

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Internal Audit Manager

SUBJECT: Controls Assurance Statement 2013/14

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 2014.

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:

- Achievement of the Council's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programmes.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures and contracts.

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 2013/14 the Internal Audit Unit sought to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).

All internal audit reports identifying system weaknesses or non-compliance with expected controls were brought to the attention of the Chief Executive, Depute Chief Executives, 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;
 - Gifts and Hospitality Policy;
 - 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 2013/14 including planned audits, investigations, follow-up reviews and one-off exercises.

3.4 Assessment of Controls and Governance

The progress report presented to the Audit and Governance Committee summarises the work of Internal Audit during 2013/14.

An Executive Summary and Action Plan in respect of each system or activity reviewed by Internal Audit during 2013/14 has been reported to the Audit and Governance Committee. The Executive Summaries highlighted a number of areas where expected controls were met in respect of the control environment and also identified opportunities for improvement. The Action Plans contained detailed recommendations including Management responses to the recommendations made.

The majority of Internal Audit recommendations made in 2013/14 were categorised as medium risk (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) with a small number of high risk recommendations (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action). A summary of all recommendations made during 2013/14 is outlined below:

Recommendations Priority Level	Number of Recommendations	Recommendations %
High	3	2.3
Medium	120	93.8
Low	5	3.9
Total	128	100

During 2013/14 areas identified with scope for improvement included the following:

- Adherence to Council policies, procedures and guidance.
- Internal financial controls including segregation of duties, approval and authorisation, reconciliations, monitoring and checking arrangements and the recovery of all amounts due to the Council.
- Weaknesses identified from our review of housing allocations.

The implementation by Management of agreed actions to address the weaknesses identified should provide assurance that the system of internal control is operating as intended.

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 2014.

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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