



REPORT TO: East Lothian IJB – Audit and Risk Committee

MEETING DATE: 3 June 2025

BY: Chief Internal Auditor

SUBJECT: Annual Internal Audit Opinion and Report 2024/25

1 PURPOSE

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit prepares an annual internal audit opinion and report that can be used by the Integration Joint Board (IJB) to inform its governance statement.
- 1.2 The purpose of this report is to inform the IJB Audit and Risk Committee of the internal audit work undertaken in 2024/25 and to provide an opinion on the overall adequacy and effectiveness of the IJB's framework of governance, risk management and control.

2 RECOMMENDATION

- 2.1 The IJB Audit and Risk Committee is asked to note that the Annual Internal Audit Opinion and Report 2024/25 is a formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the IJB's framework of governance, risk management and control for the year ended 31 March 2025.

3 BACKGROUND

Sound Internal Controls

- 3.1 The IJB'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 internal control systems are:
 - Achievement of the IJB's strategic objectives.
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations and programmes.
 - 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 IJB is continually seeking to improve the effectiveness of its system of internal control.

Quality Assurance and Improvement Programme (QAIP)

- 3.3 The Public Sector Internal Audit Standards (PSIAS) require that the annual report must incorporate a statement on Internal Audit's conformance with the PSIAS and Local Government Application Note and the results of the Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. Internal Audit is continuously seeking to improve its service and aims to provide a service that remains responsive to the needs of the IJB and maintains consistently high standards. This was achieved in 2024/25 through the following processes:

- Compliance with PSIAS.
- A tailored audit approach utilising both East Lothian Council and NHS Internal Audit Resources effectively.
- A programme of quality control measures which include the supervision of staff conducting audit reviews and the detailed review of working paper files and audit reports.
- The development of personal and training plans – Internal Audit staff undertake a programme of Continuous Professional Development (CPD).

- 3.4 The PSIAS require the development of a Quality Assurance and Improvement Programme (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The QAIP must include both internal and external assessments. An External Quality Assessment of the Council's Internal Audit service was undertaken by the Chief internal Auditor of Dumfries and Galloway Council in 2024 and reported to the East Lothian Council Audit and Governance Committee in March 2024, which assessed the East Lothian Council Internal Audit service as Fully Conforming with PSIAS.

Delivery of the Internal Audit Service

- 3.5 Internal Audit is an independent appraisal function established by the IJB to objectively examine, evaluate and report on the adequacy of governance, risk management and control systems. The provision of the Internal Audit service to the IJB is on an in-house basis by East Lothian Council's Internal Audit Unit. In addition to the work undertaken by the in-house team, work is also undertaken by the NHS Lothian Internal Audit team, through principles agreed between Lothian NHS and the Lothian IJB's as reported to the December 2021 Audit and Risk Committee.

- 3.6 Internal Audit reports functionally to the Audit and Risk Committee and has direct access to Senior Management, the Chair of the Audit and Risk Committee and the Chair of the IJB.
- 3.7 In March 2024, the Audit and Risk Committee approved the Internal Audit Plan for 2024/25.
- 3.8 Two of the scheduled three audit reviews have been completed for the 2024/25 year providing the assurance noted and having been reported to the following meetings of the Audit and Risk Committee:
- Financial Recovery Plan Monitoring: Reasonable Assurance, March 2025
 - IJB Governance Arrangements: Reasonable Assurance, May 2025
- 3.9 The planned review of participations and engagement was not completed as in discussion with the Audit & Risk Committee chair this was substituted with assurance work on the governance of the unusual decision to expend during the financial year the IJB's remaining c. £3.1 million general reserve to support the projected overspends in the IJBs 'Health budget which was approved by a majority vote of the Board in October 2024. This work has been reflected in the Annual Governance Statement, reflecting that this was a competent decision of the Board, however as a result of the financial position of the ELIJB that a review of the reserves policy is now required and is being taken forward by the ELIJB CFO.
- 3.10 The formal assessment on the systems of Governance, Risk Management and Internal Control has been made on utilising all the evidence from the work completed.
- 3.11 Internal Audit findings identifying system weaknesses or non-compliance with expected controls were brought to the attention of the IJB's Chief Officer, Chief Finance Officer, External Audit and the Audit and Risk Committee. The weaknesses outlined 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.

Conflicts of Interest

- 3.12 There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Assessment of Controls and Governance

- 3.13 Our evaluation of the IJB's control environment is informed by a number of sources including statutory and other compliance:
- Integration Scheme – an East Lothian Integration Scheme approved by Scottish Ministers in May 2023 and sets out how the IJB will

operate, including the scope of the services to be included within the IJB and the financial arrangements.

- Membership – membership of the IJB is in accordance with the Integration Scheme.
- The IJB has in place approved Standing Orders as amended in March 2020 and Financial Regulations.
- Committees – the IJB has an established Audit and Risk Committee. The terms of reference of the Audit and Risk Committee cover the IJB's governance, risk and control; internal audit; external audit; financial reporting and accountability arrangements.
- Strategic Plan – the IJB formally adopted a new Strategic Plan 2022-2025 in September 2022, work is now underway to develop a new strategic plan.
- Officers – appropriate officers (Chief Officer and Chief Finance Officer) with responsibility for maintaining and operating an effective system of internal control were in place during 2024/25, noting that a permanent full time Chief Finance Officer has been appointed for the IJB in January 2025.
- Code of Conduct for Members of the IJB, which was updated and approved in June 2022.
- The work undertaken by Internal Audit during 2024/25.

3.14 Operational matters covered by IJB Directions, and which are undertaken on behalf of the IJB by either East Lothian Council or NHS Lothian are outwith the scope of the annual audit plan and this audit opinion.

3.15 During 2024/25, areas identified with scope for improvement included the following:

- The Internal Audit Report on Recovery Plan Monitoring highlighted that whilst the IJB approved recovery plans and Board members had access to information on the progression of these plans through Development Sessions no formal reporting framework on the delivery of the recovery plans was in place. Some reporting of the delivered savings has been completed within quarterly finance reports during the 2024/25 financial year reporting and this will continue to be enhanced during 2025/26.
- The Internal Audit report of IJB Governance Arrangements highlighted the following two key points:
 - The East Lothian IJB has never formally approved a Local Code of Governance in line with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). As further guidance has recently been published by CIPFA in May 2025 a review of the Local Code of Governance will be completed and presented to the IJB in 2025 for approval.
 - The East Lothian IJB Audit & Risk Committee approved a Risk Strategy and Policy following a review in December 2022, however the ELIJB Standing orders require the ELIJB Board to approve the Risk Management Policy and define the risk appetite and associated risk tolerance levels, a formal review is being

undertaken and a revised Policy will be submitted for formal approval to the Board in 2025.

- Following the assurance review of unusual, although competent, decision in the middle of the financial year for East Lothian IJB Board to expend the remaining General Reserve of £3.1 million in support of the Health budgets ELIJB has no General Reserves. A review of the ELIJB reserve policy will be completed during the 2025/26 financial year to ensure clarity on the ELIJB's future expectations on maintenance and use of reserves.

3.16 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

3.17 It is our opinion, subject to the weaknesses outlined in section 3.15 above, that reasonable assurance can be placed on the overall adequacy and effectiveness of the IJB's framework of governance, risk management and control for the year to 31 March 2025.

4 ENGAGEMENT

4.1 None

5 POLICY IMPLICATIONS

5.1 None

6 INTEGRATED IMPACT ASSESSMENT

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

7 DIRECTIONS

7.1 The subject of this report does not require any amendment to or creation of Directions.

8 RESOURCE IMPLICATIONS

8.1 Financial - None

8.2 Personnel - None

8.3 Other - None

9 BACKGROUND PAPERS

9.1 None.

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