

REPORT TO: Audit and Governance Committee

MEETING DATE: 15 June 2021

BY: Service Manager – Internal Audit

SUBJECT: Annual Internal Audit Report 2020/21

1 PURPOSE

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit prepares an annual internal audit opinion and report to support the Council's Annual Governance Statement.
- 1.2 This report provides a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2020/21 and supports both the Council's Annual Governance Statement and the Internal Audit Controls Assurance Statement.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to note the contents of the Annual Internal Audit Report 2020/21.

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established by the Council to review its governance, risk management and control systems. East Lothian Council's Internal Audit Unit seeks to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2 Internal Audit reports administratively to the Executive Director for Council Resources, functionally to the Audit and Governance Committee and has direct access to the Chief Executive, the Section 95 Officer and the Monitoring Officer.
- 3.3 The Public Sector Internal Audit Standards (PSIAS) require that the annual report must incorporate a statement on Internal Audit's conformance with the PSIAS and Local Government Application Note and the results of the Quality Assurance and Improvement Programme (QAIP) that covers all

aspects of the internal audit activity. 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 2020/21 through the following processes:

- Compliance with PSIAS.
 - A tailored audit approach using a defined methodology for financial audits.
 - 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).
- 3.4 The PSIAS require the development of a Quality Assurance and Improvement Programme (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The QAIP must include both internal and external assessments. An internal assessment of internal audit practices was carried out against the PSIAS to ensure conformance to the Standards in February 2021. An External Quality Assessment of the Council's Internal Audit service was undertaken in May 2018 by the Chief Internal Auditor of Argyll and Bute Council, providing a high level of assurance on internal audit's compliance with PSIAS.

Delivery of the Internal Audit Service

- 3.5 In February 2020, the Audit and Governance Committee approved the Internal Audit Plan for 2020/21. The plan was scoped to address the Council's key risks and strategic objectives.
- 3.6 In March 2020 the national lockdown introduced as a result of the COVID-19 pandemic significantly changed the operations of the Council and the Internal Audit Team. The impact of these changes resulted in a revised Internal Audit Plan for 2020/21 being approved by the Audit and Governance Committee in September 2020.
- 3.7 Reviews of Non Domestic Rates, Council Tax, Homelessness Assessment & Housing Allocation and Following the Public Pound (Partnership Funding) have been halted as service areas are currently undergoing significant recovery work. Agreements are in place with service management to ensure that these reports will be presented to the September 2021 Audit & Governance Committee. The School Excursions audit will be completed for the November 2021 Audit & Governance Committee following the completion of an ongoing review of procedures.
- 3.8 In order to balance the assurance provided to the Audit & Governance Committee the Payroll Overtime internal audit review was brought forward from the 2021/22 Internal Audit plan for completion for the June 2021 Audit

& Governance Committee. In addition work has been progressed on NFI matches that was scheduled for the 2021/22 Audit Plan.

3.9 In 2020/21, Internal Audit completed 13 audit reviews. Table A (see section 3.11 below) outlines the audit work undertaken in 2020/21. For each audit, Internal Audit has provided Management with an assessment of the adequacy and effectiveness of their systems of internal control. Of the 13 audit reviews undertaken in 2020/21:

- In 6 cases, Internal Audit provided Moderate assurance.
- In 4 cases, Internal Audit provided Reasonable assurance.
- In 1 case, Internal Audit provided Substantial assurance.
- In 2 cases, Internal Audit did not grade the overall report.

3.10 For the 13 audit assignments finalised, a total of 112 recommendations were made – 101 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls); 6 recommendations were graded as low (recommendations concerning minor issues that are not critical, but which may prevent the attainment of best practice); 5 recommendations were not graded in line with the grading of the report. Our recommendations sought to address the weaknesses identified in the design of controls and/or their operational effectiveness.

3.11 We have completed the following reviews in 2020/21:

Table A

Audit Assignment	Level of Assurance
Transformation Programme	Moderate
Residential and Non Residential Care Charging	Moderate
Housing Rents (Billing & Reconciliation)	Reasonable
Section 75 Developer Contributions	Reasonable
EU Exit	Not Graded
Scottish Housing Regulator Annual Assurance	Not Graded
COVID-19 Lessons Learned	Reasonable
Fleet Management	Reasonable
Risk Management	Substantial
Payroll	Moderate
Cybersecurity	Moderate
Payroll Overtime	Moderate
Performance Indicators	Moderate

3.12 In addition to the reviews listed above 6 non-graded assurance statements were issued between June 2020 and September 2020. These assurance statements covered the following areas that had recently changed control environments as a result of the COVID-19 Pandemic:

- Grant Payments;
- Creditors;
- Supplier Relief;
- Rent Deferment;
- Non-Domestic Rates – Retail, Hospitality and Leisure 100% Relief;
- Residential Care – Financial Reassessments.

3.13 Internal Audit has also undertaken nine Whistleblowing/Fraud and Irregularity investigations in 2020/21.

3.14 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

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

Performance Indicators

3.16 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 2020/21 covers:

- Completion of the annual Audit Plan – 70%
- % of recommendations accepted by Management – 100%
- % of staff with CCAB accounting qualifications – 80%

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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