

EAST AYRSHIRE COUNCIL

GOVERNANCE AND SCRUTINY COMMITTEE – 18 JUNE 2010

ANNUAL REPORT 2009/10

Report by the Chief Auditor

1 PURPOSE OF REPORT

- 1.1 Internal Audit has completed the audit of the Council's internal control systems for the year ended 31 March 2010.
- 1.2 The Annual Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2009/10 audit process, and offer an opinion on the adequacy and effectiveness of the systems of internal control.

2 BACKGROUND

- 2.1 The Financial Regulations of the Council require that Internal Audit present an annual report to members, showing the activity of the Internal Audit section, progress achieved against plan, and a summary of the significant audit findings for the previous financial year.
- 2.2 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom sets out organisational and operational standards for internal audit services.

3 INTERNAL CONTROL

- 3.1 In order to ensure the proper conduct of its business, the Council has a responsibility to develop, implement and maintain systems of internal control. The framework of internal control is defined as the whole system of controls, financial and otherwise, established by management in order to carry out the business of the authority in an orderly and efficient manner. A sound control system will help safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to policy and procedures.
- 3.2 It is primarily the responsibility of management to establish an appropriate and sound system of internal control, and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Auditor to provide an independent and objective opinion on the overall adequacy and effectiveness of the control environment and stewardship of public funds. The Chief Auditor's annual report is presented to those charged with governance and should be used to support the Council's Statement on Internal Control.

EAST AYRSHIRE COUNCIL

INTERNAL AUDIT ANNUAL REPORT 2009/10

Report by the Chief Auditor

1 PURPOSE OF REPORT

- 1.1 This report directs attention to matters of significance that have arisen out of the 2009/10 internal audit process, and offers an independent and objective opinion on the adequacy and effectiveness of the Council's systems of internal control, and the Council's stewardship of public funds.
- 1.2 The annual assurance programme of work was set out in the 2009/10 Internal Audit Plan. The plan was presented to the Governance and Scrutiny Committee on 3 April 2009.
- 1.3 A mid year progress report on audit activity was presented to the Governance and Scrutiny Committee on 18 December 2009.

2 INTERNAL CONTROL

- 2.1 In order to ensure the proper conduct of its business, the Council has a responsibility to develop and implement systems of internal control. It should be noted that it is primarily the responsibility of management to ensure that internal controls are in place and are operating effectively.
- 2.2 A sound control environment will help to safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to Council policy and procedures. Such systems of internal control can provide only reasonable and not absolute assurance against loss.
- 2.3 The control framework includes regular management information, financial regulations, standing orders, administrative procedures, management supervision and a system of delegation and accountability.
- 2.4 The Council's Statement on the System of Internal Financial Control is included in the annual accounts for the Council. The statement is signed by the Chief Executive and the Executive Head of Finance and Asset Management. The review of the effectiveness of the systems of internal financial control is informed by the work of management, the work of finance staff and the work of internal and external audit.
- 2.5 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom defines organisational and operational standards for the Internal Audit Service. East Ayrshire Council endeavour to comply with all aspects of the Code.

3 AUDIT APPROACH

- 3.1 Internal Audit has an important role to play in assisting the Council to discharge its governance responsibilities. The responsibilities and duties of Internal Audit and those charged with governance are set out in the Financial Regulations of the Council.
- 3.2 Audit plans are prepared following full consultation with the Chief Executive, Section 95 Officer and service directors. Plans take into account a range of factors, including client priorities, local and national agenda areas, risk registers and previous audit work, all with a view to identifying relevant areas for attention and with the objective of helping the Council secure continuous improvement and best value services. An element of contingency is built into the audit plan to enable resources to be deployed on investigations and advisory services.
- 3.3 Audit reports are presented to Executive Directors and include agreed actions which, when implemented, will improve the control environment. As part of Internal Audit monitoring procedures, copies of all assignment reports, including follow-ups, are presented to the Chief Executive, the Section 95 Officer, the Council's External Auditor and, where appropriate, to the Council Monitoring Officer. Since August 2008, audit assignment reports have been available to Elected Members through the Elected Member Portal on the Council's intranet. This development is designed to further strengthen the Council's scrutiny function.
- 3.4 Internal Audit undertake follow-up work on all major audit assignments in order to assess progress on the implementation of agreed actions. Where agreed actions have not been fully implemented by the time of the audit follow-up, the further action required is brought to the attention of the relevant Executive Director, and the Executive Director is asked to sign a client assurance statement confirming that outstanding actions will be implemented, and the timescales involved.
- 3.5 East Ayrshire Council, in common with all other councils, faces significant budgetary pressures, leading to refocusing of resources and redesign of existing service models. Internal Audit will contribute to this agenda, by helping services implement effective internal controls and helping services identify opportunities for greater efficiency.
- 3.6 The audit section works closely with the Council's External Auditors to ensure complementary areas of activity, and with the other Ayrshire Council audit sections and the wider internal audit community, to further strengthen the quality, efficiency and effectiveness of the audit service.

4 AUDIT RESOURCES

- 4.1 The audit section has an experienced team of audit staff, with a skills mix capable of providing a full range of audit services. The skills and experience mix include specialist computer audit skills, external and internal audit experience in both private and public sectors, and financial management experience. The section supports continuous professional development of all staff. There are a number of support measures in place, including staff development through the corporate EAGER programme linked to an audit competency framework. The audit manual is used to support quality assurance and audit standards.
- 4.2 A Best Value Service Review has been completed. The review has concluded that Internal Audit has sufficient resource to meet current and future demands on the service and contribute fully to emerging risks and changing priorities.

5 PLAN ACHIEVEMENT

5.1 There were significant unplanned work demands on the section in 2009/10, arising mainly from the Building & Works investigation and relating to Internal Audit involvement with the improvement agenda and assignments on bonus schemes and payments to contractors. The audit plan was revised in light of the changed priorities, and Governance & Scrutiny was advised of the revisions in my mid year report. I am pleased to report 100% achievement of revised audit plan.

5.2 Audit assignments covered the full range of audit activity, including core systems reviews, computer audit, contract audit, regularity audit, performance reviews and investigations. We have a proven track record of full or substantial achievement of the audit plan. Our record over the last seven years is full plan achievement in 4 years, and over 95% completion in the other years.

5.3 The audit activity analysis is provided in the table below:

ACTIVITY ANALYSIS	REVISED PLAN DAYS	ACTUAL DAYS
SYSTEMS REVIEW	260	275
REGULARITY AUDIT	120	98
COMPUTER AUDIT	70	62
CONTRACT AUDIT	160	197
AUDIT ADVISORY SERVICES	40	48
STOCKCHECKS	30	41
SPECIAL INVESTIGATIONS CONTINGENCY	150	193
PERFORMANCE INDICATORS AND STUDIES	70	80
TOTAL AVAILABLE DAYS	900	994

5.4 The audit plan had 900 audit days. We outturned at 994 audit days. The net gain of 94 (9%) audit days has been achieved through a combination of additional working, high attendance and efficiencies. Performance was close to plan in most areas. Investigations were in excess of the contingency by 43 days (29%). The five year average for investigations is 152 days. The investigations contingency for 2010/11 has been increased to 160 days.

5.5 Performance statistics have been collated from the audit management systems for the 2009/10 audit year. The section has issued 48 outputs in the year (53 outputs in 2008/09). This is an average of 21 days per audit assignment. A total of 123 audit recommendations (179 in 2008/09) were agreed with clients covering a range of work across all services.

5.6 Internal Audit carry out client satisfaction surveys using post audit appraisal questionnaires. Forty-eight returned post audit appraisals have been received over the last three years. Forty-four (92%) rated the service as good, four (8%) rated the service as fair and none rated it as poor.

5.7 Audit Scotland annual reviews of Internal Audit have consistently commented on the high quality service provided by the in-house team. Audit Scotland, recently carried out the 2009/10 review of arrangements for internal audit as part of their annual audit of the Council. The overall assessment is that the standard of audit work done in the last year is of the expected high quality, and they will place reliance on the core financial systems reviews in payroll and general ledger.

6 KEY OUTCOMES

6.1 Overview

- 6.1.1 The annual report is designed to direct attention to matters of significance that have arisen out of the 2009/10 audit process. The findings arising from all audit assignments have been discussed with appropriate officers of the Council and agreed action plans, including timetables and responsibilities, have been put in place to address all identified areas for improvement. Copies of audit reports are available to Elected Members via the intranet
- 6.1.2 The Internal Audit Annual Statement on the Adequacy of Internal Control is set out in Appendix 1(a) of this report. The 2008/09 assurance programme included assignments on the full range of audit activity. The following paragraphs provide a summary of the key outcomes.

6.2 Payroll and Main Accounting System

- 6.2.1 Systems based audits continue to represent one of the main elements of planned activity. We agreed with our current external auditor at the start of their engagement that a programme of end-to-end systems reviews of core financial systems would be carried out over the term of their contract. 2009/10 is year three of a seven year programme, designed to cover all core systems areas. Since the programme started audits of council tax, non domestic rates, debtors, creditors, four weekly payroll and the general ledger have all been completed.
- 6.2.2 A systems review in four weekly payroll was completed in 2009/10. Our overall assessment is that reasonable assurance can be taken from the controls operating in the four weekly payroll system. An agreed action plan is in place covering a number of control improvements, including HR policies and procedures, security and retention of documentation, segregation of duties, mandates, variations to pay and employee certification arrangements. These improvements, when implemented, will further strengthen payroll controls.
- 6.2.3 A systems review of the general ledger was completed in 2009/10. Our overall assessment of the general ledger is that sound assurance can be taken from the controls in operation in most areas covered by the assignment. An agreed action plan is in place covering a number of control improvements, including policies and procedures, budgetary control, coding and journals. These improvements, when implemented, will further strengthen ledger controls.
- 6.2.4 During the course of the year we followed up on previous core systems work in non domestic rates, sundry debtors and creditor payments. We found that most of the agreed actions had been implemented and assurances are in place covering all outstanding work.

6.3 Procurement

- 6.3.1 The purpose of the procurement assignment was to assess compliance with best practice. We carried out an assessment of compliance with best practice in procurement in 2007 using an assurance checklist developed by the Scottish Local Authorities Chief Internal Auditors' Group. The 2009 assignment is designed to assess progress made over the last two years by benchmarking current arrangements with those in place in 2007.
- 6.3.2 The 2007 assessment scored EAC at 63% compliance, and this compared to a national average score of 49%. The 2009 assessment for EAC scores compliance at 73%. Six of the seven control objectives show a significant increase since the 2007 review. Areas for further development have been highlighted to management, including the need to ensure we have contract coverage for all

major spend areas, and controls over off contract spending. Management action has been agreed on the further improvements.

- 6.3.3 We have completed an assignment on contract administration. Effective contract administration is essential if the Council is to fully exploit the savings opportunities presented by better procurement. The assignment builds on an Internal Audit review of contract administration undertaken in 2008/09. We found variations in the extent to which contract administration duties are discharged across the contracts sampled, and have made a number of recommendations designed to further improve contract management. An action plan has been agreed with management covering a range of control improvements. We will develop a self-assessment toolkit for contract administration and dovetail this with new contract administration guidance to provide further support to this important process.

6.4 Performance Indicators

- 6.4.1 The overall purpose of the performance indicator assignment is to support the External Auditors in their duty to audit the statutory performance indicators. For the financial year ended 31st March 2009, there are 58 indicators. East Ayrshire Council's policy is to report on all indicators.

- 6.4.2 Indicators which had not recently been assessed, were selected for testing. Internal Audit selected five indicators for testing. All five indicators selected for testing required some adjustment, but were judged to be reliable after adjustment. The External Auditor assessed all 58 EAC indicators to be reliable. An agreed action plan is in place covering six control recommendations, including electronic data, procedural documentation and audit trails. Five recommendations were raised in the 2008 audit of performance indicators, and these were followed-up as part of the 2009 work. Four agreed actions had been fully implemented and the other partially implemented at the time of the follow-up audit.

6.5 External Funding

- 6.5.1 In August 2009, an abridged version of the Internal Audit report on Glaisnock Trust was presented to Governance & Scrutiny. The purpose of the report was to provide members with information on the outcome of the audit investigation into grant payments made to Glaisnock Trust. The audit report provided assurance that all payments made by East Ayrshire Council had been received by the Trust and were recorded in the Trust accounts. The audit also confirmed the validity of capital expenditure on property improvements in Trust accounts. Matters relating to additional grant aid are currently with the police. The report made a number of recommendations that have been accepted by management and a full action plan is now in place to ensure that the recommended improvements are fully implemented. Progress against these actions is currently being followed-up.

- 6.5.2 In March 2010, Accounting Policy Bulletin 27, covering arrangements for external funding, was revised and re-issued by Finance and this should help to further strengthen controls in this area. We also carried out some work in another project funded by the Council, and further detail on this work can be found at paragraph 8.2 of this report.

6.6 Building & Works

- 6.6.1 We carried out a number of assignments in Building and Works in 2009/10. This work flowed from the investigation undertaken by the Council's monitoring officer in 2008/09, and consisted of support for the improvement plan, and further work commissioned around bonus payments, contractor payments and overtime payments.

- 6.6.2 The purpose of the Building & Works improvement plan is to bring operational and management arrangements in Building & Works into line with those in place throughout the rest of the Council. The improvement plan covered four core areas: governance, performance, people management, and Single Business Unit. Management has made significant progress on all core areas. Thirteen of the fourteen items on the improvement plan have been fully implemented, including all items under the core elements of governance, performance and people management. The final item covers the new arrangements for Housing repairs and maintenance. The Single Business Unit report was considered and approved by Cabinet on 24th February 2010. The structure of the new Housing Asset Service has been agreed, including management capacity and projected future core workforce. Job descriptions and profiles for managers and supervisors have been finalised and posts have been advertised. The improvement plan has strengthened governance and internal control in a range of areas, and this will provide the foundations for the new repairs and maintenance services.
- 6.6.3 Internal Audit has completed a review of the Building & Works bonus scheme arrangements as part of the improvement agenda for Building & Works. The work of the assignment included examination and testing of bonus claims and assessment of factors contributing to high bonus earnings. When the bonus scheme was introduced in 1999, it was anticipated that average bonus earnings would be 20% of basic pay. In 2008/09 average bonus earnings were 61% of basic pay, three times anticipated average bonus earnings. There were a range of factors contributing to high bonus earnings, with slackness in target times one of the major contributory factors. The audit found that bonus payment controls were weak and that bonus schemes were not delivering desired outcomes.
- 6.6.4 During the review of bonus, Internal Audit became aware of high overtime earnings by a Building and Works employee. Overtime claims were tested and this proved that the overtime claimed was worked. The main reason for the high overtime earnings was the excessive hours being worked. We identified a number of control weaknesses during this assignment. Management has agreed an action plan to address the areas for improvement in standby overtime working.
- 6.6.5 Internal Audit has completed an assignment to test the accuracy and validity of payments made by Building & Works to contractors on the list of single trade contractors tendered by Building & Works. We were assisted in our task by a firm of property surveyors. The surveyors report gives satisfactory ratings for five contractors. For the other three contractors, the surveyor reports unsatisfactory assessments arising from dayworks, measurement, quality and pricing issues. The audit identified fundamental breakdown in internal control in contract administration, supervision of works, and invoice verification controls. These failures have contributed to overpayments to contractors and failure to deliver best value. Legal Services is conducting a review of recoverability. An improvement action plan has been agreed with management covering a range of areas, including procurement, contract administration, supervision of works, verification of works and invoice processing controls.
- 6.6.6 In 2008, we found that the assurance we could take on the accuracy of Building & Works recharges was limited. We made four recommendations to management at that time designed to remedy the situation. We re-examined this area in 2009/10 as part of the improvement work, and have set out the further action required to ensure that the new Housing Asset Service has accurate and reliable accounting for repairs and maintenance services.

6.7 National Fraud Initiative

- 6.7.1 East Ayrshire Council participate in the bi-annual National Fraud Initiative ("NFI") data matching exercise. The exercise is conducted by Audit Scotland and Audit Commission. The exercise

involves analysis of a range of data sets by Audit Commission. Match cases are then made available to councils, who are expected to analyse the match reports to test for evidence of fraud or overpayments, and take recovery action as appropriate. The match reports cover matches within an authority (eg EAC payroll to EAC housing benefit claimants), and matches across authorities (eg North or South Ayrshire Council payroll to EAC housing benefit claimants).

- 6.7.2 The most recent exercise involved data collected in October 2008, with match results being provided to councils from February 2009, and work to test the results being conducted throughout 2009, and early 2010. Internal Audit review the Council's response to the each NFI exercise. Our overall assessment of the latest exercise is sound assurance in most areas. Areas of improvement have been agreed with management which will increase the effectiveness of future data matching work. The most recent exercise has identified 39 cases of fraud or errors in Housing Benefit, and 49 cases of error in Council Tax discounts, with a total value of £150k. Over £400k of fraud or error has been identified over the three exercises completed to date.

7 AUDIT FOLLOW-UP

- 7.1 Internal Audit routinely undertake follow-up work on all major audit assignments in order to assess progress on the implementation of audit recommendations arising from earlier audit work. 28 audits have been followed up in the year, and these revealed that agreed audit recommendations had been substantially implemented by the time of follow-up review.
- 7.2 The 28 follow-ups covered 244 audit recommendations, and the auditors found that 210 agreed actions had been fully implemented by the date of the follow-up audit visit, which is an implementation score of 86% (90% in 2008/09). 6 of the remaining 34 agreed actions have been replaced by new recommendations, and 16 have been implemented since the follow up audit. Management assurances are in place covering the remaining 12.
- 7.3 Departmental implementation scores ranged between 82% and 94% of agreed actions implemented at the time of the audit follow up. Internal Audit is satisfied that there is management commitment to act where control improvement opportunities are identified. The overall implementation score and departmental implementation scores are demonstration of this commitment.

8 INVESTIGATIONS

- 8.1 A selection of significant investigations are summarised in the following paragraphs. Audit reports covering investigations which are with the Police or where disciplinary action is pending have not been placed in the Elected Member portal.
- 8.2 In June 2009, Internal Audit was advised of serious financial management concerns involving a project funded by the Council. We were involved in discussions to determine the way forward regarding project controls and an action plan was agreed with management. We have completed a follow up review of the action plan and found that 15 of the 16 recommendations had been implemented by March 2010. We advised that these matters be reported to the Police, and that was done.
- 8.3 In August 2009, an abridged version of the Internal Audit report on Glaisnock Trust was presented to Governance & Scrutiny. The purpose of the report was to provide members with information on the outcome of the audit investigation into grant payments made to Glaisnock Trust. Aspects of this investigation are currently with the Police.

- 8.4 In September 2009, Internal Audit was advised of an anonymous allegation of corruption involving a Cleansing Services employee with managerial responsibilities. We have completed our investigations and the audit findings are with management to consider. An action plan has been agreed with management to address areas for improvement identified during the course of the investigative work. We will follow-up on this in due course.
- 8.5 In December 2009, Internal Audit was advised of an anonymous allegation of corruption involving a different employee in Cleansing Services. We have completed our investigations and the audit findings are with management to consider. Management has agreed an action plan to address areas for improvement identified during the course of the investigative work. We will follow-up on this in due course.

9 SUMMARY OF PERFORMANCE

- 9.1 The audit plan was revised in light of the changed priorities and emerging risks, and Governance & Scrutiny was advised of the revisions in my mid year report. I am pleased to report 100% achievement of revised audit plan.
- 9.2 The 2009/10 assurance programme included assignments on the full range of audit activity. End to end core systems reviews have been completed in four weekly payroll and general ledger, procurement, contract administration, performance indicators, external funding and national fraud initiative assignments have all been completed over the course of the year. A range of other work has also been completed. The agreed actions arising from all of this work will, when implemented, further strengthen the framework of controls.
- 9.3 Internal Audit has undertaken follow-up work on a number of previous audit assignments, with a view to establishing progress on the implementation of audit control recommendations. This work revealed that agreed actions had been substantially implemented by the time of the audit visit.
- 9.4 The Internal Audit Annual Statement on the Adequacy of Internal Control is set out in Appendix 1(a) of this report.

Colin Houston
Chief Auditor
June 2010
AnnualReportG&Svf

4 KEY OUTCOMES

- 4.1 The primary outcomes of Internal Audit link with Community Planning objectives in a number of key areas, including sound corporate governance and internal control, performance improvements, best value and reduction in waste and fraud.

Core Financial Systems

- 4.2 At the start of their engagement with the Council, our current External Auditor requested that a programme of end-to-end systems reviews of core financial systems be carried out over the term of their contract. 2009/10 is year three of a seven year programme, designed to cover all core systems areas. Since the programme started, audits of council tax, non domestic rates, debtors, creditors, four weekly payroll and the main accounting system have all been completed. The core systems assignments completed by Internal Audit have enabled our External Auditor to place reliance on this work in planning their audit of East Ayrshire Council. The audit work on core financial systems enables management and Members to take assurance that internal controls are operating effectively, and the results of this work are then used to inform the Council's annual assessment of corporate governance.
- 4.3 Internal Audit undertook a performance study on improving council tax collection in 2007/08, and recently followed up on the assignment. The action taken by Finance since the audit has improved collection performance. In 2008/09 collection levels increased to 94.1%, and held that level in 2009/10. This represents an increase of 1.7 percentage points over 2007/08, and an annual increase in Council Tax income of £0.8m. The Council's Scottish ranking improved from 30th to 22nd in 2008/09. Finance is looking at ways to further improve collection levels.

Procurement and Contract Administration

- 4.4 An audit assignment to assess compliance with best practice in procurement was completed in 2009/10. There is significant reform of procurement in progress across the public sector, and it is evident from the results of this latest review that EAC is well positioned to address the procurement reform challenges. Areas for further development have been highlighted to management, including the need to ensure contract coverage for all major spend areas, and controls over off contract spending.
- 4.5 Effective contract administration is essential if the Council is to fully exploit the savings opportunities presented by better procurement. An audit of contract administration was completed in 2009/10. The audit found variations in the extent to which contract administration duties were discharged across the contracts sampled in our audit work. High performing contracts can contribute significantly to the efficiency drive. The challenge is for all contracts to be high performing and contribute fully to the efficiency drive.

External Funding

- 4.6 In August 2009, an abridged version of the audit report on Glaisnock Trust was presented to Governance & Scrutiny. The purpose of the report was to provide members with information on the outcome of the audit investigation into payments to the Trust. The audit report provided assurance that all payments made by East Ayrshire Council had been received by the Trust and were recorded in the Trust accounts. The audit also confirmed the validity of capital expenditure on property improvements in Trust accounts. Matters relating to additional grant aid are currently with the police.
- 4.7 Internal Audit has made a number of recommendations to address compliance issues identified during the investigative work. These recommendations have been accepted by management and an action plan has been developed to ensure implementation. Most of the agreed actions were for immediate implementation. Progress against the improvement plan is currently being followed-up. The results of the follow-up will be reported to Members in my mid year report to Governance and Scrutiny in December.

Building & Works

- 4.8 Audit assignments were carried out in Building and Works in 2009/10, including support for the improvement plan, and assignments on bonus, overtime and contractor payments. The improvement plan will bring operational and management arrangements in Building & Works into line with those in place throughout the rest of the Council. Management has made significant progress on all core areas. Thirteen of the fourteen items in the improvement plan have been fully implemented, including all items under the core elements of governance, performance and people management.
- 4.9 The final core item in the improvement plan looked towards the new Single business Unit. The Single Business Unit report was considered and approved by Cabinet on 24th February 2010. The structure of the new Housing Asset Service has been agreed, including management capacity and projected future core workforce. Job descriptions and profiles for managers and supervisors have been finalised and posts have been advertised. The improvement agenda has strengthened governance and internal control in a range of areas, and this will provide the foundations for repairs and maintenance services in the new Housing Asset Service.
- 4.10 The audit of bonus schemes found that bonus payment arrangements were not delivering desired outcomes and that bonus payment controls were weak. The results of the audit have been used to inform the modernisation agreement and revised conditions of service for craft operatives.
- 4.11 The standby overtime assignment involved an employee on high overtime earnings. When the matter was discovered, the employee was immediately removed from standby. Audit work found satisfactory outcomes for tests carried out on the accuracy of claims. Management has agreed an action plan to address the areas for improvement in standby overtime working.

- 4.12 An assignment was completed to test the accuracy and validity of payments to contractors. We were assisted by a firm of property surveyors. The surveyors report gives satisfactory ratings for five contractors. For the other three contractors, the surveyor reports unsatisfactory assessments, arising from dayworks, measurement, quality and pricing issues. The breakdown in governance and internal control in Building & Works was a major contributory factor. These failures have contributed to overpayments to contractors and failure to deliver best value. Legal Services is conducting a review of recoverability. Management has agreed an improvement plan covering a range of areas including procurement, contract administration, supervision of works, verification of works and invoice processing controls.

National Fraud Initiative

- 4.13 East Ayrshire Council participate in the bi-annual National Fraud Initiative data matching exercise. The exercise is conducted by Audit Scotland and Audit Commission. Internal Audit review the Council's response to the each exercise. Our overall assessment of the latest exercise is sound assurance in most areas. Areas of improvement have been agreed with management which will increase the effectiveness of future data matching work. The most recent exercise has identified £150k of fraud or error. Over £400k of fraud or error has been identified over the three exercises completed to date.

5 ANNUAL REPORT

- 5.1 The attached report (Appendix 1) summarises the audit work carried out in 2009/10. The report presents an analysis of the performance of the Internal Audit section during the year ending 31 March 2010, and provides a summary of the audit assignments completed in the financial year.
- 5.2 The Internal Audit Annual Statement on the adequacy of Internal Control is contained within Appendix 1(a) of the annual report. My overall opinion, based on the work carried out, is that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year to 31 March 2010.
- 5.3 Action plans have been developed in consultation with Executive Directors which, when implemented, will result in a continued improvement in the overall control environment.
- 5.4 Copies of audit assignment reports are available to Elected Members on the intranet.

6 POLICY/LEGAL/FINANCIAL/RISK IMPLICATIONS

- 6.1 The Council's Financial Regulations and Standing Orders set out responsibilities for governance. The Council has adopted a Local Code of Corporate Governance modelled on the CIPFA/SOLACE framework for Corporate Governance in Local Government. The Code is reviewed annually.

7 RECOMMENDATIONS

- 7.1 Governance and Scrutiny is asked to note the contents of the Annual Report 2009/10.

Colin Houston

Chief Auditor

June 2010 G&Scover0910vf

LIST OF BACKGROUND PAPERS

Annual Audit Plan 2009/10 and Mid Year Progress Report 2009/10

East Ayrshire Council Financial Regulations, Accounting Policy Bulletins, Standing Orders, Standard Circulars and Local Code of Corporate Governance

CIPFA Code of Practice for Internal Audit in Local Government in the UK

Anyone wishing further information on the content of this report should contact the Chief Auditor on Tel. No. (01560) 323836.