East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 22 September 2020

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – September 2020

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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 the Internal Audit report issued during the period from June 2020 to September 2020 as contained in Appendix 1;

   ii.   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, a final report have been issued in respect of the Transformation Programme.

3.2   The main objective of the audit was to ensure that the internal controls in place were operating effectively. A summary of the main findings and recommendations from the audit is contained in Appendix 1.

3.3   For the Transformation Audit review undertaken, Internal Audit has provided management with Moderate 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. More detailed follow-ups have not been completed in the June 2020 to September 2020 period to allow assurance reviews to be completed in high priority areas and to avoid excessive assurance stress on East Lothian Council Management. A programme of follow-up reviews has now recommenced.

Progress Report 2019/20

3.5   The final 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.

3.6   A revised 2020/21 Internal Audit Plan has been included as part of the papers for this meeting of the Audit & Governance Committee.

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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1 Executive Summary: Transformation Programme

Conclusion: Moderate Assurance

The Council has appropriate processes and procedures in place to ensure that the Transformation Programme highlights areas within the Council where efficiencies can be achieved, however these procedures are not being consistently applied to all projects. Benefits arising from projects are not always communicated via Business Cases and are not being tracked or reported against individual project implementations.

Background

East Lothian Council's Transformation Programme was created in 2016 to support the Council to deliver one of the Strategic Goals included in the Council Plan: to *'Deliver transformational change and harness the opportunities technology offers in the provision of services.'* Since the start of the Programme it has delivered new digital solutions, increased income generation and a range of service improvements along with financial benefits of over £1.3M. An Executive Team: Transformation has been established to oversee all projects that form part of the Transformation programme and this group meets on a regular basis. The Transformation programme team has responsibility for overseeing the ongoing development of projects.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by the Service Manager - Corporate Policy**:
- Transformation programme objectives had not been clearly defined at the start of the audit, however 6 priorities have now been agreed going forward.
- Additional information is required for the project register to contain a complete record of all projects, which will be completed **by September 2020.**
- The Executive transformation team prioritise all transformation projects. A procedure for prioritising projects was drafted to assist with prioritisation, but was not being routinely used. A process for presenting projects consistently against the agreed 6 priorities will be developed **by January 2021.**
- Business Cases had not always been developed as part of all projects, and did not include sensitivity analysis of assumptions, these will now be completed **from September 2020.**
- Management should ensure that segregation of duties is maintained across project and executive governance bodies, which has already been rectified for the one case identified.
- Benefits arising from the Transformation Programme will now be clearly recorded by individual project and achievement reported through service provided information to ensure continuous improvement in presentation of achievable benefits **from September 2020.**

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	10	1	11
Prior report	N/A	N/A	N/A	N/A*

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

Materiality

For the financial year 2019/20 the Transformation programme had a target of achieving savings of £600,000. Over the 4 years of the Transformation programme savings of in excess of £1.3 million have been achieved, in addition to delivery of successful process transformations.

2 Headlines

Objectives	Conclusion	Comment
1. Clear, accessible, relevant, and appropriate Council transformation policies and procedures are in place.	Moderate	The Council has appropriate procedures in place for the Transformation Programme, however these are not being followed on a consistent basis and through a consistently segregated governance structure.
2. A complete and accurate register is maintained of all suggested projects, with a clear methodology consistently applied to prioritise which projects are taken forward on the basis of financial savings for the Council.	Moderate	A project register is in place but this does not contain a full record of all projects undertaken. A project methodology has been established but this is not being applied across all projects being undertaken within the Transformation Programme.
3. A clear and consistent methodology for the production and approval of project business cases is in place and operating effectively.	Limited	Business plans are not produced for all transformation projects and whilst benefits of all projects reviewed have been identified these are not being presented in a consistent format. No evidence of the sensitivity analysis of assumed benefits was found to be in place.
4. Adequate processes are in place to monitor the progress of projects against business case timescales and savings identified.	Moderate	Where changes to a project are identified these are reported in reports submitted to the Project Board but the other project documentation is not regularly updated to reflect these changes.
5. Management have adequate controls in place to ensure projected savings are tracked, realised and reported accurately and completely.	Moderate	Benefits to be derived from a project are set out within the Project Initiation Document at a high level and further detail is provided in business cases and via benefits tracking and handover reports. The potential benefits from the project are reported to the ETT. Actual results from the project, once it has been implemented, are not routinely being reported to the ETT, there are reports to the CMT and the Council.
6. Management have adequate controls in place to maintain monitoring and reporting of the ongoing efficiency savings following the completion of a project.	Moderate	We were informed that reports are submitted monthly to CMT and quarterly to Council to highlight efficiency savings. We reviewed the reports submitted to the Council during 2019/20 and found that while the reports contained details of efficiency savings achieved they did not identify savings achieved by individual projects undertaken as part of the Transformation Programme.

3 Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	The Council has put a transformation programme in place and resourced with a Programme Manager, to facilitate changes to the way services are provided and identify additional sources of income generation.
2.	The Council has adopted Prince 2 as it's preferred project methodology with clearly defined roles and responsibilities established for Project Board members to provide appropriate governance for each project.
3.	Terms of Reference have been agreed for the Executive Team: Transformation (ETT) and progress of projects and the programme is reported on a regular basis to both CMT and the ETT.
4.	In addition to delivering in excess of £1.3million of savings for the Council the transformation programme has facilitated movement towards more digital processes for the Council including the implementation of new HR & Payroll systems and EDRMS project.
5.	Significant work has started on many projects that will lead to future efficiency savings and potential additional income for the Council including projects reviewing the efficient use of Council buildings and renewable energy projects supporting the key priorities of the Council.
6.	Through the transformation programme the Council has launched an affordable energy tariff for East Lothian residents.

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.

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, Included in 2020/21 Plan
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, To be included in 2021/22 Plan
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, To be included in 2021/22 Plan

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Schools	We will review the financial arrangements operating within one secondary school to ensure compliance with the financial procedures in place.	June 2020	Completed
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, Included in 2020/21 Plan
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	Completed
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, To be included in 2021/22 Plan
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, Included in 2020/21 Plan