

COMMITTEE:	Audit and Governance Committee
MEETING DATE:	25 November 2025
BY:	Service Manager – Internal Audit
REPORT TITLE:	Internal Audit Report – November 2025
REPORT STATUS:	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 September 2025 to November 2025 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 and changes to 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: Roads and Direct Payments.
- 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 Roads and Direct Payments audits 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 two audits that were reported in previous years. Our findings are detailed below:

IT Software Purchasing

- 3.4 The Internal Audit report on IT Software Purchasing was issued in December 2024 and provided Reasonable Assurance. Our follow-up review identified that all 4 recommendations have been fully implemented.

Treasury Management – Income Generation

- 3.5 The Internal Audit report on Additional Support Needs was issued in December 2024 and provided Reasonable Assurance. Our follow-up review identified that all 6 recommendations have been fully implemented.

Progress Report 2025/26

- 3.6 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. It should be noted that

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

X

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.

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 September to November 2025.

Appendix 2: Internal Audit Plan Progress 2025/26.

8 BACKGROUND PAPERS

- 8.1 Approved Revised Internal Audit Plan 2025/26, September 2025 Audit & Governance Committee.

9 AUTHOR AND APPROVAL DETAILS

Report Author(s)

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Date	11 November 2025

Head of Service Approval

Name	Duncan Stainbank
Designation	Service Manager Internal Audit
Confirmation that IIA and other relevant checks (e.g. finance/legal) have been completed	Confirmed
Approval Date	11 November 2025

Appendix 1. Executive Summary: Roads

Conclusion: Reasonable Assurance

The processes and internal controls in place for Roads are generally reliable, however some areas for improvement have been identified, including ensuring strategies, policies and procedures are regularly updated, further progression of the plans for the replacement of the job costing system used by Roads, ensuring whenever possible that at least three written quotes are obtained from contractors through the Quick Quote procurement process to demonstrate best value and robust procurement due diligence, improving some aspects of the contract management processes in place, and resolving the challenges in the financial forecasting of both expenditure and revenue for the Roads service area.

Background

East Lothian Council as Roads Authority is responsible for managing and maintaining the local road network which forms part of the adopted public roads. The definition of a road includes footpaths, footways, cycleways, verges and any bridges over which, or tunnel through which, the road passes. The Council's Roads Services is also responsible for winter maintenance, emergency operations and car parking. Works/projects undertaken in fulfilling these responsibilities, includes both work undertaken directly by the Roads Section and work awarded to external contractors, for both revenue and capital work.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by Management**:

- Key strategic documents such as the Local Transport Strategy and Roads Asset Management Plan are applicable for 2018–2024, but no updated versions or drafts are available for 2025 onwards. *Management have confirmed that review of these documents has started and will be complete **by December 2026**.*
- The job costing system used by Roads is nearing the end of its life, with supplier support ceasing from 1 June 2026 and there is a need for appropriate planning for a replacement system. *Management have confirmed that discussions are ongoing with Finance and IT, which take cognisance of the wider work with the roll out of the new corporate finance system, with a view to an agreed approach being in place **by May 2026**.*
- For procurement processes undertaken via the Quick Quote process, a minimum of three contractors should be invited to provide a quote, however in three of the four Quick Quote procurements reviewed, either only one or two completed quotes were submitted. *Management have agreed that where feasible consideration will be given to inviting more than three contractors to submit a Quick Quote **by November 2025**.*
- The effectiveness of the forecasting process within Finance for the Roads budget requires review. *Finance have confirmed that improvements to the forecasting process have already been implemented, which will be kept under review **by November 2025**.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	9	1	10
Prior Report (February 2020)	-	3	-	3

Materiality

The Council's revenue budget for 2025/26 (as approved by Council of 18 February 2025), shows net expenditure for Roads Network (& Flood Prevention) of £4,354,000 and a budgeted surplus on the Roads Trading Activity of £670,000 (although the Roads Trading Activity was subsequently discontinued with effect from 1 April 2025). The approved capital budget for 2025/26 is £11,333,000 for Roads, Lighting and related assets.

Headlines

Objectives	Conclusion	Comments
1. The Council has adequate arrangements in place for complying with relevant legislation in respect of roads management, and appropriate policies, procedures and guidance documents are in place.	Limited	Key strategic documents such as the Local Transport Strategy (LTS) Roads Asset Management Plan, Active Travel Improvement Plan, and Parking Management Strategy are applicable for 2018–2024, but no updated versions or drafts are available for 2025 onwards. Management advised that updates have been delayed due to resource constraints and competing priorities, but that progress is now being made in reviewing and updating these documents.
2. Effective arrangements are in place for ensuring the accuracy and completeness of the cost information which forms part of the Roads job costing system.	Limited	The job costing system used by Roads is nearing the end of its life, with supplier support ceasing from 1 June 2026 and there is a need for appropriate planning for a replacement system. Management have confirmed that discussions are ongoing with Finance and IT. Options being considered include both utilising an existing job costing system within the Council or procuring a new system, which will have to work within the Finance IT system upgrade and digital transformation board parameters
3. Appropriate review has been undertaken of the Roads Trading Account and an assessment made of the appropriateness of internal services being accounted for as a trading operation.	Reasonable	The Roads Trading Account previously operated through the internal charging of work undertaken by Roads Operations (the trading activity) to the main Roads account (Road Networks), and to Capital and the HRA. The Council's agreed budget for 2025/26, included a budgeted surplus for the Roads Trading Activity of £670,000. Early in 2025/26 a decision was made to discontinue the Roads Trading Account, however this change, and the impact on 2025/26 budget monitoring, was not highlighted in the Quarter 1 Financial Review 2025/26 report presented to Council in August 2025.
4. The Council's procurement procedures have been followed in the awarding of all work to external contractors.	Reasonable	The Council's procurement procedures have been followed in the awarding of work to contractors, however areas for improvement have been identified in the use of the Quick Quote process, including with regards to the selection of suppliers invited to submit a quote.
5. Effective contract management processes are in place for all external contracts, to ensure the Council is only paying for works properly carried out, and appropriate approval and authorisation processes in place for payments made.	Reasonable	In one case, the successful contractor's initial tender submission was received through the Quick Quote process however there was a subsequent change in the scope of the works and the contractor was asked to submit revised rates. Most of the revised rates submitted had increased from the initial submission, resulting in increased contract costs, and due to time pressure on this externally grant funded project this dictated that an urgent evaluation be carried out to approve the change resulting in a lack of written evidence of the checks being undertaken of the revised rates that provided a trail of the decision to continue.
6. Appropriate budget monitoring process are in place within Roads Services.	Limited	For 2024/25, weaknesses were identified in the full year forecasting of both expenditure and revenue for the Roads service area, resulting in the failure to meet the Roads Trading Activity surplus not being timeously identified. Finance have undertaken work to review and identify the issues and improvements to the forecasting process have been implemented, which are being kept under review.

Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	There is an established and detailed Standard Operating Procedures (SOPs) for using the TOTAL job costing system. This supports consistent application, improves accuracy in job costing, and promotes good financial management practices.
2.	Monthly reconciliations are undertaken between the TOTAL job costing system and the Great Plains general ledger. The reconciliations seek to ensure that the reports exported directly from TOTAL reflects the information that is recharged through the Roads monthly journal. A reconciliation sign-off sheet is maintained as evidence of the reconciliations being completed each month.
3.	All Roads' operatives and supervisors are appropriately qualified, demonstrating compliance with the Roads (Scotland) Act and the New Street Works Act. This reflects good practice in ensuring legal adherence and maintaining professional standards in road operations.

Recommendation Grading/Overall Opinion Definitions

Recommendation	Definition
High	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.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.
Levels of Assurance	Definition
Substantial Assurance	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.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, noncompliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	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.
No Assurance	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.

Appendix 1 Executive Summary: Direct Payments

Conclusion: Reasonable Assurance

The internal controls in place for Direct Payments are generally reliable, however there are some improvements that can be made to provide a fully effective control process, including a review of the financial assessment processes to ensure that client contributions are being collected when appropriate, that the current policy for self-directed support is reviewed and updated when appropriate and that the pre-paid card provider challenges are resolved.

Background

Direct Payments are an integral part of Self-Directed Support and are governed by legislation – the Community Care and Health (Scotland) Act 2002 introduced a range of provisions relating to Direct Payments and Local Authorities have a duty to offer Direct Payments to people eligible for social care. In 2007, the Scottish Government issued National Guidance on Self-Directed Support – the guidance sought to improve the take-up of self-directed support. In addition, we note that in March 2012 the Self-Directed Support (Scotland) Bill was published. The Social Care (Self-directed Support) (Scotland) Act 2013 places a specific duty on local authorities to allow individuals to choose how their social care is supported by giving them as much control over the individual budget spent on their care. We note that the Mosaic system is used for administering social care for Adult Wellbeing and Children’s Wellbeing, this is supported by the pre-paid card payment system used for Direct Payment processes.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been agreed by Management:

- The current Self-Directed Support Policy has been in place since 2018 and since then there have been changes in processes, in addition detailed clawback procedures are required. *Management already had this review in progress through the SDS Delivery Group and will deliver a draft policy and procedure to consult on **by January 2026**.*
- Audit testing identified one case where a financial assessment should have been completed and had not been and 3 cases when assessed financial contributions had not been informed to clients resulting in a lack of recovery. *Management have already reviewed all Direct Payment cases where a financial assessment is required and will follow the processes to ensure that when applicable contributions are requested and monitored for recovery **by April 2026**.*
- The pre-paid card provider used for direct payments has had issues with providing historical reporting impacting monitoring activity since July 2025, considerations are required of contract management processes moving forward, ensuring contingency plans are in place and when monitoring capability is restored that monitoring and fund recovery is undertaken in full. *Management is actively pursuing all of these activities and will ensure progress is in place **by April 2026**, although completion will be dependent on progress with the external provider.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	8	2	10
Prior Report	-	19	-	19

Materiality

The Council has a 2025/26 Direct Payment budget of £4million and the expenditure recorded on ledger is £2.6million to period 6. The 2024/25 Budget was £3.1million with actual expenditure of £3.3 million.

2 Headlines

Objectives	Conclusion	Comments
1. To ensure that appropriate policies and procedures are in place within the council that meet legislative requirements.	Reasonable	A Detailed Policy and procedures are in place in accordance with the Self-directed (Direct Payments) (Scotland) Legislation and have been communicated to Social Work Staff responsible for administering Direct Payments. The current Self-Directed Support Policy has been in place since 2018 and since then there have been changes in processes such as the introduction of pre-paid bank cards. There are also no clear, detailed procedures in place for the recovery of funds specifying which Staff are responsible for reclaiming funds from clients who have failed to pay their assessed contributions or clients who are holding excessive amounts above the contingencies set. A revision of the policy and procedures are required to include these elements.
2.To ensure that all clients have had a strength based assessment completed prior to direct payments being made.	Reasonable	From the sample of 15 clients selected 10 have not had their annual review started by the target timescale. Adult Social Work Management have a performance framework in place that monitors against completion of these reviews on a regular basis having for the first time completed all the reviews due in the 2024/25 financial year. The Framework allows the reporting that as at 3/10/2025 there are 118 clients reviews on the waiting list; 76 reviews are overdue (from March 2025 – September 2025) and 42 reviews are due (from October 2025 – October 2026). Recruitment is being put in place to ensure delivery in 2024/5 that will require appropriate training and quality assurance reviews to be put in place.
3. To ensure that there is an adequate Authorisation processes in place to ensure that clients have payments made for their assessed needs in accordance with procedures and legislation	Reasonable	For Every Direct payment client reviewed as part of the audit their package of care had been authorised in line with the authorisation process at the time of the review. However as noted in objective 2 not all clients have had their current strength-based assessments yet reviewed in 2025/26 however this is being resolved by additional team recruitment and there are adequate monitoring controls to ensure that this will be progressed to conclusion. Option 1 - Direct Payments training is required for all CCWS and Social Workers across the ASW team and review team
4. To ensure that each client has an appropriate financial assessment in place and any assessed contribution is being deducted from the correctly calculated direct payment.	Limited	From the testing of 15 cases only 5 required a financial assessment to be undertaken and in 1 case this had not been undertaken as they transferred from Direct payments to a different type of support. However, in 3 other cases where a financial assessment had been undertaken the `clients failed to top up their bank accounts with the assessed contributions. A review of the contribution processes in relation to Direct payments is now required to ensure they are being assessed and recovered as appropriate.
5. That there are adequate monitoring procedures in place to ensure that the direct payments being made are being utilised for the appropriately authorised care package.	Reasonable	Due to disruptions in the system, the Council has been unable to access historical bank statement data prior to July 2025. This has resulted operational challenges for the Council. There is no contingency plan in place for a lack of systems access. Ensuing that monitoring is fully undertaken and amounts recovered/paid when systems capabilities are restored is required.

Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	For Every Direct payment client reviewed as part of the audit their package of care had been authorised in line with the authorisation process at the time of the review.
2.	All clients had been reviewed during the 2024/25 financial year and a performance monitoring process is place that ensures that Adult Social Work Management are aware of the status of case reviews and if further resources are required to ensure that required reviews are completed within the year.
3.	Following reviews undertaken in 2024 in excess of £170k of funding was reported as having been recovered from direct payment accounts.
4.	Management have already proactively reviewed the payments made to the pre-paid card provider and recovered funds when appropriate and sought to apply discounts when full services have not been available.
5.	East Lothian Health & Social Care Partnership has a Self-Directed Support Delivery Group in place with a drafted action plan across all self-directed support which already included ensuring a review of the policy and procedures in place across the Council which will include a review of the linkages in place for the process with Children's services who are not part of the partnership.

Recommendation Grading/Overall Opinion Definitions

Recommendation	Definition
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No Assurance	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
Council Resources	<p>Transformation Projects: 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>Cybersecurity: Interim review of Password security and incident management completed with a further review of Cybersecurity in line with Global Internal Audit Standards topical requirements on Cybersecurity. (Inherent Risk Assessment: High)</p> <p>Employee Performance Management: 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>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 was replaced with Cybersecurity with interim reporting to CMT completed</p>
Place (Infrastructure, Housing, Development, Communities & Partnerships)	<p>Fleet Management and Planning: 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>Housing Rents: 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>City Deal Innovation Hub: 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>Commercial Rents: 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 In progress. It is proposed that the Fleet Management and Planning Audit is to be replaced with a review of the Planning Decision Notices, subject to audit committee approval.</p>

SERVICE AREAS TO AUDIT	CURRENT PROPOSED AUDIT ASSIGNMENTS FROM RISK ANALYSIS	CURRENT PROGRESS
Education & Children's Services	<p>School Transport: 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>PPP Contract Management: 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>Early Years: 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 audit is in progress.
Adult Social Work	<p>Care at Home: 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>Direct Payments – Self Directed Support: 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 is Complete.
ALEO's (Arm's Length External Organisations)	Enjoy Leisure: 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 audit is in progress.

SERVICE AREAS TO AUDIT	CURRENT PROPOSED AUDIT ASSIGNMENTS FROM RISK ANALYSIS	CURRENT PROGRESS
Miscellaneous Grants	Internal Audit are currently undertaking annual audits of the Tyne and Esk Communities Development Fund . (Inherent Risk Assessment: Low)	Complete
Scottish Housing Regulator (SHR) Annual Assurance Statement	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)	Complete
Fraud & Irregularity	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.
National Fraud Initiative (NFI)	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.
Integration Joint Board	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.	Financial Planning Audit Complete.
Review of Previous Year's Work	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.	September & December Follow ups Complete.

SERVICE AREAS TO AUDIT	CURRENT PROPOSED AUDIT ASSIGNMENTS FROM RISK ANALYSIS	CURRENT PROGRESS
Attendance at Stocktakes	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
Annual Governance Statement	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.
Audit & Governance Committee Annual Review	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	Complete
Annual Planning	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.