

<b>COMMITTEE:</b>	Audit and Governance Committee
<b>MEETING DATE:</b>	16 September 2025
<b>BY:</b>	Service Manager – Internal Audit
<b>REPORT TITLE:</b>	Internal Audit Report – June 2025
<b>REPORT STATUS:</b>	Public

---

## **1 PURPOSE OF REPORT**

- 1.1 To inform the Audit and Governance Committee of Internal Audit reports issued since the last meeting of the Committee, provide details of Internal Audit's follow-up work undertaken and provide an update on progress made against the 2025/26 annual audit plan.

## **2 RECOMMENDATIONS**

Members are recommended to:

- 2.1 Note the main findings and recommendations from the Internal Audit reports issued during the period from June 2025 to August 2026 as contained in Appendix 1;
- 2.2 Note the findings from Internal Audit's follow-up work,
- 2.3 Note Internal Audit's progress against the annual audit plan for 2025/26 as set out in Appendix 2.

## **3 BACKGROUND**

- 3.1 Since the last meeting of the Committee final reports have been issued in respect of the following audits: Scottish Housing Regulator Assurance Statement (covered in Item 7 on the agenda), Tyne & Esk Valley Funding.
- 3.2 The main objective of the audits was to ensure that the governance, risk management and internal controls in place were operating

effectively. A summary of the main findings and recommendations from the Tyne & Esk Valley Funding Audit can be found in Appendix 1.

- 3.3 Internal Audit follows-up on recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for three audits that were reported in previous years. Recommendations that have not been fully implemented are detailed in Appendix 2 with revised dates for implementation. Our findings are detailed below:

### **Capital Expenditure Contract Cost Management**

- 3.4 The Internal Audit report on Capital Expenditure Contract Cost Management was issued in September 2024 and provided Reasonable Assurance. Our follow-up review identified that all 6 recommendations have been fully implemented.

### **Additional Support Needs**

- 3.5 The Internal Audit report on Additional Support Needs was issued in September 2024 and provided Reasonable Assurance. Our follow-up review identified that all 5 recommendations have been fully implemented.

### **Musselburgh Flood Prevention Scheme**

- 3.6 The Internal Audit report on The Musselburgh Flood Prevention Scheme Needs was issued in September 2024 and provided Reasonable Assurance. Our follow-up review identified that all 5 recommendations have been fully implemented.

### **Progress Report 2025/26**

- 3.7 A progress report attached as Appendix 2 is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the revised annual audit plan for 2025/26.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 RESOURCE AND OTHER IMPLICATIONS**

- 5.1 Finance: None
- 5.2 Human Resources: None
- 5.3 Other (e.g. Legal/IT): None
- 5.4 Risk: With the implementation of the Audit Recommendations noted in the follow up activity that risks in these areas have been reduced.

## **6 INTEGRATED IMPACT ASSESSMENT**

### **6.1 *Select the statement that is appropriate to your report by placing an 'X' in the relevant box.***

An Integrated Impact Assessment screening process has been undertaken and the subject of this report does not affect the wellbeing of the community or have a significant impact on: equality and human rights; tackling socio-economic disadvantages and poverty; climate change, the environment and sustainability; the Council's role as a corporate parent; or the storage/collection of personal data.

X

**or**

The subject of this report has been through the Integrated Impact Assessment process and impacts have been identified as follows:

## **7 APPENDICES**

### **7.1 Appendix 1: Executive Summary of Internal Audit Reports June to August 2025.**

Appendix 2: Internal Audit Plan Progress 2025/26.

## **8 BACKGROUND PAPERS**

### **8.1 Approved Internal Audit Plan 2025/26, March 2025 Audit & Governance Committee.**

## 9 AUTHOR AND APPROVAL DETAILS

### Report Author(s)

<b>Name</b>	Duncan Stainbank
<b>Designation</b>	Service Manager Internal Audit
<b>Tel/Email</b>	<a href="mailto:dstainbank@eastlothian.gov.uk">dstainbank@eastlothian.gov.uk</a>
<b>Date</b>	05 September 2025

### Head of Service Approval

<b>Name</b>	Duncan Stainbank
<b>Designation</b>	Service Manager Internal Audit
<b>Confirmation that IIA and other relevant checks (e.g. finance/legal) have been completed</b>	Confirmed
<b>Approval Date</b>	05 September 2025

# Appendix 1 Executive Summary: Tyne & Esk Funding

## Conclusion: Substantial Assurance

The total grant offer was made by the Scottish Government 2024/25 was £363,935.44. An initial grant offer was made May 2024 of £223,766.14, which was subsequently increased in November 2024 with additional funding of £140,169.30 in November 2024. Processing of all 5 grant applications tested was appropriate with a minor recommendation on clarifying processes for assessment being made.

## Background

Tyne & Esk Rural Communities Development Fund is part of the Scottish Government's Community Led Local Development Rural Programme, which is the replacement for the previous LEADER Programme that was funded by the European Union. Funding is provided under the Housing Grants, Construction and Regeneration Act 1996. The overarching aim of the funding is to increase support to local rural communities, individuals and businesses advancing inclusion, equality and diversity. The eligible area covers rural East Lothian and Midlothian excluding the urban areas of Musselburgh and Dalkeith but including Wallyford and Whitecraig and Dalkeith Country Park.

Community Led Local Development funding offers:

- small grants for projects of different sizes and types;
- support during the whole funding process, so you will never feel alone; and
- community representatives who ensure funding is spent wisely across the rural communities in East Lothian and Midlothian.

## Summary of findings & recommendations

The following key findings are highlighted, which have all been **agreed by the Local Action Group (LAG)**:

- A detailed register of all funding applications is in place, including both successful and unsuccessful applications across all years.
- For all five of the successful 2024/25 grant applications selected all applicants had provided all required documentation including constitution documents and bank statements to ensure an appropriate award.
- The spreadsheet used to summarise scoring of each LAG member was calculating the correct totals for the 2024/25 grant assessments. We found that the scoring had only been carried out by only 4 LAG members for projects paid from the 1<sup>st</sup> grant instalment (£233, 766.14); 5 LAG members should deliberate any application in line with the LAG Group Protocol quorate requirements.
- There was no scoring carried out for the additional funding £140,169.30 due to tight timescales LAG members decided at the LAG meeting 19 November 2024 on how the funds were to be awarded and 5 organisations were awarded. *Management have agreed to update the Group protocol to document processes for the number of LAG members required for evaluation and processes for exceptional award later in the year by September 2025.*
- As a result of all the testing completed for 2024/25 all grants have been awarded and expenditure incurred appropriately to the grant terms and conditions as a result no recommendations for improvements have been made.

## Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	-	1	1
Prior report	-	-	-	0

## Materiality

The LAG total grant funding for 2024/25 was £363,935.44. This allocation was split £263,367.85 for revenue and £100,567.59 for capital. The final expenditure was £262,844.50 for revenue and £98,926.29 for capital.

Total 5 Projects reviewed = £112,6377.37 (30.1%) of the total grant funding 24/25. A total of 19 projects were funded during the 2024/25 funding year across both East Lothian and Midlothian.

# Headlines

Objectives	Conclusion	Comment
1. Agreements are in place to support the administration of the funding applications	Substantial	A revised Memorandum of Understanding was signed between East Lothian Council and the Community Led Local Development Action Group (LAG).
2. A complete and accurate contract register of all funding applications is maintained	Substantial	A detailed register of applications has been put in place setting out all the details of the applications received together with the funds paid to the successful applicants.
3. Management have adequate controls in place to ensure that all applications meet the funding requirements	Substantial	The application form details the evidence that needs to be supplied with the submission. For the sample of applications selected in all cases the required documentation had been provided.
4. Management have adequate controls in place to ensure that procedures are in place for assessing the funding applications	Reasonable	A scoring spreadsheet is used to evaluate the projects. The scores for each project, from the sample selected, were correctly calculated and then divided by the number of members who were scoring each project. It was noted however that for the initial grant award in 2024/5 only 4 members scored the applications, The Group Protocol for the Tyne & Esk Community Led Local Development (CLLD) Local Action Group (The Protocol) requires 5 members for a quorate meeting and whilst not specifically stated it would be expected that five members would also score any grant applications to ensure that there is appropriate scrutiny. The Protocol does state that <i>"Deliberation on an application will not start until there is a quorum present."</i> There was no scoring carried out for the additional funding due to tight timescales LAG members decided at the LAG meeting 19 November 2024, with 7 members present on how the funds were to be awarded. A recommendation has been accepted to update the Protocol to clarify applications coring quorate requirements.
5. Adequate controls are in place to confirm that adequate documentation is supplied to confirm the funding application and payment	Substantial	Adequate bank statements were provided to confirm that payments had been made. Four claims were made to the Scottish Government for funding payments. The Community Led Local Development Officer visited a sample of projects to confirm that all had been completed.

## Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	While it is not a requirement of the new scheme the LAG took the decision that a post project monitoring visit, by the Community Led Local Development Officer, to each applicant should be undertaken. These visits ensured that the funding provided had been used to fulfil the approved aims of each project.
2.	Reviews of both the initial application form and the post project funding have been put in place to ensure the project aims have been fulfilled

# Recommendation Grading/Overall opinion definitions

Recommendation	Definition
<b>High</b>	Recommendations relating to factors fundamental to the success of the control objectives of the system. The weaknesses may give rise to significant financial loss/misstatement or failure of business processes.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance	Definition
<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

SERVICE AREAS TO AUDIT	CURRENT PROPOSED AUDIT ASSIGNMENTS FROM RISK ANALYSIS	CURRENT PROGRESS
<b>Council Resources</b>	<p><b>Transformation Projects:</b> Continue ongoing support and involvement in stage gate processes and consider specific reviews of control process adjustments resulting from implementation of the new finance system. (Inherent Risk Assessment: High)</p> <p><b>Complaints:</b> Review the Customer Feedback team processes and provide assurance that comments and complaints are processed in accordance with regulation, best practice and in line with the East Lothian Council complaints procedure. (Inherent Risk Assessment: Medium)</p> <p><b>Employee Performance Management:</b> Review assurance that the council has adequate staff performance management processes in place within Council Personal review and Development processes to ensure compliance best practice and appropriate feed through to further appropriate Performance Management Processes. (Inherent Risk Assessment: High)</p>	<p>3 Transformation projects have been reviewed in the period Including Internet system replacement project stage gate review, Finance Systems Replacement Project ongoing Board review and specific ask on Musselburgh flood prevention scheme. Complaints review to be replaced with Cybersecurity with interim reporting to CMT completed</p>
<b>Place (Infrastructure, Housing, Development, Communities &amp; Partnerships)</b>	<p><b>Fleet Management and Planning:</b> Provide assurance that best practice fleet management practices have been implemented across the Council and that fleet planning provides a sustainable best value. (Inherent Risk Assessment: High)</p> <p><b>Housing Rents:</b> Assurance that housing rental charges are being set in accordance with Council Policy and regulatory best practice and that Governance and Control processes are in place in association with this process. (Inherent Risk Assessment: High)</p> <p><b>City Deal Innovation Hub:</b> Provide assurance that the operational governance structures are in place and operating to ensure appropriate control and risk management for the Council investment in this project and to manage the expected delivery of outcomes. (Inherent Risk Assessment: High)</p> <p><b>Commercial Rents:</b> Review the processes for ensuring that commercial rents are set collected and recovered in accordance with best practice and Council Income Policies to ensure best value. (Inherent Risk Assessment: Medium)</p>	<p>Commercial Rents Audit planning meetings complete.</p>

SERVICE AREAS TO AUDIT	CURRENT PROPOSED AUDIT ASSIGNMENTS FROM RISK ANALYSIS	CURRENT PROGRESS
<b>Education &amp; Children's Services</b>	<p><b>School Transport:</b> Provide assurance that School Transport provision is being planned and provided for in accordance with Council Policy and appropriate legislation/ regulation, that routes are planned, procured and improved to provide best value to the Council. (Inherent Risk Assessment: High)</p> <p><b>PPP Contract Management:</b> Provide assurance that the Council PP contracts are being managed effectively to ensure that services are being provided effectively and actions resulting in additional fees appropriately reviewed and authorised, and payments are being accurately made. (Inherent Risk Assessment: High)</p> <p><b>Early Years:</b> Provide assurance on the appropriate planning of expenditure for development of appropriate provision of early years education in compliance with the appropriate legislation, regulations and guidance. (Inherent Risk Assessment: Medium)</p>	School Transport Planning meetings undertaken
<b>Adult Social Work</b>	<p><b>Care at Home:</b> Review the Control processes in place to ensure that best value is being achieved in the utilisation of care at home provision from external providers and in house provision, and the control processes are in place to ensure that appropriately qualified staff are available to meet identified needs. (Inherent Risk Assessment: High)</p> <p><b>Direct Payments – Self Directed Support:</b> Review the Control processes in place to ensure as much as regulation allows that needs are met through provision of self-directed support appropriate council processes that ensure appropriate, timely and accurate payments. (Inherent Risk Assessment: High)</p>	Direct Payments Audit testing underway.
<b>ALEO's (Arm's Length External Organisations)</b>	<b>Enjoy Leisure:</b> Establish if Enjoy Leisure has appropriate Governance and Assurance Processes in place that provide assurance to the council that risks are being properly managed within the organisation, and that the Council has appropriate processes in place to ensure appropriate risk management of the Council risks within the transactions provided and the arrangements in relation to use of Council assets. (Inherent Risk Assessment: High)	Enjoy Leisure Planning meetings scheduled.

<b>SERVICE AREAS TO AUDIT</b>	<b>CURRENT PROPOSED AUDIT ASSIGNMENTS FROM RISK ANALYSIS</b>	<b>CURRENT PROGRESS</b>
<b>Miscellaneous Grants</b>	Internal Audit are currently undertaking annual audits of the <b>Tyne and Esk Communities Development Fund</b> . (Inherent Risk Assessment: Low)	<b>Complete</b>
<b>Scottish Housing Regulator (SHR) Annual Assurance Statement</b>	Work required to provide assurance on the regulatory requirements set out in the Scottish Housing Regulators Chapter 3 of the Regulatory Framework. (Inherent Risk Assessment: Low)	<b>Complete</b>
<b>Fraud &amp; Irregularity</b>	Internal Audit will assist in investigations of suspected fraud or irregularity to support the 1 FTE of Counter Fraud Officer availability over the next year when required	Support being provided when necessary.
<b>National Fraud Initiative (NFI)</b>	Time has been allocated for providing some assistance to the Corporate Fraud Officer in reviewing the NFI matches in particular the Creditors Matches.	Creditors Matches Received.
<b>Integration Joint Board</b>	Time has been allocated for work that will be undertaken by Internal Audit for the East Lothian Integration Joint Board (IJB). A separate audit plan will be prepared which will be presented to the IJB Audit and Risk Committee for approval.	<b>Financial Planning Audit Complete.</b>
<b>Review of Previous Year's Work</b>	Internal Audit will review the outcome of our previous year's work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	<b>September Follow ups Complete.</b>

<b>SERVICE AREAS TO AUDIT</b>	<b>CURRENT PROPOSED AUDIT ASSIGNMENTS FROM RISK ANALYSIS</b>	<b>CURRENT PROGRESS</b>
<b>Attendance at Stocktakes</b>	Internal Audit will attend the year-end stocktakes at Property Maintenance, Road and Waste Services. We will review the final stock sheets.	Will be Completed in March 2026
<b>Annual Governance Statement</b>	Completion of the Activities to assist with the CMT review of Governance and the administration of Governance Information to provide a draft Annual Governance Statement for consideration by the Audit & Governance Committee and inclusion in the draft accounts.	Work Ongoing with Head of Corporate Support and Monitoring Officer on revised processes.
<b>Audit &amp; Governance Committee Annual Review</b>	Assist the Chair and Audit & Governance Committee Members with the completion of the Annual review of the Committee in line with the CIPFA Statement and best practice	<b>Complete</b>
<b>Annual Planning</b>	Complete the review of Risk Assessment processes, identification of key risk areas assessment against the audit universe and identification of the links between the Council Objectives and the Internal Audit work for the 2026/27 annual audit plan.	Will be completed in Early 2026.