

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 June 2025

BY: Service Manager – Internal Audit

SUBJECT: Annual Internal Audit 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 to support the Council's Annual Governance Statement.
- 1.2 This report provides a summary of the work undertaken by East Lothian Council's Internal Audit team and an annual opinion on the effectiveness of the Council's Governance, Risk Management and Internal Control environment for the 2024/25 financial year which supports the Council's Annual Governance Statement.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to note the contents of the Annual Internal Audit Report 2024/25 and the 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 2025.

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established by the Council to review its governance, risk management and control systems. East Lothian Council's Internal Audit team seeks to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2 Internal Audit reports administratively to the Executive Director for Council Resources (who is the section 95 officer), functionally to the Audit and Governance Committee and Chief Executive has direct access to the Monitoring Officer.

- 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 Council and maintains consistently high standards. This was achieved in 2024/25 through the following processes:
- Compliance with PSIAS.
 - A tailored audit approach using a defined methodology for financial audits.
 - 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 members are required to 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 and reported to the March 2024 Audit and Governance Committee. A QAIP indicating compliance against the new Global Internal Audit Standards (GIAS) that came into place for the UK Public Sector from the 1 April 2025, will be reported to the March 2026 Audit & Governance Committee.

Delivery of the Internal Audit Service

- 3.5 In March 2024, the Audit and Governance Committee approved the Internal Audit Plan for 2024/25. The plan was scoped to address the Council's key risks and strategic objectives.
- 3.6 In order to ensure a constant review of ongoing concurrent risks to the Council a revised Internal Audit Plan for 2024/25 was then approved by the Audit and Governance Committee in September 2024. Subsequent changes to the audit plan was also notified to the Audit and Governance Committee in March 2024 as part of this ongoing review. The Roads Audit and the Building Asset Data review were paused in order to complete an assurance review of Cybersecurity which was considered appropriate due to the recently upgraded risk in this area.
- 3.7 Three planned reviews are not fully complete however they have all been progressed and will be reported later in 2025 when fully complete. However, some assurance has been received that has been used to inform the annual assurance of East Lothian Council, in the areas where work is complete. Three further potential reviews have not been undertaken within

the 2024/25 plan year as a result of the challenges of recruiting a new Auditor within the team following a full service review within the year. An Auditor has now been recruited and onboarded with the hope that the Internal Audit Team will remain fully staffed throughout 2025/26.

3.8 In 2024/25, Internal Audit completed 12 audit reviews. Table A (see section 3.10 below) outlines the audit work undertaken in 2024/25. For each audit, Internal Audit has provided Management with an assessment of the adequacy and effectiveness of their systems of internal control. Of the 12 audit reviews completed in 2024/25:

- In 1 case, Internal Audit provided Substantial assurance.
- In 9 cases, Internal Audit provided Reasonable assurance.
- In 2 cases, Internal Audit did not grade the overall report.

3.9 For the 12 audit assignments finalised, a total of 85 recommendations were made – 67 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls); 6 recommendations were graded as low (recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.); 12 recommendations have not been graded as is the Internal Audit procedure for assurance statements. Our recommendations sought to address the weaknesses identified in the design of controls and/or their operational effectiveness.

3.10 We have completed the following reviews in 2024/25:

Table A

Audit Assignment	Level of Assurance
Capital Expenditure Contract Cost Management	Reasonable
Additional Support Needs	Reasonable
Tyne and Esk Funding	Substantial
Scottish Housing Regulator Annual Assurance Statement	Not Graded
IT Education Software Purchasing	Reasonable
Treasury Management Income Generation	Reasonable
Adult Social Care Case Management	Reasonable
Housing Voids	Reasonable
Area Partnerships	Reasonable
Sickness Absence and Monitoring	Reasonable
Attainment Scotland Funding	Reasonable
Cybersecurity Assurance Review	Not Graded

3.11 Internal Audit also completed stage gate reviews in conjunction with the Transformation Teams control and governance processes, including provision of reports to project sponsors, for the following Projects:

- TP043 Enterprise Resource Planning (ERP) Systems Procurement and Implementation Stage Gate 3;

- TP049 Website Replacement Stage Gates 1 & 2; and
 - TP051 M365 Rollout Stage Gate 3.
- 3.12 Counter Fraud and Internal Audit has also undertaken 9 Whistleblowing/Fraud and Irregularity or management request investigations/reviews in 2024/25, see the Counter Fraud Annual report for further details.
- 3.13 Internal Audit has also undertaken follow-up reviews of previous years' work to ensure that recommendations have been implemented by Management and have prepared reports for the East Lothian Integration Joint Board (IJB) Audit and Risk Committee.

Conflicts of Interest

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

Performance Indicators

- 3.15 We have undertaken our audit work in accordance with the agreed plan and each of our final reports has been reported to the Audit and Governance Committee. Performance information for 2024/25 covers:
- Completion of the annual Audit Plan – 75%
 - % of recommendations accepted by Management – 100%
 - % of staff with CCAB accounting qualifications – 80%

Basis of Opinion on Governance, Risk Management and Internal Control

- 3.16 The Council's senior management has responsibility for establishing a sound system of Governance, Risk Management and Internal Control and for monitoring the continuing effectiveness of these processes. The main objectives of the Council's Governance, Risk Management and 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; and
 - Compliance with laws, regulations, policies, procedures and contracts.
- 3.17 A sound system of Governance, Risk Management and 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 Governance, Risk Management and Internal Control.

3.18 Our evaluation of the control environment is informed by a number of sources in addition to the work of Internal Audit:

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; and the
 - Whistleblowing Policy.
2. The planning, monitoring, review and reporting arrangements within the Council, including:
 - The Budget Setting Process;
 - Budget Monitoring Statements;
 - Policy and Performance Review Committee;
 - Performance Management Framework;
 - The work of the Council Management Team.

3.19 Internal Audit's opinion for 2024/25 does not cover the internal control systems of other organisations that are included in East Lothian Council's 2024/25 Statement of Accounts under the Group Accounts section. However as required by Global Internal Audit Standards reviews are being undertaken in 2025/26 to ensure that this assurance can be extended to these Group entities.

Assessed Areas for Improvement

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

- Sickness absence levels temporarily declined in local authorities during the Covid-19 pandemic, however absence levels have risen sharply in the past three financial years reaching an all-time average high of 13.9 days in 2023/24 for all Scottish local government employees (an increase of 4.6% from 2022/23) and an average of 7.6 days for teachers (an increase of 12.5%). Whilst East Lothian Council's levels remain lower than the Scottish Averages, they were recorded at an all-time high of an average number of sickness absence days per local government employee for 2023/24 being 13.73 days (10.9 days in 2022/23) for local government employees in 2023/24 and 6.66 days (5.8 days in 2022/23) for teachers in 2023/24. Internal Audit review has recommended greater focus by Service Management on retaining self-certification documentation and further development of Strategic HR

panels to focus on improvements at an individual service level focussing on staff health and wellbeing.

- Whilst noting that Internal controls are generally reliable for housing voids as a result of significant improvements made since October 2024 that the undertaking of pre-termination visits aligned with some further control improvements, including improved review of reporting on average turnaround times could further improve the housing void process.
- In relation to Capital Expenditure Contracts there was a lack of clear audit trails and a consistent approach for the authorisation of contract variations. A monthly cost reporting tool was being reintroduced to ensure that this was in place.

3.21 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. The follow-up work completed during 2024/25 identified that 82% of the 79 recommendations made during 2023/24 have been fully implemented, with all 7 of the high graded recommendations having been fully implemented.

3.22 The Council has highlighted risk ELC CR1 Managing the Financial Environment as a Very High risk on the Corporate Risk Register which also remains Very High following mitigations. This indicates that the Council is currently operating beyond the risk tolerance of the Council. The Capital and Revenue Budgets paper presented to Council in February 2025 identified the local and wider economic context within which budgets have been developed, including the factors which have contributed to the funding gap between forecast income levels and expenditure demands which taking account of planned savings and indicative council tax increases of 5% was £45.9 million to 2029/30. The council continues to progress transformation workstreams to enable the significant programme of change that will be required to meet financial and operational challenges in the context of substantial growth pressures. This is compounded by a growing range of external cost and demand pressures, policy and legislative obligations and financial pressures aligned to population growth. The level of unallocated reserves being held by the Council as a contingency to mitigate any unforeseen events remains very low relative to the concurrent risks the Council is currently facing. Given the current level of in year overspend and future financial projections, there remains a high degree of risk that this may not be sufficient to meet current / future unplanned events.

3.23 The Council has also highlighted risk ELC CR2 Maintenance of Assets as a Very High risk on the Corporate Risk Register which also remains Very High following mitigations. The risk highlights that the Council may not have the available financial resource and staffing requirement to carry out essential repairs and maintenance programmes to ensure buildings are maintained in a good condition, and the on-going capital investment

required to ensure suitability and condition of buildings remain appropriate and aligned to national conditions.

- 3.24 Finally the Council has also highlighted risk ELC CR3 Homelessness and Housing Pressures a Very High risk on the Corporate Risk Register which also remains Very High following mitigations. The risk highlights that the rapid rehousing policy requires the Council to transform homelessness services, place people quickly into permanent accommodation, negating the use of temporary accommodation and requiring a significant reduction in temporary accommodation stock. Resource allocation, further exacerbated by a series of legislative change has been insufficient for service transformation and the approach has resulted in an inability to accommodate those in need, forcing use of B&Bs out-with area / noncontracted. East Lothian Council declared an 'Affordable Housing Emergency' on the 12 November 2024, interim amendments to the Council's Housing allocations Policy were approved on the 10 September and continue to be reviewed and amended to ensure that the Council is continuing to do all it can do to prevent, tackle and mitigate homelessness pressures. All three of these risks highlight concerns that the current financial position may start to impact the key control processes of the Council.
- 3.25 The opinion is restricted by the assurance work that has not yet been completed, however with 75% audit plan full completion, in conjunction with additional assurance work completed allows a formal assessment to be made on substantial evidence.

Opinion

- 3.26 It is Internal Audit's opinion, subject to the weaknesses outlined in section 3.20 above and the comments made in 3.22-3.24 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 ended 31 March 2025.

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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