

COMMITTEE:	Audit and Governance Committee
MEETING DATE:	16 June 2026
BY:	Service Manager (Temporary) – Internal Audit
REPORT TITLE:	Annual Internal Audit Report and Opinion 2025/26
REPORT STATUS:	Public

1 PURPOSE

- 1.1 The Global Internal Audit Standards (GIAS) UK Public Sector Application Note states that a chief audit executive must prepare an overall conclusion at the level of the organisation about the effective governance, risk management and control, at least annually, in support of wider governance reporting, mindful of any specific sector obligations or processes.
- 1.2 This report provides a summary of the work undertaken by East Lothian Council's Internal Audit team and an annual opinion (overall conclusion) on the effectiveness of the Council's governance, risk management and internal control environment for financial year 2025/26. This provides a supporting element for 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 and Opinion 2025/26 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 2026.

3 BACKGROUND

- 3.1 East Lothian Council have established an Internal Audit team to strengthen East Lothian Council (including group components) and the East Lothian Integration Joint Board's (ELIJB) ability to create, protect and sustain best value by providing the Audit and Governance Committee and management with independent, risk-based, and objective assurance, advice and insight.

The Internal Audit Team operate in accordance with GIAS as amended by the UK Public Sector Application Note.

- 3.2 Internal Audit reports administratively to the Depute Chief Executive Resources and Economy (the section 95 officer), functionally to the Audit and Governance Committee and the Chief Executive and also has direct access to the Monitoring Officer.
- 3.3 GIAS standard 12.1 requires that the chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include:
- The Internal Audit function's conformance with the Standards and achievement of performance objectives.
 - If applicable, compliance with laws and/or regulations relevant to internal auditing.
 - If applicable, plans to address the Internal Audit function's deficiencies and opportunities for improvement.
- 3.4 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 2025/26 through the following processes:
- A review of compliance with GIAS.
 - 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).
- 3.5 The internal review of compliance with GIAS identified, as reported to the Audit & Governance Committee in March 2026, that GIAS Standard 9.5 Coordination and Reliance states that, "The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers. If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board". The audit plan has been developed with coordination and reliance on the work of Audit Scotland as the appointed external auditor, specifically in relation to work on transformation covering many of the identified key Council risks. However, coordination and reliance on other assurance providers including Education Scotland, Care Commission, Health and Safety Inspectorate, has not been

possible for the 2026/27 plan. Full compliance with this element of the standards has not been completed as East Lothian Council does not yet have a full assurance map.

- 3.6 It was planned to develop an assurance map in 2026/27, however with the temporary reduction in Internal Audit resource as the result of the secondment of the Service Manager – Internal Audit to other duties, this will now be completed in 2027/28 and presented as part of the audit planning process in March 2028 to the Audit and Governance Committee.

Delivery of the Internal Audit Service

- 3.7 In March 2025, the Audit and Governance Committee approved the Internal Audit Plan for 2025/26. The plan was scoped to address the Council's key risks and strategic objectives.

- 3.8 In order to ensure a constant review of ongoing concurrent risks to the Council a revised Internal Audit Plan for 2025/26 was then approved by the Audit and Governance Committee in September 2025. Subsequent changes to the Audit Plan was also notified to the Audit and Governance Committee in March 2026 as part of this ongoing review.

- 3.9 The Audit team has been fully staffed during most of the 2025/26 financial year, however the Service Manager – Internal Audit has recently been seconded to an Information Governance role within the Council for nine months, and is being backfilled by the Senior Auditor.

- 3.10 In 2025/26, Internal Audit completed 10 audit reviews. Table A (see section 3.12 below) outlines the audit work undertaken in 2025/26. For each audit, Internal Audit has provided Management with an assessment of the adequacy and effectiveness of their systems of internal control. Of the 10 audit reviews completed in 2025/26:

- In 1 case, Internal Audit provided Substantial assurance.
- In 8 cases, Internal Audit provided Reasonable assurance.
- In 1 case, Internal Audit did not grade the overall report.

- 3.11 For the 10 audits finalised, a total of 56 recommendations were made – 49 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls); seven 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); and there were no high graded recommendations. Our recommendations sought to address the weaknesses identified in the design of controls and/or their operational effectiveness.

- 3.12 We have completed the following reviews in 2025/26:

Table A

Audit Assignment	Level of Assurance
Tyne and Esk Funding	Substantial
Scottish Housing Regulator Annual Assurance Statement	Not Graded
Direct Payments	Reasonable
Roads	Reasonable
Commercial Properties	Reasonable
Enjoy East Lothian Limited	Reasonable
Planning Decision Notices	Reasonable
Home To School Transport	Reasonable
Edinburgh Innovation Hub	Reasonable
Employee Performance Management	Reasonable

3.13 Internal Audit also completed stage gate reviews in conjunction with the Transformation team's control and governance processes, including provision of reports to project sponsors, for the following Project: TP049 Website Replacement Stage Gate 3. Support has been provided to the Finance Systems Replacement project throughout the year.

3.14 Counter Fraud and Internal Audit have also undertaken six Whistleblowing/Fraud and Irregularity or management request investigations/reviews in 2025/26, see the Counter Fraud Annual Report for further details.

3.15 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

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

Performance Indicators

3.17 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 2025/26 covers:

- Completion of the annual Audit Plan – **75%**
- % of recommendations accepted by Management – **100%**
- % of staff with CCAB accounting qualifications or working towards them – **87%**

Basis of Opinion on Governance, Risk Management and Internal Control

3.18 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.

3.19 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.

3.20 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;
- Counter Fraud Strategy & Policy;
- Anti-Bribery Policy;
- 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 Council Leadership Team.

Assessed Areas for Improvement

3.21 During 2025/26, areas identified with scope for improvement included the following:

- Internal governance processes in providing assurance that strategy policy and procedure frameworks are being reviewed and considered for approval in a timely manner are not always operating on an effective basis. The Internal Audit of Roads highlighted that the Local Transport Strategy and associated plans and strategies had not been reviewed in a timely manner, the Internal Audit of Commercial Properties highlighted that there had not been a policy framework to manage historic discounted or peppercorn rents, although a Community Benefit Policy was already being developed to resolve this, and the Home to School Transport audit highlighted that the Home to School Transport Policy did not clearly specify the eligibility criteria for the provision of free school transport. These individual recommended improvements are being taken forward, however additional resource in the implementation of a Service Manager – Strategy, Policy and Performance has already been implemented to review and improve governance and controls, the success will be monitored during 2026/27.
- IT systems are not always providing optimum performance or being appropriately reviewed and maintained particularly in Council service areas, that do not have dedicated systems administration staff. The Internal Audit of Roads highlighted that the job costing system had control weaknesses and was nearing end of life with no definitive plan for replacement; and the Internal Audit of Commercial Properties highlighted that the Property Management System is not performing as required resulting in manual workarounds that, whilst operating, are inherently a greater risk than an effectively operating system. The development and implementation of an officer post of Strategic Digital Lead provides additional resource to establish a framework to improve control over the Council's digital portfolio, the work in this area will be monitored and assisted in implementation by the Council Leadership Team (CLT) during 2026/27.
- Greater focus on the governance and control processes for the Council's group components is required to ensure that they continue to clearly assist in the delivery of appropriate best value outcomes for the Council. The Internal Audit of Enjoy East Lothian Limited identified improvements in governance, assurance and risk management that require review. Reinstitution of annual reporting on all group components to the Council's Audit and Governance Committee during 2025/26 and 2026/27 and continuing and renewed focus on group entities through Internal Audit planning and monitoring of implementation of recommendations will assist in the improvement of the governance, risk management and control of these group components.

- The Internal Audit of Employee Performance Management found that the Council does not currently have an end-to-end, holistic approach to managing employee performance. There is currently mixed practice within the Council and two of the five audit objectives were graded as limited. Management have agreed to review the current approach with a view to establishing an appropriate framework for implementation across the Council.
- 3.22 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 2025/26 identified that 89% of the 53 recommendations reviewed from 2024/25 have been fully implemented, with management actions currently ongoing for the remaining recommendations.
- 3.23 The Council has highlighted risk R266 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 Budget Development 2026-27 Onwards paper presented to Council on 24 February 2026 stated that “the cumulative impact of growth has resulted in a growing gap between expenditure demands and available resources... if the costs of providing services and infrastructure for the county’s growing population cannot be met through proportionate uplifts in external funding, this will become increasingly difficult for the Council to sustain over the medium term. These pressures apply to both revenue and capital budgets and remain the subject of ongoing dialogue with the Scottish and UK Government” The statement of robustness of estimates and adequacy of reserves within the same paper; “concludes that while the budget proposals for the forthcoming financial year are considered to be competent, the funding gap for the period beyond this remains significant and presents a risk to the Council’s capacity to set balanced budgets in future years. It also highlights that unallocated general balances, which the Council holds to offset the impact of unforeseen risks and emergencies remains low relative to the overall risk environment”. Significant work on the medium term financial position on a cross party basis continues, as does work to consider the more timely implementation of Transformation across the Council to assist in the financial position in the long term.
- 3.24 The Council has also highlighted risk R267 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. The Council has in place a Corporate Asset Group, chaired by the Head of Infrastructure, which receives regular

reports on any risks which identify impact on the operation or safety of the assets to enable planned action to be considered and implemented; and a wider asset review is being progressed by the Council which includes exploring opportunities to repurpose, dispose of, or rationalise assets, and undertake a place-based asset review of existing assets.

- 3.25 Finally the Council has also highlighted risk R287 Homelessness and Housing Pressures as 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 use of temporary accommodation) and significantly reduce temporary accommodation stock. Resource allocation, further exacerbated by a series of legislative change, has been, and will continue to be, insufficient for service transformation. 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 2024 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. Ongoing dialogue and reporting with the Scottish Government Housing Minister, the City Region and other stakeholders continues to provide improved solutions when possible.
- 3.26 The opinion is restricted by the assurance work that has not yet been completed, however 75% audit plan full completion, in conjunction with additional assurance work completed, allows a formal assessment to be made on substantial evidence.

Opinion

- 3.27 It is Internal Audit's opinion, subject to the weaknesses outlined in section 3.21 above and the comments made in 3.22 – 3.26 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 2026.

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: As per paragraphs 3.22 - 3.26 above.

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.

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 None

8 BACKGROUND PAPERS

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

9 AUTHOR AND APPROVAL DETAILS

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Date	08 June 2026

Head of Service Approval

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Designation	Service Manager (Temporary) – Internal Audit
Confirmation that IIA and other relevant checks (e.g. finance/legal) have been completed	Confirmed
Approval Date	08 June 2026