

REPORT TO: Audit and Governance Committee

MEETING DATE: 28 September 2010

BY: Internal Audit Manager

SUBJECT: Controls Assurance Statement – 2009/2010

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 2010.

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 Management, the Chief Executive, the Council's External Auditor and the Audit 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. Non-compliance with audit recommendations was reported to the Audit Committee in 2009/10.

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 – Employees;
 - 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 issued to Business Group Leaders and Budget Holders;

- Performance Balanced Scorecards;
 - Management Team meetings;
 - Policy and Performance Review Panels.
3. Reviews undertaken by the Council's External Auditors, Audit Scotland.
 4. Reviews undertaken by other regulation, audit and inspection bodies.
 5. The Declarations of Assurance signed by the Chief Executive, Executive Directors and Heads of Service on the operation of the internal financial controls for the service for which they were responsible during 2009/10.
 6. The work undertaken by Internal Audit during 2009/10, including systems audits, investigations, follow-up reviews and one-off exercises.

My opinion does not cover the internal control systems of other organisations that are included in East Lothian Council's 2009/10 financial statements under the Group Accounts section.

3.4. Areas with Scope for Improvement

Weaknesses were identified in the following areas during 2009/10:

- Lack of adherence to the Council's Corporate Policies and Procedures.
- Inadequate supervision and monitoring arrangements in place.
- Failure by Managers to ensure that adequate checking arrangements are in place.
- Insufficient segregation of duties.
- Lack of reconciliations being undertaken.
- Inadequate arrangements in place for the management of software licences.
- Unauthorised use of Council resources.
- Organisational culture and its effects on internal financial controls.
- Lack of a clear audit trail for overtime hours worked.
- Informal working arrangements with external organisations.

Declarations of Assurance

In addition to the above points, the Declarations of Assurance signed by Senior Officers within the Council noted concerns in the following areas:

- The systems in place for the monitoring of budgetary information.
- Decisions to award paid leave to employees absent from work due to bad weather.
- The approval process in place for certain grant awards made.

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 2010.

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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