1   PURPOSE

1.1   Internal Audit has the responsibility to independently review the internal control systems within East Lothian Council, make an assessment of the control environment and report annually on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

2   RECOMMENDATION

2.1   The Committee is asked to note that the Controls Assurance Statement is a 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 2020.

3   BACKGROUND

Sound Internal Controls

3.1   The Council's senior management has responsibility for establishing a sound system of internal control and for monitoring the continuing effectiveness of these controls. The main objectives of the Council's 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.

3.2   A sound system of 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 internal control.

The Work of Internal Audit

3.3 Internal Audit is an independent appraisal function established by the Council to review its internal control systems. Internal Audit objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources.

3.4 In 2019/20, the Internal Audit Unit operated in accordance with the Public Sector Internal Audit Standards (PSIAS). All internal audit reports identifying system weaknesses or non-compliance with expected controls were brought to the attention of the Chief Executive, Depute Chief Executives, the Council's External Auditor and the Audit and Governance Committee.

3.5 The weaknesses outlined in our audit reports are those that have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses, which may exist. It is the responsibility of Management to ensure an appropriate system of internal control operates and ensure that proper consideration is given to internal audit reports with appropriate action taken on audit recommendations.

Basis of Opinion

3.6 Our evaluation of the control environment is informed by a number of sources:

1. The policies and procedures of the Council, including:

   - Standing Orders and Financial Regulations;
   - Strategy for the Prevention and Detection of Fraud and Corruption;
   - Information Security Policy;
   - IT Acceptable Use Policy;
   - Code of Conduct;
   - Disciplinary Code;
   - Disciplinary Procedure;
   - Gifts and Hospitality Policy (included in revised Code of Conduct from March 2020);
   - Whistleblowing Policy.

2. The planning, monitoring, review and reporting arrangements within the Council, including:

   - The Budget Setting Process;
   - Monthly Budget Monitoring Statements;
   - Policy and Performance Review Committee;
   - Performance Management Framework;
   - The work of the Council Management Team.

3. The work undertaken by Internal Audit during 2019/20 including planned audits, investigations, follow-up reviews and one-off exercises.

3.7 Internal Audit's opinion does not cover the internal control systems of other organisations that are included in East Lothian Council's 2019/20 Statement of Accounts under the Group Accounts section.

Assessment of Controls and Governance

3.8 The Annual Internal Audit Report 2019/20 presented to the Audit and Governance Committee summarises the work of Internal Audit during the year. For all areas reviewed, an Executive Summary is submitted to the Audit and Governance Committee summarising the work completed assurance provided and the agreed actions to be undertaken by management.

3.9 The majority of Internal Audit recommendations made in 2019/20 were categorised as medium risk (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) with a number of high risk recommendations (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action). A summary of all recommendations made during 2019/20 is outlined below:

Recommendations Priority Level	Number of Recommendations	Recommendations %
High	12	7
Medium	154	90
Low	6	3
Total	**172**	**100**

3.10 During 2019/20, areas identified with scope for improvement included the following:

- The controls in place for the prevention and detection of duplicate payments.
- Completeness and accuracy of the underlying records within services to allow for appropriate accounting for fixed assets.
- Maintenance of appropriate audit trails for authorisation and completion of procurement processes, and a need for formal contract management processes.
- Implementation of a clear framework across services for the maintenance of digital records.
- Continued formal review and approval of policies, procedures and plans, and maintenance of training processes for all procedures.

3.11 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 2019/20 identified that at least 89% of the 156 recommendations made during 2018/19 have been fully implemented, including all High priority recommendations.

3.12 In March 2020 the COVID-19 pandemic provided a test for the risk management and business continuity framework of the Council. There have been many examples of technology being rapidly embraced to deliver critical services to the community. This was achieved using amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings, conference calls, and systems remote access and authorisation processes. Control environments have been at increased risk for short periods of time whilst appropriate controls have been implemented. It will be important for the Council, at the appropriate time, to carry out a post-incident review and highlight any lessons learned.

3.13 Whilst it is important to recognise the altered working arrangements during March 2020 and ongoing, this only impacts the final month of the financial year and the opinion provided is based on the substantial majority of the work completed prior to these altered arrangements. The opinion is restricted by the assurance work that has not yet been completed, however a 70% audit plan full completion allows a formal assessment to be made on substantial evidence. The assurance work completed by Internal Audit will be adjusted to take account of the altered working arrangements through a revised 2020/21 Audit Plan.

Opinion

3.14 It is Internal Audit's opinion, subject to the weaknesses outlined in section 3.10 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 2020.

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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