** The process to audit 10% of council tax discounts awarded was not operational between September 2014 and March 2015. **Risk:** Should any council tax discounts have been applied inappropriately these would not have been identified timeously.	Business Support Manager	An improved process has been initiated due to this system fault which extracts and reports relevant information from two sources.	Complete
6	16	**Disaster Recovery Plan** Due to the ICT modernisation programme further work is required by the Council to complete their disaster recovery plan. **Risk:** The disaster recovery plan already in place may not sufficiently protect / and or recover ICT infrastructure in the event of a disaster.	ICT Infrastructure Section Head	Work is in progress and on target.	30 June 2015
7	17	**Use of Unsupported and Older Software** The project to migrate from Windows XP to Windows 7 should be completed timeously. **Risk:** Operating older unsupported versions of software may result in security weaknesses.	ICT Connect Section Head	Work is in progress.	31 July 2015

No.	Para Ref.	Issue	Responsible officer	Management response / Planned action	Target date
8	18	**One Internet Connection** The Council only have a single internet connection which enables the receipt of data. **Risk:** failure in connectivity could impact on Council operations which require the receipt of external electronic data.	ICT Manager	Work is already in progress as part of shared data centre project with East Dunbartonshire, which has several phases. Initial testing of the outbound traffic over resilient line required manual intervention and work is in progress to automate the failover process. Solution design for inbound internet failover is agreed and implementation planning in progress.	30 September 2015
9	19	**Cyberattack Response Plan** The Council do not have a cyberattack response plan. **Risk: The** Council may take longer than required to recover from a cyberattack.	ICT Security Officer	A Cyber Exercise is scheduled for August 2015 with one of the outputs being the development of a Cyberattack Response Plan.	31 December 2015

No.	Para Ref.	Issue	Responsible officer	Management response / Planned action	Target date
10	20-21	**Transport Infrastructure Assets** The Council need to ensure they are prepared for the introduction of the measurement requirements of the code of practice on transport infrastructure assets including preparation of a restated 1 April 2015 balance sheet. **Risk:** Failure by the Council to begin preparations in 2015 represents a risk to them of not having the necessary information in the required timescale.	Finance Manager	The project plan is currently under development and work will commence to finalise and then implement the required changes.	31 December 2015