

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 June 2012

BY: Internal Audit Manager

SUBJECT: Controls Assurance Statement – 2011/12

1 PURPOSE

- 1.1 The Internal Audit Manager has the responsibility to independently review the internal control systems within East Lothian Council, make an assessment of the control environment and report annually on the adequacy and effectiveness of internal controls.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to note that the Controls Assurance Statement is a formal confirmation of Internal Audit's opinion on the Council's control environment for the year ended 31 March 2012.

3 BACKGROUND

3.1 Sound Internal Controls

The Council's senior management has responsibility for establishing a sound system of internal control and for monitoring the continuing effectiveness of these controls. The main objectives of the Council's internal control systems are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To secure the relevance, reliability and integrity of information, so ensuring as far as is possible, the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls or the occurrence of unforeseen circumstances. The Council is continually seeking to improve the effectiveness of its system of internal control.

3.2 The Work of Internal Audit

Internal Audit is an independent appraisal function established by the Council to review its internal control systems. Internal Audit objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources.

The Internal Audit Unit aims to operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. All internal audit reports identifying system weaknesses or non-compliance with expected controls were brought to the attention of the Chief Executive, the Executive Directors, the Council's External Auditor and the Audit and Governance Committee.

The weaknesses outlined in our audit reports are those that have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses, which may exist. It is the responsibility of Management to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations.

3.3 Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

1. The policies and procedures of the Council, including:
 - Standing Orders and Financial Regulations;
 - Strategy for the Prevention and Detection of Fraud and Corruption;
 - Information Security Policy;
 - IT Acceptable Use Policy;
 - Code of Conduct;
 - Disciplinary Code;
 - Disciplinary Procedure;
 - Whistleblowing Policy.
2. The planning, monitoring, review and reporting arrangements within the Council, including:
 - The Budget Setting Process;
 - Monthly Budget Monitoring Statements;
 - Policy and Performance Review Committee;
 - Performance Management Framework.
3. Reviews undertaken by the Council's External Auditors, KPMG.
4. Reviews undertaken by other regulation, audit and inspection bodies.
5. The work undertaken by Internal Audit during 2011/12 including systems audits, investigations, follow-up reviews and one-off exercises.
6. The Declarations of Assurance signed by Executive Directors on the operation of the internal financial controls for the services for which they were responsible during 2011/12.

3.4 Areas with Scope for Improvement

Audit work carried out during 2011/12 identified control weaknesses in a number of areas. These have been brought to the attention of Management and the weaknesses are currently being addressed. Weaknesses identified include the following:

- Lack of adherence to the Council's Standing Orders and Corporate Procurement Procedures.
- The failure to ensure that a proper contract is in place for all suppliers used by the Council.
- Organisational culture and its effects on internal financial controls including a lack of reconciliations, inadequate segregation of duties and a lack of monitoring and checking arrangements in place.
- The arrangements in place for the collection of income due to the Council from the use of PPP project facilities.
- The procedures in place for holding software licences and a lack of reconciliation between the number of software applications installed and the number of licences held by the Council.

In addition to the above, the following areas are considered worthy of note:

Financial Procedures

At present, the Council has no Financial Procedures in place to provide detailed guidance on how the financial affairs of the Council should be administered. The current Financial Regulations that were approved by Council in February 2011 specify that Statements of Current Working Method will be maintained for each of the Council's main financial processes, however these have yet to be developed.

Bank Reconciliations

Bank reconciliations were not being performed timeously and reconciliations did not compare the balance between the bank statement and the cashbook as at the same date.

Tyne Esk LEADER Programme

The arrangements in place for the administration of the Tyne Esk LEADER Programme were considered inadequate – there was a failure to comply with the LEADER Grants (Scotland) Regulations 2008, relevant EU regulations and guidance instructions.

Tender Evaluation

Our review highlighted significant weaknesses in the preparation of tender documentation, the selection and award criteria used, the weightings allotted to price and quality, the Schedule of Rates, the evaluation and scoring process and the arrangements in place for references.

Work of External Audit

The Interim Management Report prepared by the Council's External Auditors, KPMG for the year ending 31 March 2012 highlighted a number of weaknesses including the approach to financial scrutiny and the lack of properly documented financial reconciliations.

Declarations of Assurance

In addition to the above points, the Declarations of Assurance signed by Senior Officers, and available to Internal Audit at the time of preparing this document, noted concerns in respect of Procurement and Tendering Procedures.

3.5 Opinion

It is my opinion, subject to the weaknesses outlined in section 3.4 above, that reasonable assurance can be placed on the adequacy and effectiveness of East Lothian Council's internal control systems for the year to 31 March 2012.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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