

REPORT TO: Audit and Governance Committee

MEETING DATE: 16 June 2020

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – June 2020

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit reports issued, and follow-up work completed, since the last meeting of the Committee and to provide an update on progress made against the 2019/20 annual audit plan.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note:
- i. the main findings and recommendations from Internal Audit reports issued during the period from February 2020 to June 2020 as contained in Appendix 1;
 - ii. the findings from Internal Audit's follow-up work;
 - iii. Internal Audit's progress against the annual audit plan for 2019/20 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: Direct Payments, Musselburgh Grammar School, Fostering & Kinship Care Payments and Treasury Management.
- 3.2 The main objective of the audits was to ensure that the internal controls in place were operating effectively. A summary of the main findings and recommendations from the audits is contained in Appendix 1.

3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:

- Direct Payments – Moderate Assurance
- Musselburgh Grammar School – Moderate Assurance
- Fostering & Kinship Care Payments – Reasonable Assurance
- Treasury Management – Reasonable Assurance

3.4 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.

Debtors

3.5 Internal Audit's report on Debtors was issued in September 2018. Our follow-up review has highlighted that all nineteen recommendations made have been implemented.

Planning Enforcement

3.6 Internal Audit's report on Planning Enforcement was issued in June 2019. Our follow-up review has highlighted that that all seven recommendations made have been implemented.

Progress Report 2019/20

3.7 The 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 annual audit plan for 2019/20.

3.8 The details of the audits that have been suspended as a result of the Covid-19 pandemic are included in the Annual Internal Audit Report 2019/20. A revised 2020/21 Audit Plan will be presented to the September Audit & Governance Committee to reflect the revised risk and assurance environment.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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DATE	8 June 2020

Appendix 1 Executive Summary: Direct Payments

Conclusion: Moderate Assurance

Controls over Direct Payments are broadly reliable, however there are a number of controls that require to be implemented or improved to provide a fully effective control process, including: the approval of a formal policy for Direct Payments, the introduction of documented procedures for Direct Payments in Children's Wellbeing and the improvement of procedures in both service areas for Letters of Agreement and the monitoring of clients with a separate bank account.

Background

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. Direct Payments are an integral part of Self-Directed Support (SDS) and local authorities have a duty to offer Direct Payments to people eligible for social care as part of SDS. We reviewed the existing arrangements in place for administering, managing and monitoring Direct Payments in both Adult Social Care and Children's Wellbeing.

Summary of findings & recommendations

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

- The Council does not have a formal policy in place covering the management and administration of Direct Payments. *Management have agreed to ensure that a formal policy is in place for both service areas by November 2020.*
- There was a lack of effective financial monitoring and review of clients with a separate bank account to ensure that funds were being used to achieve the agreed outcomes as set out in their Support Plan. *New processes are now in place in Adult Social Care and Children's Wellbeing have agreed to cross-skill two staff members to ensure cover is available in the event of future staff absences. Management have agreed to complete by April 2020.*
- The arrangements currently in place for completing Letters of Agreement require review. *Management have agreed to review the controls by August 2020.*
- The existing arrangements in place for recording the authorisation of care packages following a Children's Panel decision require review. *Management have agreed to create a case note on Mosaic with details of meetings held on funding by March 2020.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	20	-	20
Prior report	N/A	N/A	N/A	N/A*

* No prior report exists combining both service areas.

Materiality

East Lothian Council had 110 adults and 70 children in receipt of Direct Payments at the start of our audit. The Council was committed to spend approximately £2m for adults and spent approximately £300k for children on Direct Payments in 2019/20.

Headlines

Objectives	Conclusion	Comment
1. Detailed policies and procedures are in place for administering Direct Payments.	Moderate	The Council does not have a formal policy in place to provide guidance on the management and administration of Direct Payments. We found that documented procedures are in place for staff with responsibility for the administration, management and monitoring of Direct Payments in Adult Social Care. However we are informed that Management in Children's Wellbeing are still in the process of developing procedures for Direct Payments.
2. Appropriate authorisation procedures are in place for Direct Payments.	Reasonable	There are adequate arrangements in place in Adult Social Care to ensure that care packages have been properly authorised on the Mosaic system. We note that all assessments for children are presented to a multi-agency panel (the East Lothian Resource Allocation Panel) for consideration. We are informed that meetings are held between the Panel Chair and the Group Service Manager following the Panel decision to consider each recommendation made and to authorise the funding of care packages, however we found that there was a lack of evidence to confirm that this authorisation had taken place.
3. Adequate arrangements are in place to ensure that clients in receipt of Direct Payments are financially assessed.	Reasonable	We selected a sample of 15 cases in Adult Social Care and checked to ensure that a financial assessment had been carried out for each client in receipt of chargeable care. We found that in 10 cases no financial assessment was required. For the remaining 5 cases where a financial assessment had been carried out, we found one case where the deductions included in the 2018/19 financial assessment for housing rents and Council Tax had been incorrectly calculated. We note that East Lothian Council has a no charging policy in Children's Wellbeing.
4. A formal Letter of Agreement is issued to all clients in receipt of Direct Payments.	Moderate	For the 15 cases selected in Adult Social Care, we found that a Letter of Agreement had been issued to the client. However in a number of instances, the Letter of Agreement had not been fully completed and in some cases anomalies were noted. We examined 5 cases in Children's Wellbeing and we found that in one case no signed letter of Agreement was held on file and for the three cases where there had been subsequent changes to the care package, a revised Letter of Agreement had not been issued to the Direct Payment recipient.
5. Direct Payments are correctly calculated according to the care package.	Reasonable	We note that Direct Payments for both adults and children are processed on the Mosaic system every 4 weeks and are payable in advance into the recipient's bank account. We selected a sample of 20 cases (15 adults and 5 children), where the client was in receipt of Direct Payments to ensure that the payments had been correctly calculated for 2019/20. No errors were found in the sample tested.
6. Adequate monitoring arrangements are in place for Direct Payments.	Moderate	We found that there was a lack of effective financial monitoring and review of clients with a separate bank account in both Adult Social Care and Children's Wellbeing. However we found that adequate monitoring arrangements are in place for clients with prepaid bank cards and a migration of existing clients towards this new process has begun.

Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	Systems are in place to ensure that all new Direct Payment recipients are issued with a prepaid bank card, which provides the Council with direct online access to the bank account for the monitoring of income and expenditure.
2.	Adequate arrangements are in place to ensure that Direct Payments are correctly calculated in accordance with the care package.

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	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

Executive Summary: Musselburgh Grammar School

Conclusion: Moderate Assurance

The Council has appropriate processes and procedures in place, however this is not being operated fully on a regular basis. More timely and complete compliance with the control processes is required to ensure that a satisfactory control system is being operated. In particular segregation of duties and authorisation controls should be operated effectively and reconciliations and audit trails maintained more effectively. The creation of a School Fund committee would assist in Governance of these processes.

Background

Musselburgh Grammar School is the second largest secondary school in East Lothian with a school roll of 1,109 and serves as the main secondary school for Musselburgh and the surrounding areas with seven feeder primary schools ; Burgh, Campie, Loretto RC, Pinkie St Peter's, Stoneyhill, Wallyford and Whitecraig. This audit covered the arrangements in place for the administration of Devolved School Management (DSM) and school funds as part of regular audit reviews of school financial management.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by The Musselburgh Grammar School Head Teacher**

- Musselburgh Grammar School requires to reduce the high level of petty cash imprest expenditure by utilising available council purchase and reimbursement processes when available. *Management have agreed to reduce this expenditure by utilising appropriate payment processes **by October 2020**.*
- A review of the signatories on the bank accounts is required to ensure appropriate segregation whilst preventing the practice of cheques being pre signed. *Management have agreed to prevent pre signing cheques immediately and will resolve the segregation of duties **by October 2020**.*
- Reconciliations require to have audit trails maintained accurately, completed on a timely basis and ensure that reconciling items are clearly displayed on the reconciliation. *Management have agreed to ensure appropriate reconciliation processes are followed in the new school session when a full compliment of administration staff will be available and these processes will be imbedded **by October 2020**.*
- To ensure appropriate governance and segregation of duties it is recommended that DSM and School funds are administered separately and that a separate School Fund Finance Committee is set up and regularly attended. *Management have agreed to complete this **by October 2020**.*
- In order to have an appropriate system of control in place improvements in the recording of income received from initial receipt through recording in the SchoolPay system and prior to completing the banking. *Management have agreed to implement these improved processes **by September 2020**.*
- Banking also requires to be completed on a more regular basis to both prevent large cash and cheque values remaining on the school premises and also to improve recording and reconciliation processes. *Management have agreed to implement more regular banking and appropriate reconciliation processes **by September 2020**.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	28	-	28
Prior report	N/A	N/A	N/A	N/A*

Materiality

The Musselburgh Grammar School 2019/20 budget is £5,397,531.

* This control review is new and no prior report exists for comparison

Headlines

Objectives	Conclusion	Comment
1. To ensure that adequate up to date written school financial procedures are in place and are available to staff responsible for managing school finances.	Reasonable	Detailed School Financial procedures are in place providing adequate guidance to staff with responsibility for the administration and management of the School's finances. These procedures are however not being followed in all aspects on a regular basis.
2. To ensure that Adequate arrangements are in place for operating the School Petty Cash Imprest Account.	Limited	Musselburgh Grammar School has the highest value usage of a petty cash imprest of all East Lothian High Schools. Goods, services and refunds to staff are being made through the petty cash imprest that should be completed using other more appropriate mechanisms to ensure appropriate control. The control processes for operating the imprest account require to be improved to prevent the practice of pre signing cheques by ensuring that bank mandates for signatories are updated.
3.To ensure that adequate arrangements are in place for the administration of School Funds; including reconciliation, audit trails and segregation of duties.	Limited	Reconciliations are being completed, however they require to have audit trails maintained accurately, completed on a timely basis and ensure that reconciling items are clearly displayed on the reconciliation. To ensure appropriate governance and segregation of duties it is recommended that DSM and School Funds are administered separately and that a separate School Fund Finance Committee is set up and regularly attended.
4. To ensure that adequate arrangements are in place for the collection, recording and banking of all income.	Moderate	In order to have an appropriate system of control in place improvements in the recording of income received from initial receipt through recording in the SchoolPay system and prior to completing the banking. Banking also requires to be completed on a more regular basis, it is recommended this task is undertaken at least weekly.

Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	Detailed School Financial procedures are in place providing adequate guidance to staff with responsibility for the administration and management of the School's finances.
2.	School Fund bank account is no longer in operation and the funds have been transferred under the management of the ELC Client Fund Account.
3.	Kitchen Income is passed to the school office in sealed bank bags and held securely in school safe for which receipts are issued to the Kitchen by the School Administration which record the total amount of banked including the serial numbers of the bank bags.
4.	Electronic Iport returns are submitted for all bankings, appropriately authorised and cross-referenced to bank-giro payins and Security bag serial numbers.

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	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

Executive Summary: Fostering and Kinship Care Payments

Conclusion: Reasonable Assurance

There is a sound system of internal control in place for Fostering and Kinship Care Payments, including the systems for ensuring that fees and allowances are paid at the correct rates, a clear audit trail being maintained of all payments made to carers and a comprehensive Foster Care Guide Book being in place. However some weaknesses were identified, including the existing Kincare Policy requiring review and updating and delays in kinship carers being approved by the Kinship Care Panel and agreements being put in place.

Background

Responsibility for fostering and kinship care lies with the Council's Children's Services section. Foster carers receive a fee and an allowance for each child they foster. The fee is the carer's income for the work they do and their use of skills, while the allowance covers the cost of looking after the child and varies according to the child's age. Kinship care is when a child is looked after by their extended family or close friends, if the child cannot remain with their birth parents. Kinship carers receive an allowance per child (but not a fee) and kinship care payments are made for both:

- Formal kinship care – looked after children who have been placed with kinship carers by the local authority (and Section 11 kinship carers where a residence order is in place).
- Informal kinship care – non-looked after children who live in an informal kinship care arrangement. The allowance paid to informal kinship carers is lower than that paid for formal kinship carers.

Summary of findings & recommendations

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

- A comprehensive Foster Care Guide Book and a Kincare Policy are in place, however the existing Kincare Policy requires to be reviewed and updated. *Management have agreed to review the policy to ensure that it is up to date and fit for purpose **by December 2020**.*
- In some cases, there had been delays in kinship carers being approved by the Kinship Care Panel and in Kinship Carer Agreements being put in place. *Management have agreed to prioritise assessments and ensure signed agreements are in place **by August 2020**.*
- In two cases, formal agreements were not in place clearly outlining the reasons for payments being made in excess of the standard rates. *Management have agreed to put formal agreements in place **by August 2020**.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	6	-	6
Prior report (August 2014)	-	11	1	12

Materiality

In 2019/20, total Children's Services expenditure was approximately £17.7 million, of which foster care fees and allowances were approximately £1.75 million and kinship care allowances approximately £700,000.

Headlines

Objectives	Conclusion	Comment
1. Clear, accessible and appropriate Council policies, procedures and guidance are in place for fostering and kinship care payments.	Reasonable	A comprehensive Foster Care Guide Book is in place which provides key information on foster care, including the legal basis for caring for children, foster carer approval, becoming a foster carer, the carer review process and payments to foster carers. A Kinship Policy 2017 is in place, however the policy requires to be reviewed and updated.
2. Agreements are in place with all foster and kinship carers, clearly outlining the roles and responsibilities of both the carers and the Council.	Moderate	For the sample of 15 foster carers reviewed, we found that Foster Carer Agreements were in place, which had been signed by both the carers and the Council. However for the sample of kinship carers reviewed, we found that in some cases there had been delays in kinship carers being approved by the Kinship Care Panel and in agreements being put in place. In other cases, Kinship Carer Agreements were not held on the Mosaic system.
3. All payments to foster and kinship carers are paid at the appropriate rates and are supported by authorised purchase orders (on Mosaic).	Reasonable	We found that rates for foster care fees and allowances and kinship care allowances had been properly set up on the Mosaic system and payments were being made at the correct rates. All payments were supported by authorised purchase orders. Of the sample of 35 carers reviewed, we found that in two cases no formal agreements were in place for payments being made above the standard rates, however in both cases there was a clear audit trail explaining the reasons for the higher rates and the higher rates had been properly authorised.
4. Appropriate validation and authorisation arrangements are in place for all fostering and kinship care payment runs.	Substantial	Payments to foster and kinship carers are paid in advance as part of a four-weekly payment cycle. We found that appropriate validation and authorisation arrangements are in place for all payment runs and there is a detailed audit trail of all payments made to carers, including the name of the child to whom the payments relate, the type of payment, the weekly amount and the periods for which the payments are made.
5. Appropriate monitoring and review processes are in place to ensure that payments made to foster and kinship carers remain valid.	Reasonable	Monitoring and review arrangements are in place to ensure that all payments to foster and kinship carers remain valid. Reviews are carried out on an annual basis, however the review process for non-Looked After Children, for whom kinship care allowances are being paid, requires review and enhancing.
6. Appropriate budget monitoring arrangements are in place for expenditure on fostering and kinship care.	Reasonable	Appropriate budget monitoring arrangements are in place. The 2019/20 draft year end position for Children's Services indicates a budget underspend of approximately £461,000 in foster care fees and allowances, which is partially offset by budget overspends of approximately £157,000 in kinship care allowances and £252,000 in external foster care. For the 2020/21 budget £150,000 has been moved from foster care to kinship care.

Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	An up-to-date and comprehensive Foster Care Guide Book is in place which provides key information on foster care, including the legal basis for caring for children, foster carer approval, becoming a foster carer, the carer review process and payments to foster carers.
2.	Rates for foster care fees and allowances and kinship care allowances had been properly set up on the Mosaic system to ensure that payments are being made at the correct rates.
3.	Payments to foster and kinship carers are paid in advance as part of a four-weekly payment cycle and a detailed audit trail is in place of all payments made to carers, including the name of the child to whom the payments relate, the type of payment, the weekly amount and the periods for which the payments are made.
4.	Appropriate validation and authorisation arrangements are in place for all fostering and kinship care payment runs.

A 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	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

Executive Summary: Treasury Management

Conclusion: Reasonable Assurance

The Council has a sound system of internal control in place for Treasury Management with loans being appropriately authorised in accordance with the Council's Treasury Management Strategy and within the Capital Financing Requirement. However the control environment can be improved by the implementation of procedures and the training of an additional member of staff to complete treasury transactions.

Background

The Council is required to operate a balanced budget, which broadly means that cash raised in the year will meet cash expenditure. Treasury Management serves two purposes, firstly to ensure that cash flow is adequately planned, with cash being available when it is needed. Short-term cash surpluses can be invested with low risk counterparties. Secondly Treasury Management funds the Council's capital plans. The Council's capital plan guides its need for long-term borrowing, ensuring that it has sufficient capital to meet its capital obligations. At 31 March 2020 the Balance Sheet showed £383 million of borrowings spread over a combination of PWLB and market loans.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by the Chief Operating Officer Finance**:

- There is a requirement to clearly document the link between the Council's Treasury Management Strategy and the CIPFA Treasury Management Code of Practice. Management have agreed to create this document when the strategy is next updated **in February 2021**.
- In order to ensure business continuity is in place for treasury management an additional member of staff is to be trained to complete treasury transactions, this will be in place **by September 2020**.
- There is a requirement to document Treasury Management Procedures as a good practice requirement despite all tested transactions being appropriately authorised, this will be completed **by August 2020**.
- The list of authorised signatories should be maintained up to date and this will be in place **by July 2020**.

It is noted that all transactions sample tested were found to be authorised and in accordance with the Treasury Management Strategy. All sample tested loan interest and capital repayments are being made accurately and in accordance with the scheduled repayments.

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	2	3	5
Prior report (May 2015)	-	6	1	7

Materiality

East Lothian Council has approximately £383 million of borrowed funds that are covered by the CIPFA Treasury Management Code of Practice.

Headlines

Objectives	Conclusion	Comment
1. A detailed strategy defining the Council's long-term policy objectives and capital strategy requirements is in place.	Reasonable	The Council has a treasury management strategy in place, the Treasury Management Strategy 2020 – 2025 had been approved by the Council at its meeting on 3 March 2020. However a document is required to clearly link the strategy to the CIPFA Treasury Management Code of Practice.
2. Clear, accessible, relevant, and appropriate Council Treasury Management policies and procedures are in place.	Reasonable	Whilst a treasury management policy is in place through the Treasury Management Strategy there are no treasury management procedures in place. In completing detailed procedures the creation of one further individual with treasury dealing capability would improve the business continuity capability of the team.
3. A complete and accurate record is maintained of all loans held by the Council.	Substantial	All of the 15 loans tested from the master debt schedule to the loan confirmation documentation and the 15 loans tested from the loan documentation to the master debt schedule were found to be accurate and complete.
4. Treasury Management procedures in place and are being followed in a complete, accurate and timely basis.	Reasonable	Whilst all loans transactions tested were found to have been appropriately authorised with low risk counterparties and are in accordance with the Treasury Management Strategy, as there are no procedures we have been unable to test that procedures have been followed.
5. Management have adequate controls in place to ensure the Council does not breach its Capital Financing Requirement.	Substantial	The Council maintains a clear Capital Financing Requirement approved by Council as part of the strategy for 2020-2025. Regular reporting of compliance with this is made to the Audit & Governance Committee and no breaches have occurred.
6. Management have adequate controls in place to ensure that loan capital and interest payments are paid on the due dates.	Substantial	Interest is paid on a six monthly basis and for the sample of 15 loans reviewed, interest payments had been paid on the due date. Loan capital repayments due in the last three years were reviewed and in each case we found that capital was repaid on the due date.
7. Adequate processes are in place to monitor annual borrowing requirements and daily balances.	Substantial	A cashflow forecast is created annually and regularly updated against actuals and any significant variances investigated to establish the reason for the variance. If short term additional funds are available then approval to place funds is sought and authorised for best available interest rates.
8. Risk criteria have been set to restrict the Council's exposure to relevant financial risks.	Reasonable	Whilst the Treasury Management Strategy details a list of risk criteria for appropriate parties and the treasury management advisors provide a list of appropriate counter parties on a risk basis, treasury management procedures would enhance the clarity on ensuring consistency on financial risk undertaken.

Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	A Treasury Management Strategy 2020 – 2025 is in place and has been approved by the Council.
2.	Staff involved in treasury management have received adequate training.
3.	Treasury Management risks are clearly documented.
4.	A loan register is maintained of all Council borrowings which contains full details of all loans.
5.	Adequate segregation of duties is in place for the authorisation of Council borrowings.
6.	Adequate arrangements are in place for the payment of interest and the repayment of loans.
7.	Adequate arrangements are in place for managing the Council's cash flow.

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	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

INTERNAL AUDIT PROGRESS REPORT 2019/20**APPENDIX 2**

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Purchase Cards	We will review the internal controls in place for the use of purchase cards, including the arrangements for monitoring expenditure.	September 2019	Completed
Payroll Deductions	We will review the procedures in place for ensuring the accuracy and completeness of payroll deductions, including Tax, NI and pension contributions.	November 2019	Completed
Home Care Services	We will review the in-house delivery of Home Care services to Adult Services clients.	February 2020	Completed
IR35	We will check to confirm that adequate arrangements are in place for ensuring compliance with IR35 regulations, in respect of workers who supply their services through an intermediary body.	November 2019	Completed
Risk Management	We will select a sample of High risks from both the Council's Corporate Risk Register and service area Risk Registers and will review the adequacy and effectiveness of the risk control measures in place.	November 2019	Completed
Non-Domestic Rates (NDR)	We will continue our audit work on Non-Domestic Rates (NDR) – in 2019/20, we will review the arrangements in place for the recovery of NDR arrears.	June 2020	Suspended
Direct Payments	We will review the arrangements in place for the administration and monitoring of direct payments made to Children's Services and Adult Services clients.	June 2020	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Records Management	We will review the arrangements operating within service areas for records management including the storage, retention and disposal of records.	February 2020	Completed
Roads Contracts	We will examine the arrangements in place for the procurement, tendering and monitoring of work awarded by Road Services.	February 2020	Completed
Procurement	As part of our annual review of procurement, we will examine work being awarded to suppliers to ensure compliance with the Council's Corporate Procurement Procedures.	February 2020	Completed
Property Maintenance Stores	We will review the arrangements operating at the Property Maintenance stores.	June 2020	Suspended
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2020	Completed
National Fraud Initiative	Time has been allocated for reviewing data matches identified by the 2018/19 National Fraud Initiative (NFI) exercise.	February 2020	Completed
Online Payments	We will review the internal controls surrounding the online payments system (SchoolPay), which was recently introduced in East Lothian schools.	June 2020	Suspended
Schools	We will review the financial arrangements operating within one secondary school to ensure compliance with the financial procedures in place.	June 2020	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Council Tax	We will continue our audit work on Council Tax – for 2019/20, our review will focus on the procedures in place for Council Tax collection and refunds.	June 2020	Suspended
Transformation Programme	We will examine the implementation of the Council's Transformation Programme to ensure that the financial savings identified have been achieved.	June 2020	Draft Report Awaiting Finalisation
Treasury Management	We will review the Council's approach to Treasury Management to ensure compliance with the CIPFA Code of Practice on Treasury Management.	June 2020	Completed
Fostering and Kinship Care Payments	We will review payments made to foster and kinship carers to ensure compliance with Council policies and procedures.	June 2020	Completed
General Data Protection Regulations (GDPR)	We will review the arrangements in place within the Council for ensuring compliance with the provisions of GDPR.	June 2020	Suspended
Following the Public Pound	As part of our rolling programme of work on Following the Public Pound, in 2019/20 we will review the monitoring arrangements in place for a sample of organisations receiving Council funding.	June 2020	Suspended

