

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 February 2019

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – February 2019

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit reports issued, and follow-up work completed, since the last meeting of the Committee and to provide an update on the progress against the 2018/19 annual audit plan.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note:
- i. the main findings and recommendations from Internal Audit reports issued during the period from December 2018 to February 2019 as contained in Appendix 1;
 - ii. the findings from Internal Audit's follow-up work as contained in Appendix 2;
 - iii. Internal Audit's progress against the annual audit plan for 2018/19 as set out in Appendix 3.

3 BACKGROUND

- 3.1 Since the last meeting of the Committee, final reports have been issued in respect of the following audits: Disclosure Checks, Non-Domestic Rates Liability, Windygoul Primary School, Conflicts of Interest and Contracts.
- 3.2 The main objective of the audits was to ensure that the internal controls in place were operating effectively. A summary of the main findings and recommendations from the audits is contained in Appendix 1.

3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:

- Disclosure Checks – Reasonable Assurance
- Non-Domestic Rates Liability – Reasonable Assurance
- Windygoul Primary School – Moderate Assurance
- Conflicts of Interest – Moderate Assurance
- Contracts – Moderate Assurance

3.4 Internal Audit follows up recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for four audits that were reported in 2017/18. Our findings are detailed below.

Taxicard Scheme

3.5 Internal Audit's report on the Taxicard Scheme was issued in September 2017. Our follow-up review has highlighted that all eleven recommendations made have been implemented.

Non-Residential Charging

3.6 Internal Audit's report on Non-Residential Charging was issued in September 2017. Our follow-up review has highlighted that of the seven recommendations made, six have been implemented and one is outstanding (see Appendix 2). For the outstanding recommendation, we are informed by management that progress is being made with a view to full implementation by March 2019.

ALEO (Enjoy East Lothian Limited)

3.7 Internal Audit's report on ALEO (Enjoy East Lothian Limited) was issued in November 2017. Our follow-up review has highlighted that all four recommendations made have been implemented.

Training

3.8 Internal Audit's report on Training was issued in November 2017. Our follow-up review has highlighted that of the four recommendations made, three have been implemented and one is outstanding (see Appendix 2). For the outstanding recommendation, we are informed by management that the revised implementation date is December 2019.

3.9 The progress report attached as Appendix 3 is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan for 2018/19.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

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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DATE	8 February 2019

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
DISCLOSURE CHECKS**

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the arrangements in place for undertaking Disclosure Checks was carried out as part of the Audit Plan for 2018/19. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has adequate arrangements in place to ensure compliance with the Protection of Vulnerable Groups (Scotland) Act 2007.
- Appropriate policies and procedures are in place to ensure compliance with legislation including a Protection of Vulnerable Groups Policy and Procedure, Guidance on Levels of Disclosure and PVG Checks and an HR Guide for the Secure Handling, Use, Storage and Retention of Vetting Information.
- The Council's Disclosure Team within HR have a clear understanding of the disclosure process including the Code of Practice issued by the Scottish Ministers in connection with the use of disclosure information.
- A comprehensive job register is maintained of all posts within the Council – each post has been assessed to establish if it falls within the definition of regulated work and the PVG/Disclosure requirements for each post are clearly recorded.
- For all posts considered to be regulated work with children and/or protected adults, job advertisements clearly specify the PVG requirements.
- Adequate pre-employment checks are in place to ensure that appropriate PVG clearance is obtained for posts undertaking regulated work or Disclosure checks carried out for non-regulated work, prior to individuals commencing employment with the Council.

1.3 Areas with Scope for Improvement

- The current arrangements in place for non-employee groups (e.g. volunteers, agency workers, drivers/escorts on Council contracted routes) who undertake regulated work, require review. *Risk – failure to ensure compliance with legislation.*

1.4 Summary

Based on our review of Disclosure Checks, Internal Audit can provide reasonable assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that key guidance documents on PVG/Disclosure checking are reviewed and updated to reflect the current arrangements in place.	Medium	Performance and Business Support Manager	Agreed		July 2019
3.4.1	Management should ensure that corporate guidance is developed to assist staff who recruit volunteers to undertake regulated work – the guidance should cover those service areas who refer volunteers directly to Disclosure Scotland.	Medium	Performance and Business Support Manager	Agreed		July 2019
	Management should ensure that service areas provide HR with a list of current volunteers for whom PVG checks have been carried out.	Medium	Team Manager – CLD	Agreed		April 2019
	Consideration should be given to maintaining a central database of all volunteers undertaking regulated work within the Council.	Medium	Performance and Business Support Manager	Agreed – a list is maintained by HR and will be updated to include information provided by service areas		July 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure that agency workers are only hired from framework providers and have been subject to the appropriate PVG checks.	Medium	Service Manager – Transport	Agreed, however flexibility is required in exceptional circumstances	Yes	April 2019
	Management should ensure that a record is maintained to confirm that appropriate PVG clearance has been reviewed, prior to agency workers commencing work with the Council.	Medium	Service Managers	Agreed – HR to send email to all Service Managers		
3.6.1	Management should ensure that monitoring checks are undertaken on a regular basis to confirm that only drivers/escorts listed on the Transportation PVG Database are being used.	Medium	Service Manager – Transport	Agreed		In Place
	Management should ensure that a comprehensive list is maintained of all drivers/escorts for whom PVG checks have been carried out, together with the date the PVG certificate was checked.	Medium	Service Manager – Transport	Agreed		February 2019
	For drivers/escorts for whom PVG checks have been undertaken by another authority/body, Management should ensure that a record is maintained of the individual, together with the date their PVG certificate was reviewed.	Medium	Service Manager – Transport	Agreed		February 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1 (cont)	Management should ensure that the Council's Lead Signatory undertakes a health check of the current PVG checking arrangements operating within Transport Services.	Medium	Performance and Business Support Manager	Agreed		July 2019

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT NON-DOMESTIC RATES – LIABILITY

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Non-Domestic Rates Liability was undertaken as part of the Audit Plan for 2018/19. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place for identifying persons liable for Non-Domestic Rates – for the sample tested, the owner or the tenant had been correctly identified as the liable person(s).
- The Capita system has been correctly set up to calculate liability for Non-Domestic Rates in accordance with legislation.
- A clear audit trail exists for all reliefs and exemptions awarded – the Capita system records the type of relief or exemption applied and the effective dates of entitlement.
- All reliefs and exemptions had been correctly updated on the Capita system for 2018/19.

1.3 Areas with Scope for Improvement

- The draft Business Rates Discretionary Relief Policy in place has yet to be formally approved. *Risk – an inconsistent approach may be adopted.*
- In some cases, there was a lack of documentation to support the reliefs and exemptions awarded. *Risk – errors and irregularities may occur and remain undetected.*
- The existing monitoring arrangements in place to confirm continued entitlement to reliefs and exemptions require review – in a number of cases reviews had not been undertaken since 2012. *Risk – reliefs and exemptions awarded may be inappropriate.*
- In two cases, there had been a failure to update the Capita system to accurately reflect changes to the ratepayer's account. *Risk – information held may be inaccurate or incomplete.*
- There is currently no planned programme of visits in place to confirm eligibility for empty property reliefs and exemptions awarded. *Risk – reliefs and exemptions awarded may be inappropriate.*

1.4 Summary

Based on our review of Non-Domestic Rates Liability, Internal Audit can provide reasonable assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that the draft Business Rates Discretionary Relief Policy is formally approved.	Medium	Service Manager – Revenues and Welfare Support	Agreed		June 2019
3.2.3	Management should ensure that reliefs and exemptions are properly applied.	Medium	Systems Development and Business Support Team Leader	Agreed		February 2019
	For the case highlighted, Management should review the eligibility of the Small Business Bonus Scheme Relief awarded.	Medium	Systems Development and Business Support Team Leader	Agreed		February 2019
3.4.2	Management should ensure that appropriate documentation is held to support all reliefs and exemptions awarded.	Medium	Systems Development and Business Support Team Leader	Agreed		June 2019
	Management should ensure that the Capita system is updated to reflect all changes in occupiers and that a demand notice is issued to the liable person.	Medium	Systems Development and Business Support Team Leader	Agreed		February 2019
3.5.1	Management should review the existing arrangements in place for monitoring reliefs and exemptions awarded.	Medium	Systems Development and Business Support Team Leader	Agreed		June 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1 (cont)	Management should ensure that all review forms are scanned on to the Electronic Document and Records Management System.	Medium	Systems Development and Business Support Team Leader	Agreed		June 2019
3.5.2	Management should ensure that a planned programme of visits is undertaken for empty properties – a risk assessment should be carried out to identify specific categories of empty properties that should be inspected.	Medium	Systems Development and Business Support Team Leader	Agreed		June 2019

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

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Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT WINDYGOUL PRIMARY SCHOOL

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of the financial arrangements operating at Windygoul Primary School. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Financial procedures are in place to provide guidance to staff responsible for the administration of the School's finances.
- Adequate procedures are in place for the checking, receipting and processing of invoices for payment.
- Income returns are being completed and submitted for all income received and banked.
- Appropriate arrangements are in place for the ordering of goods through the Pecos system.
- For academic year 2017/18, the School Fund Annual Return had been completed and submitted to Finance.

1.3 Areas with Scope for Improvement

- There was a lack of adequate separation of duties – the same member of staff had responsibility for administering both the School Fund and the School DSM. *Risk – errors and irregularities may occur and remain undetected.*
- Delays were noted in School Fund reconciliations being carried out. *Risk – errors and irregularities may occur and remain undetected.*
- The existing procedures in place for the recording of cash received in both the class registers and the School Fund cashbook require review. *Risk – information held may be inaccurate or incomplete.*
- Cash prepared for banking is not being checked and countersigned by a second member of staff. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of adequate arrangements in place to ensure that the overall financial position of the School was being regularly checked and reconciled to the general ledger. *Risk – errors and irregularities may occur and remain undetected.*
- The School's authorised signatory list requires to be updated to accurately reflect current staff members. *Risk – information held may be out of date.*

1.4 Summary

Based on our review of the financial arrangements operating at Windygoul Primary School, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

**Stuart Allan
Senior Auditor**

February 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.2	Management should ensure that there is appropriate separation of duties between the administration of the School Fund and the administration of the DSM commitment system.	Medium	Head Teacher	Agreed		February 2019
3.2.3	Management should ensure that all School Fund income and expenditure is accurately recorded in both the income and expenditure general account spreadsheet and in the individual ledgers. Management should ensure that all School Fund income and expenditure transactions are adequately cross-referenced.	Medium	Head Teacher	Agreed		In Place
3.2.4	Management should ensure that the School Fund is reconciled on a monthly basis.	Medium	Head Teacher	Agreed		In Place
3.2.5	Management should ensure that the School DSM is promptly reimbursed for all School Fund purchases made.	Medium	Head Teacher	Agreed		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.6	Management should ensure that VAT is not reclaimed on purchases made directly from the School Fund.	Medium	Head Teacher	Agreed		In Place
3.3.1	Management should ensure that class registers accurately record the individual amounts received, the date received and the total daily amount collected.	Medium	Head Teacher	Agreed – will be in place for next School trip.		Ongoing
3.3.2	Management should ensure that all online payments received are accurately recorded in the class registers and in the School Fund cashbook.	Medium	Head Teacher	Agreed		In Place
3.3.3	Management should ensure that daily prints from the SchoolPay system are produced and retained on the banking file. Management should ensure that cash and cheques received and input to the SchoolPay system are checked by a second member of staff – the daily prints should be signed and dated by both members of staff.	Medium	Head Teacher	Agreed		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	Management should ensure that all cash handed into the school office is accurately recorded on the "Record of Money Handed in Directly to the Office" form. The form should be initialled by persons to whom the cash is then passed.	Medium	Head Teacher	Agreed		In Place
3.3.6	Management should ensure that two members of staff count and prepare cash for banking. Management should ensure that weekly banking sheets and bank giro pay-in slips are fully completed and signed by the two members of staff.	Medium	Head Teacher	Agreed		In Place
3.3.8	Management should ensure that additional members of staff are fully trained in the income and banking procedures.	Medium	Head Teacher	Agreed		In Place
3.3.10	Management should ensure that all financial documents are retained in line with the retention periods outlined in the Financial Procedures.	Medium	Head Teacher	Agreed		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should ensure that the School's authorised signatory list is updated and Pecos forms are completed for all relevant members of staff.	Medium	Head Teacher	Forms completed and sent for sign off to add further signatories.		February 2019
3.5.4	Management should ensure that the DSM commitment system is promptly updated with details of all expenditure. Management should ensure that invoice numbers are recorded on the DSM commitment system for all expenditure incurred.	Medium	Head Teacher	Agreed		In Place
3.6.3	Management should ensure that purchase card transactions are monitored by the designated Cardplus Supervisor.	Medium	Head Teacher	Agreed		In Place
3.6.4	Management should ensure that all purchase card transactions are supported by valid invoices or receipts. Management should ensure that all purchases are delivered directly to the School to ensure that the goods are formally checked and receipted.	Medium	Head Teacher	Agreed		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.5	Management should ensure that all purchase card transactions are timeously updated in the DSM and School Fund records.	Medium	Head Teacher	Agreed		In Place
3.6.6	To enable VAT to be reclaimed, Management should ensure that proper VAT invoices or receipts are obtained for all purchase card transactions.	Medium	Head Teacher	Agreed		In Place
3.8.1	Management should ensure that the DSM commitment system is kept up to date, to assist in the effective budget monitoring of the School's finances.	Medium	Head Teacher	Agreed		In Place

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

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No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CONFLICTS OF INTEREST

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the audit plan for 2018/19, a review was undertaken of the arrangements in place for managing potential conflicts of interest. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has adopted the COSLA National Code of Conduct for Local Government Employees in Scotland, which outlines the seven principles of public life including employees' duty to declare any private interests, which might affect their work with the Council.
- Procedures are in place within some service areas to identify potential conflicts of interest.

1.3 Areas with Scope for Improvement

- There is a lack of an overarching framework in place to ensure that a coordinated approach is adopted for identifying, monitoring and managing potential conflicts of interest. *Risk – an inconsistent approach may be adopted.*
- A Conflict of Interest Statement has recently been introduced by Procurement as part of the tender evaluation process, however the arrangements in place for single source procurements and quick quote exercises require review. *Risk – failure to identify potential conflicts of interest.*
- There is a lack of appropriate documentation to enable employees to record any potential conflicts of interest. *Risk – lack of a clear audit trail.*
- Where a conflict of interest has been declared by an employee, there is a lack of guidance in place to assist managers and supervisors on the ongoing monitoring and management of the potential conflict, the actions that should be taken to mitigate the risks or the level of involvement that would be considered acceptable. *Risk – an inconsistent approach may be adopted.*
- In some areas, informal arrangements were in place for declaring conflicts of interest, however there was a lack of evidence to confirm the actions that had been taken to mitigate the risks. *Risk – lack of a clear audit trail.*
- There is a lack of adequate guidance in place for dealing with non-compliance and breaches. *Risk – an inconsistent approach may be adopted.*
- There was a lack of evidence to demonstrate that employees were being regularly informed of their requirement to declare any potential conflicts of interest. *Risk – failure to promote awareness of conflicts of interest.*

1.4 Summary

From our review of the arrangements in place for managing potential conflicts of interest, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.1	Management should ensure that an overarching conflicts of interest framework is developed to enable the Council to apply a coordinated approach for identifying, monitoring and managing conflicts of interest.	Medium	Depute Chief Executive – Partnerships and Community Services	Agreed		March 2019

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance – Definitions

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Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CONTRACTS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of Contracts. Our audit focused on work being awarded by the Council's Property Maintenance and Engineering Services sections. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has in place an approved Corporate Procurement Procedures Manual, which forms part of the Council's Standing Orders – access to the procedures is available via the Council's intranet.
- The Council participates in both national (Scotland Excel and Scottish Procurement Alliance) and regional frameworks for the procurement of goods and services.
- Where extensions to contracts have been granted, appropriate approval has been obtained from the Council's Procurement section.
- Work is ongoing to identify those areas of work where appropriate contracts are not in place – a designated member of staff from Procurement is working with staff within service areas to prioritise work that requires to be procured in line with the Corporate Procurement Procedures.

1.3 Areas with Scope for Improvement

- In a number of cases, there was a lack of evidence to indicate that the Council's Corporate Procurement Procedures had been properly followed in the awarding of work to contractors. *Risk – failure to demonstrate best value.*
- In some cases, suppliers were providing goods and services which did not fall within the scope of work for the contacts they had been awarded. *Risk – failure to obtain best value.*
- Where quotes were being sought, in some cases there was a failure to ensure that the Corporate Procurement Procedures were being followed, which require that all quotes over £5,000 are obtained via the Public Contracts Scotland portal. *Risk – irregularities may occur.*
- In some cases, there was a lack of effective checking and monitoring arrangements in place to ensure that the correct contract rates were being charged by suppliers. *Risk – errors and irregularities may occur and remain undetected.*

1.4 Summary

Based on our review of Contracts, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Peter Moore
Senior Auditor

February 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that the Council's Corporate Procurement Procedures are fully complied with in the procurement of all goods and services.	High	Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance	Agreed – services will work with Procurement to ensure that contracts are put in place. High value contracts will be prioritised.		Ongoing
	Management should review the external spend within their area – where the cumulative spend exceeds the thresholds detailed in the Corporate Procurement Procedures, Management should ensure that the goods or services are competitively procured in line with the Corporate Procurement Procedures.	High	Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance	Agreed – as part of the ongoing review all spend will be analysed and tendering exercises carried out.		Ongoing
	Management should ensure that all work awarded to contracted suppliers is covered by the terms of the contact – the current practice of awarding non-contract work to contracted suppliers should cease.	Medium	Service Manager – Engineering Services & Building Standards	Agreed		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	<p>Management should review the current practice of extending contracts beyond the timescales specified in the original contracts.</p> <p>Where contract periods have expired and the Council is continuing to use suppliers from the previous contract, Management should ensure that new contracts are put in place as a matter of urgency.</p>	<p>Medium</p> <p>Medium</p>	<p>Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance</p> <p>Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance</p>	<p>Agreed</p> <p>Agreed</p> <p>Where there is a requirement to continue using a previous contractor for repairs, Management will considering putting Single Source contracts in place.</p>		<p>Ongoing</p> <p>Ongoing</p>
3.3.1	<p>Management should ensure that three quotes are obtained in line with the Council’s Corporate Procurement Procedures.</p>	<p>Medium</p>	<p>Service Manager – Engineering Services & Building Standards</p>	<p>Agreed</p>		<p>March 2019</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	<p>Management should ensure that all quotes are sought via the 'Quick Quote' process, in accordance with the Council's Corporate Procurement Procedures.</p> <p>Quotes should be received via the Public Contracts Scotland portal – the current practice of receiving quotes via email should cease.</p>	Medium	Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance	Agreed		March 2019
3.4.1	<p>Appropriate monitoring arrangements should be put in place to ensure that the correct rates are being charged by suppliers.</p> <p>For those cases where incorrect rates have been identified, Management should quantify any excess payments made and seek recovery of the overpayment from the supplier.</p>	Medium	Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance	Agreed – invoices will be checked on a sample basis.		March 2019
		Medium	Service Manager – Engineering Services & Building Standards	Agreed		March 2019

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

OUTSTANDING RECOMMENDATIONS

NON-RESIDENTIAL CHARGING

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
3.4.1	<p>Management should review the Mosaic system parameters with a view to incorporating the state pension qualifying age within the income thresholds.</p> <p>Management should review the capital thresholds currently applied in the financial assessment process.</p>	Medium	Group Service Manager – Planning and Performance	Delays due to the development of a revised financial assessment form. Currently in the final stages of testing.	March 2018	March 2019

TRAINING

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
3.2.1	Consideration should be given to adopting a consistent approach for the recording of training and development activities across the Council.	Medium	Service Manager – Corporate Policy and Improvement	Delays due to the phasing of the implementation of the new HR and Payroll system.	April 2018	December 2019

INTERNAL AUDIT PROGRESS REPORT 2018/19**APPENDIX 3**

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
VAT	For all payments processed by the Council, we will examine the arrangements in place to ensure that VAT is correctly accounted for.	September 2018	Completed
Adult Services – Residential Care	We will review the arrangements in place for the assessment and charging of clients in residential care.	September 2018	Completed
IT Systems Access	We will review the IT access controls/access rights in place for all the Council's main systems.	September 2018	Completed
Trade Waste Income	We will review the arrangements in place for the billing and collection of trade waste income.	November 2018	Completed
Adult Services – Payments on Schedule	We will review payments on schedule processed through the Mosaic system – our audit will focus on the arrangements in place for the recovery of credit balances.	November 2018	Completed
Adult Services – Transport	We will review the transport arrangements within Adult Services – as part of the review we will assess if the arrangements in place for securing transport are cost effective and well managed.	November 2018	Completed
Conflicts of Interest	We will examine the arrangements in place for the disclosure of potential conflicts of interest by members of staff.	November 2018	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Schools	We will review the financial arrangements operating within one school to ensure compliance with the financial procedures in place.	November 2018	Completed
NDR – Liability	We will continue our audit work on Non-Domestic Rates (NDR) – in 2018/19, we will review the arrangements in place for determining NDR liability.	February 2019	Completed
Disclosure Checks	We will review the disclosure checking arrangements in place for members of staff and volunteers working with children and/or protected adults.	February 2019	Completed
Contracts	As part of our annual review of procurement, we will examine a sample of contracts to ensure compliance with the Council's Corporate Procurement Procedures.	February 2019	Completed
Business Grants and Loans	We will review the arrangements in place for the awarding of grants and loans to businesses within East Lothian.	February 2019	In Progress
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2019	In Progress
Planning Enforcement	We will check to ensure that planning enforcement is being carried out in accordance with legislation and Council policy.	February 2019	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Bank Reconciliations	We will check to ensure that appropriate and effective systems of control are in place for the Council's bank accounts.	June 2019	
Council Tax	We will continue our audit work on Council Tax – for 2018/19, our review will focus on the procedures in place for the recovery of Council Tax arrears.	June 2019	
Fixed Assets	We will review the systems in place for maintaining and updating the Council's Fixed Asset Register.	June 2019	
Following the Public Pound	We will review the monitoring arrangements in place for a sample of organisations receiving partnership funding from the Council in 2018/19.	June 2019	
Building Standards	We will examine the arrangements in place for the processing of applications received for building warrants, including the collection of income due to the Council.	June 2019	
Creditors	We will review the procedures in place for processing supplier invoices for payment and we will check to ensure that adequate arrangements are in place for the prevention and detection of duplicate payments.	June 2019	