

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 17 May 2016

**BY:** Internal Audit Manager

**SUBJECT:** Controls Assurance Statement 2015/16

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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 overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

## **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 overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2016.

## **3 BACKGROUND**

### **Sound Internal Controls**

- 3.1 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.
- 3.2 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.

## **The Work of Internal Audit**

- 3.3 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.
- 3.4 In 2015/16 the Internal Audit Unit sought to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 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.
- 3.6 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.

## **Basis of Opinion**

- 3.7 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 2015/16 including planned audits, investigations, follow-up reviews and one-off exercises.
- 3.8 My opinion does not cover the internal control systems of other organisations that are included in East Lothian Council's 2015/16 Statement of Accounts under the Group Accounts section.

**Assessment of Controls and Governance**

- 3.9 The Annual Internal Audit Report 2015/16 presented to the Audit and Governance Committee summarises the work of Internal Audit during the year.
- 3.10 An Executive Summary and Action Plan in respect of each system or activity reviewed by Internal Audit during 2015/16 has been reported to the Audit and Governance Committee. The Executive Summaries highlighted a number of areas where expected controls were met and also identified opportunities for improvement. The Action Plans contained detailed recommendations including Management responses to the recommendations made.
- 3.11 The majority of Internal Audit recommendations made in 2015/16 were categorised as medium risk (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) with a 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 2015/16 is outlined below:

<b>Recommendations Priority Level</b>	<b>Number of Recommendations</b>	<b>Recommendations %</b>
High	15	12
Medium	112	87
Low	1	1
<b>Total</b>	<b>128</b>	<b>100</b>

- 3.12 During 2015/16 areas identified with scope for improvement included the following:
- Adherence to Council policies, procedures and guidance.

- Compliance with EU Procurement rules and Corporate Procurement Procedures.
- Internal financial controls including segregation of duties, reconciliations, audit trail, supporting documentation, monitoring and checking arrangements.
- The arrangements in place for the administration, management and monitoring of Section 75 payments.
- The approach adopted for the allocation of work to external contractors.
- Failure to issue invoices timeously for the recovery of amounts due to the Council.
- Informal arrangements in place for agreeing rates with contractors.

3.13 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.

### **Opinion**

3.14 It is my opinion, subject to the weaknesses outlined in section 3.12 above, that reasonable assurance can be placed on the overall adequacy and effectiveness of East Lothian Council's framework of governance, risk management and control for the year to 31 March 2016

## **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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