

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 30 April 2013

**BY:** Internal Audit Manager

**SUBJECT:** Controls Assurance Statement – 2012/13

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## **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 2013.

## **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.

In 2012/13 the Internal Audit Unit sought to operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. However, from 1 April 2013, Public Sector Internal Audit Standards (PSIAS) have been in force and have superseded the CIPFA Code of Practice.

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;
  - The work of the Council Management Team.
3. The work undertaken by Internal Audit during 2012/13 including planned audits, investigations, follow-up reviews and one-off exercises.

4. Areas identified by Executive Directors and Heads of Service on the operation of internal financial controls for the services for which they were responsible in 2012/13.

### **3.4 Areas with Scope for Improvement**

Audit work carried out during 2012/13 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 lack of effective recording, monitoring and recovery of rent deposits paid by the Council.
- The delivery of some care at home services by non-framework providers.
- A lack of a clear audit trail, including the failure to retain key documentation, as highlighted in our schools audit and the audit of purchase cards.
- A lack of appropriate arrangements in place for ensuring compliance with the Payment Card Industry Data Security Standard.
- Access rights for the use of the Frameworki system.
- Organisational culture and its effects on internal financial control including the lack of appropriate procedures and guidance, inadequate segregation of duties and a lack of monitoring and checking arrangements in place.

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 in most areas.

#### Common Repairs Projects

In 2012/13, a review was undertaken by Internal Audit of common repairs projects following a request by Senior Officers. This review is currently ongoing, however internal control weaknesses have been identified in a number of areas including:

- Compliance with the Housing (Scotland) Act 2006.
- Adherence to Council procedures.
- The management and administration of the work notice process.
- The approach adopted to the awarding of grants.
- The recovery of all amounts due to the Council.

### Areas identified by Senior Officers

Areas identified where potential weakness or difficulty have been encountered and where improvement/remedial action is being progressed include:

- The current operating arrangements within the Community Care Finance Unit (CCFU).
- Unresolved system problems with the bank module in Great Plains and its impact on the bank reconciliation process.
- Private sector housing grants and work notices.

### **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 2013.

## **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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