

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 17 June 2025

**BY:** Service Manager – Internal Audit

**SUBJECT:** Annual Governance Statement 2024/25

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## **1 PURPOSE**

- 1.1 To provide the Audit and Governance Committee members with the opportunity to scrutinise the 2024/25 draft East Lothian Council Annual Governance Statement prior to it being included in the draft Annual Accounts 2024/25.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee:
- i. Consider the details of the draft Annual Governance Statement 2024/25 at Appendix 1 to ensure it reflects the governance, risk and control environment in place to achieve the Council objectives, and acknowledge the actions identified by management to improve the internal controls, risk management and governance arrangements of the Council; and
  - ii. Approve that it be published in the Council's Statement of Accounts 2024/25, noting the requirement for the final Annual Governance Statement to be signed by the Chief Executive, Executive Director for Council Resources, and Leader of the Council at the conclusion of the external audit process.

## **3 BACKGROUND**

- 3.1 The Council adopted the principles of Corporate Governance based on the CIPFA / SOLACE guidance in 2010. CIPFA / SOLACE published a new 'delivering good governance' framework in 2016. This is based on Section 3.7 of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, which governs the preparation and publication of an Annual Governance Statement. The framework defines the principles that should underpin the governance of each local government organisation. To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in the framework.
- 3.2 The Framework has seven core principles:

A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

B: Ensuring openness and comprehensive stakeholder engagement

C: Defining outcomes in terms of sustainable economic, social and environmental benefits

D: Determining the interventions necessary to optimize the achievement of the intended outcomes

E: Developing the council's capacity, including the capability of its leadership and the individuals within it

F: Managing risks and performance through robust internal control and strong public financial management

G: Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

3.3 A self-evaluation exercise based on this framework was undertaken by the Council Management Team (CMT) in May 2025, testing the Council's governance arrangements against the Good Governance Framework. The self-evaluation has drawn on extensive evidence from Council policies, procedures and practices and from Audit Scotland and other external assurance providers. Detailed responses are provided under each of the seven core principles in the Annual Governance Statement, see appendix 1.

3.4 Each member of the CMT was requested to provide a detailed assurance statement on compliance with the framework principles and identify any areas for improvement. In addition, reviews of Internal Audit, External Audit and other assurance providers work was completed by the Service Manager – Internal Audit. The seven Improvement areas of Governance are then highlighted on pages 8 to 10 of the Annual Governance Statement.

3.5 The governance statement also reviews the progress against prior year areas for improvement identified in the 2023/24 Annual Governance Statement. Page 10 of the Annual Governance Statement identifies the progress that has been made against the four areas for improvement during 2024/25.

3.6 Page 10 of the Annual Governance Statement also provides the conclusion and overall opinion which is "subject to the successful progression of the areas for improvement highlighted above, our opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of East Lothian Council's systems of governance, risk management and internal control".

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## **4 POLICY IMPLICATIONS**

4.1 None directly from this paper.

## **5 INTEGRATED IMPACT ASSESSMENT**

5.1 The subject of this report does not directly 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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<b>DATE</b>	8 June 2025

# Draft East Lothian Council Annual Governance Statement 2024-25

## Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Good Governance in Local Government Framework (2016) for the year ended 31 March 2025, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

## Scope of Responsibility

East Lothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of East Lothian Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

The system can only provide reasonable and not absolute assurance of effectiveness.

## Framework for Good Governance

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework defines the seven core principles of good governance, namely:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Management Team completes on an annual basis an assessment against the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016) being completed at the CMT meeting on the 14 May 2025.

## The Council's Governance Framework

The key elements of the Council's governance arrangements, as set out in the Council's Local Code of Corporate Governance, include:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in standing orders, last reviewed and approved by Council in February 2025 and scheme of delegation for officers, scheme of administration, and financial regulations.

Codes of conduct are in place for Councillors, who were trained on the code as part of their induction in May 2022 and the Officers code of conduct which is included in the scheme of Administration which define the high ethical values and standards of behaviour expected from elected members and officers to make sure that public business is conducted with fairness and integrity. Refresher training was also provided in 2023 and in March 2025 by the standards commission.

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. Council Values and East Lothian Way Behaviours are understood by senior management and staff and included as integral parts of the 2022-27 Council Plan. Council values and behaviours are embedded in the PRD process and guidance has been reviewed to make it easier to use and relevant to all staff and reissued to managers.

The 2023 Audit Scotland Best Value thematic work in East Lothian Council covering Leadership of the development of new local strategic priorities, concluded that:

- The Council's leadership have been effective in setting out a clear vision and priorities in the Council Plan 2022-27.
- The Council's vision is aligned to the community plan priorities.
- The Council's leadership has been effective in setting clear priorities but now needs to demonstrate sustainable plans for delivering them.

In February 2024 the Council approved a reprioritisation of the Council Plan following multiple changes in risk factors and this translated into three interlinked, complementary priorities which are aligned to the Council Plan's overarching and long-term thematic objectives.

The Council seeks feedback from the public through a regular East Lothian Residents Survey and the customer feedback procedures. A Whistleblowing Policy is in place covering all Council workers and was updated and approved by Cabinet, September 2022.

## B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so which are fully documented in accordance with the legislation on all occasions. When Council and Committee meetings are held using a virtual platform, they are live-streamed to ensure public access, and recordings can be accessed from the Council's website.

Unless confidential, decisions made by Council or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users including the 2024 East Lothian Residents Survey as reported to the October 2024 Council.

The 2017-2027 East Lothian Plan clearly sets out the objectives and outcomes for the East Lothian Partnership and each member; the Council is also an active partner in the City Region deal and the education regional collaborative.

The 2023 Audit Scotland Best Value thematic work in East Lothian Council covering Leadership of the development of new local strategic priorities, concluded that:

- The council's vision is aligned to the community plan priorities;
- The council communicated the publication of the new Council Plan to citizens, staff and partner agencies;
- Community empowerment is a key principle in the Council Plan 2022-27;
- The Connected Communities Service has a key role in delivering the Council's community empowerment objectives, encompassing the Community Learning and Development Service, support for Local Area Partnerships, Community Councils and grant funding for community organisations. There are 6 locally based Connected Communities teams with a significant focus on taking a place-based approach;
- There are 6 Local Area Partnerships in East Lothian. These are chaired by local residents and supported by the Council via Connected Communities managers. Elected members from the relevant wards attend the partnerships but recognise the partnerships' independence. The partnerships foster good engagement and communication between local communities and the Council.

## C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council's vision, strategic objectives and priorities are set out in the 2022-2027 Council Plan and East Lothian Plan 2017-27 set out clear objectives, strategic goals and outcomes that are clearly linked to the vision and form the basis of overall strategy, other strategic plans and service plans. As part of East Lothian Council's 2023 'State of the Council' and Annual Performance Report in February 2024 the Council agreed a reprioritisation of the Council Plan in order to respond to the new challenges and the limited resources it has the Council focusing on delivering a smaller number of priorities. The Council has identified Top 50 Council Plan indicators to map out progress against the Council Plan objective, strategic goals and outcomes.

The Council's financial and capital strategies 2025-30 were approved by Council in December 2024 is based on delivering the Council Plan's outcomes on a sustainable basis within the resources that will be available however has been in the context that pressure on public finances will remain alongside a range of growing demands and pressures, which will mean some difficult choices in the years ahead in terms of developing sustainable services for East Lothian communities.

Capital and Revenue Budgets reports 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 2023 Audit Scotland Best Value thematic work in East Lothian Council covering Leadership of the development of new local strategic priorities, stated that:

- The council has well established financial management and reporting arrangements including a 5-year financial strategy for revenue and capital spend. It has a track record of delivering within its annual budget, but financial pressures are increasing significantly, future funding levels are uncertain, and the council needs to take more radical steps to secure sustainable service delivery. Longer term financial planning with robust scenario planning is needed to support strategic decision making.
- The council's priorities have a focus on the need to reduce inequalities and on tackling climate change.

The Council approved the ELC Transformation Strategy 2024-2029 aiming to build on ambitions and prior achievements, in recognition of the financial challenges and the Changing world in which the Council is operating that there is a need to continue to modernise how we deliver Council services.

The Council commissioned consultants to produce a new local economic strategy during 2023 and the East Lothian Local Economy Strategy 2024-2034 was approved at the April 2024 Council Meeting setting out a shared vision and a set of shared objectives, actions, and performance measures for East Lothian Council and its partners to work towards over the next ten years.

The Climate Change Strategy 2025-30, approved by Council in April 2025 updated East Lothian Council's approach to tackling climate change. Making use of the latest guidance and best practice, aligning with recent national policy developments, and fulfilling the statutory obligations relating to climate change and sustainability.

East Lothian Partnership's Poverty Plan 2024-2028 approved by Council in August 2024 focuses on 4 key objectives that focus on getting more cash in people's pockets, living in resilient communities that are ready for the future and are in line with Scottish legislative requirements.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council approved the ELC Transformation Strategy 2024-2029 is developing a set of user-friendly Portfolio Management toolkits and templates to improve consistent delivery and control of transformation projects, linked to a Stage gate control process. Decision makers receive detailed information indicating how intended outcomes would be achieved together with the risks, financial and other implications associated with the proposals.

Capital projects, new income charge proposals and transformation change projects are mainly accompanied by business cases which include options appraisal, outcome or benefits projection and risk assessment.

Customer feedback, user surveys, and Residents Survey are all used to inform decisions about services.

Council has undertaken budget consultation exercises to gauge public opinion on the 'hard choices' and 'trade-offs' it needs to make to balance budgets when resources are constrained and demand for service is rising.

The council has established cross party working arrangements for budget development which have been in place since 2022. All political parties are represented on the group which meets at regular intervals throughout the year. The purpose of group is to steer the development of the budget and savings proposals and to facilitate opportunities for cross-party working in relation to this.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Council Standing Orders (including the Scheme of Administration and scheme of Delegation), Officers and Councillors Codes of Conduct set out the roles and responsibilities of elected members and senior officers.

The Schemes of Administration and Delegation clearly specify the remits of Council, Cabinet and Committees and specifies what is delegated to officers.

The Council has placed a strong emphasis on leadership development. The Council Management Team and Service managers have undertaken a comprehensive leadership development programme. In the last year, two further programmes targeted at Aspiring Senior Leaders and Aspiring Service Managers have been rolled out, aimed at strengthening leadership capacity and building capacity in succession planning.

The Council has a rigorous annual Personal Review and Development (PRD) process in place whereby all staff should have a PRD session which takes account of training or development needs. Changes to the templates during 2024 are fully supported by the CMT and reported to improved flexibility of recording PRD's.

The Elected Members Induction Programme took place following elections in May 2022 with a follow up training programme in 2023 and is supplemented by training events, seminars and briefings on a monthly basis. Members appointed to certain committees have also received specific training related to the responsibilities on these committees.

The 2023-2027 Council Workforce Plan has 32 actions based around three themes:

- Sustain a skilled, flexible, resilient and motivated workforce.
- Support and initiate transformational change, encouraging and supporting staff to work in a more agile way.
- Build and sustain leadership and management capacity.

The Audit Scotland best Value thematic work in East Lothian Council 2023-24 finalised in December 2024 highlighted that; Current workforce capacity and the ongoing recruitment and retention of staff remain significant challenges. The council established a short life recruitment task group to support current recruitment challenges. The council must continue to explore opportunities to develop long-term sustainable solutions to meet the challenges it faces. The report contained 8 recommendations, and they are all being taken forward for implementation.

F. Managing risks and performance through robust internal control & strong public financial management



Corporate and Service Risk Registers – reviewed and revised regularly by Corporate and Service risk groups and CMT before being presented to Council and/or Audit & Governance Committee. The Council risk strategy is reviewed every four years and risks are reviewed regularly by the Corporate Risk Management Group leading to strong risk management within the Council.

The Council has overall responsibility for directing and controlling the organisation. The Cabinet is a principal decision-making committee of the Council. The Performance Review and Scrutiny Committee is responsible for reviewing performance against policy objectives and commenting on decisions and policies and their impact.

The Council adopted a new set of Top 50 Council Plan Indicators based on the 2022-2027 Council Plan. These are reported on to PPRC in June, PPRC also reviews a series of quarterly KPI's and regular reporting on specific areas as requested by the Committee.

The Executive Director for Resources, as the Section 95 officer, along with the Head of Finance is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

The Council's system of internal financial control is based on a framework of financial regulations reviewed as part of the review of standing orders in February 2025, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. This remains reliant on the staff within the framework to ensure management supervision and accountability are diligently enforced. It is noted that the Council ledger system will be out of support in 2026 and requires modernisation a project is underway to implement a new system and improvements in internal control are anticipated as part of this project.

In October 2019 CIPFA issued the Financial Management Code (FM Code). The FM Code is designed on a non-statutory basis, to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out proposed standards of forward financial management for local authorities. Full compliance with the code was expected in 2021/22. The Council is able to confirm that, in all major regards, it conforms to the FM Code. The Head of Finance brought a full report on the implementation of the financial management code to the Audit & Governance Committee in September 2023, and Internal Audit Review provided reasonable assurance on implementation of the CIPFA FM code in June 2024. As part of the implementation of the recommendations from this review the Cabinet formally approved the principles of the CIPFA FM code in January 2025.

The 2023 Audit Scotland Best Value thematic work in East Lothian Council covering Leadership of the development of new local strategic priorities, stated that:

- The council has well established financial management and reporting arrangements including a 5-year financial strategy for revenue and capital spend. It has a track record of delivering within its annual budget, but financial pressures are increasing significantly, future funding levels are uncertain, and the council needs to take more radical steps to secure sustainable service delivery. Longer term financial planning with robust scenario planning is needed to support strategic decision making.

The Council has an approved strategy to tackle fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively, in all major regards it complies with the 2014 CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. It is however recognised that strategies and policies in relation to Fraud theft, bribery and corruption require to be reviewed and update during the 2025/26 financial year.

On the 10 January 2025 the Accounts Commission wrote in a letter to all Chief Executives of Scottish Local Authorities, copying in Directors of Finance and external auditors highlighting the report of the 12 December 2024 relating to a significant council tax fraud perpetrated against Aberdeen City Council. Highlighting the Chief Executives responsibility to ensure arrangements are in place to help assure elected members and the public that risks are being identified and managed effectively. The letter encouraged all Chief Executives to use the annual governance statement as an opportunity to take stock of the key controls and processes and whether self-assessment procedures are sufficient to provide elected members and officers with the required assurances. The East Lothian Council Chief Executive had already commissioned a counter fraud assurance report completed in September 2024 in relation to Council Tax refunds that provided assurance that the Council tax system enforces segregation of duties, and has appropriate systems documentation, recommendations for improved monitoring have been implemented and testing identified that no substantial issues could be identified.

Revenue and Capital Budget Monitoring reports are presented to the Council on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

G. Implementing good practices in transparency, reporting, & audit to deliver effective accountability

The independent and objective audit opinion of the Head of Internal Auditor (Service Manager – Internal Audit) is stated within the Internal Audit Annual Assurance Report 2024/25. This is based on work carried out by an in-house team, in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision. In April 2019 CIPFA issued a statement on the Role of the Head of Internal Audit (HIA). The statement articulated the core responsibilities of the HIA, with five principals defining the core activities and behaviours that belong to the role of the HIA. For each principle the Statement sets out the organisation's responsibilities to ensure HIAs are able to operate effectively and perform their core duties. This statement is, in all major regards, is conformed with and the Internal Audit service external quality assessment as reported to the Audit & Governance Committee in March 2024 demonstrated that the service fully conformed.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies including associated Action Plans for improvement. The Audit & Governance Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance. The Audit & Governance Committee completes an Annual assessment against CIPFA Audit Committee Guidance, last completed in September 2024 although this has not been presented to Council as indicated with the guidance as best practice.

Quarterly Performance Reports were presented to the Performance, Review and Scrutiny Committee for monitoring the achievement of strategic priorities and key performance indicators.

The Annual Accounts and Report sets out the financial position in accordance with relevant accounting regulations.

## Review of Adequacy and Effectiveness of the Council's Governance Framework

An annual review of the adequacy and effectiveness of the Council's overall governance framework has been carried out. The output is this Annual Governance Statement which is presented to the Audit & Governance Committee.

The review was further informed by assurances from: assessment of compliance against the Local Code; written assurance statements from the Executive Directors and Heads of Service; Internal Audit annual opinion, findings and recommendations; External Audit, and comments and recommendations made by External Auditor and other external scrutiny bodies and inspection agencies.

The Council however recognises improvements are required in the areas presented below.

### Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where improvement in governance arrangements can continue to be made to enhance compliance with the CIPFA/SOLACE Good Governance in Local Government Framework (2016) and to demonstrate Best Value:

- 1) There are weaknesses which have previously been identified by both Internal and External audit and the finance team within the control environment for purchasing and payment authorisation that are being resolved through the implementation of the new financial system. The Council will continue to operate with its current manual and multiple systems during 2025/26 whilst the new financial system is implemented in a number of phases. It is further noted that there has been an upward trend in use of single source procurement and VEAT notices the procurement teams will continue to work with services to examine if resourcing issues are impacting on appropriate procurement rigour throughout 2025/26. It is also noted that a budget monitoring framework and procedures along with associated training and procedures have been introduced during 2024/25 to improve these processes.
- 2) The Council continues to operate within a very challenging financial environment with further challenges and savings to be achieved in the coming years. This may mean a reduction in service delivery in some areas. 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. The lack of clarity on future funding settlements creates additional challenges to providing medium term certainty around funding to public and third sector partners. Work has been undertaken on strengthening our approach to the awarding of contracts and grants, including to the 3rd sector (one Council Partnership Fund). The National context remains uncertain and matters such as the ongoing debate around teacher numbers and learning hours. There remains uncertainty around the numbers of children who may require either an external residential placement or secure care. It is impossible to predict

numbers and despite significant work undertaken around controls in this area in recent years, this may place additional strain on Council resources.

- 3) The Homeless Persons (Unsuitable Accommodation) (Scotland) Order came into effect on 1 October 2021. Whilst the Council are working to transform the service during the year, with a significant reduction evident in the number of breaches from a peak of 152 at Q2 2023/24, a total of 75 breaches recorded at 31 March 2025. The Housing Regulator met with the Head of Housing and the Service Manager at the end of January 2025 and although noting all of the efforts and transformation across the service, continues to highlight the heightened risk of systemic failure in the delivery of services to people experiencing homelessness in East Lothian. The Scottish Housing Regulator will continue to engage with the Council and is asking for the following, during 2025/26:
  - continue best efforts to meet the Council's statutory duty to provide temporary accommodation when it should and to comply with the Unsuitable Accommodation Order; and
  - keep the Scottish Housing Regulator updated on our capacity to meet our statutory duty to provide temporary accommodation when it should and to comply with the Unsuitable Accommodation Order.
- 4) Due to budget restrictions, there are risks that backlog maintenance on Council assets, including building roads and coastal defences (other than Musselburgh Flood Prevention Project), is not being completed and deteriorating the value of these assets. Further work will continue to be completed in accordance with the Property Asset Strategy and Management Plan 2024-28, approved by Council in May 2024 and the Capital strategy 2025-30 approved by Council in 2025-30 to manage the Councils assets within the budgets available in 2025/26.
- 5) A review of the Council Counter Fraud Bribery and Corruption procedures and risks is required during 2025/26 as a result of the implementation of UK government guidance on the Crime of Failure to Prevent Fraud. The Council is putting in place an officer Integrity Group who will oversee the implementation of these procedures and appropriate risk assessments.
- 6) The Cybersecurity risks to the Council have recently been reassessed and the risk assessment increased in severity. Reviews are being undertaken to ensure that the controls in place provide an appropriate framework for the current risk.
- 7) Internal Audit highlighted the following key areas for improvement as a part of the 2024/25 Internal audit work:
  - 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.

## Prior Year Improvement Areas of Governance Implemented

The 2023/24 Annual Governance Statement for East Lothian Council contained the following areas of improvement all of which have been taken forward:

- 1) Continue to work to close the identified residual budget gap for the next five years and continue to develop longer term financial planning whilst continuing to maintain sustainable services this has been progressed during 2024/25 and the budget gap further closed when possible but further work continues to be required as highlighted above.
- 2) Continue to monitor improvement in the participation rates in the annual Personal Review and Development (PRD) process and take action to improve participation if required. The CMT continues to monitor this and take appropriate action including revised PRD formats for multiple situations being utilised in 2024/25.
- 3) The Governance and Control processes covering the legal, financial and operational processes between the Council and the Brunton Theatre Trust had substantial gaps that required to be resolved. An SLA is now in place between the Council and the Brunton Theatre Trust and leases have been reviewed, further work is ongoing in response to the ongoing changes in relationship.
- 4) The Council required to improve its control processes in relation to Agency Workers in particular to ensure that a control list of agency workers is maintained that an authorisation process is in place for agency workers that is utilised across the council consistently, and that a process for Agency Worker review should be in place to ensure adequate challenge of ongoing Agency contracts. Processes have been amended and regular information is now requested by HR teams on agency workers.

## Conclusion and Opinion on Assurance

The conclusion from the review activity completed and subject to the successful progression of the areas for improvement highlighted above, our opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of East Lothian Council's systems of governance, risk management and internal control. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Governance is operating effectively, and that the Council complies with the CIPFA/SOLACE Good Governance in Local Government Framework (2016) for the year ended 31 March 2025 in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.

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Sarah Fortune (CPFA)

Executive Director of Resources (CFO)

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Laurence Rockey

Chief Executive

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Norman Hampshire

Leader of the Council

DRAFT