

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 15 February 2022  
**BY:** Service Manager – Internal Audit  
**SUBJECT:** Internal Audit Report – February 2022

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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 2021/22 annual audit plan.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note:
- i. the main findings and recommendations from the Internal Audit reports issued during the period from November 2021 to February 2022 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 2021/22 as set out in Appendix 3.

## **3 BACKGROUND**

- 3.1 Since the last meeting of the Committee final reports have been issued in respect of the following audits: Prevent & Return Project, IT Schools Procurement, and Restart of Capital Projects.
- 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:
- Prevent & Return Project – Reasonable Assurance
  - IT Schools Procurement – Reasonable Assurance
  - Restart of Capital Projects – 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 three audits that were reported in previous years. Our findings are detailed below.

### **Cybersecurity**

- 3.5 Internal Audit's report on Cybersecurity was issued in June 2021. Our follow-up review has highlighted that of the thirteen recommendations made eleven have been fully implemented, one partially implemented and one yet to be implemented, as a result of applying COVID secure working practices. Details of the partly implemented and yet to be implemented recommendations and the revised dates of completion are shown in Appendix 2.

### **Payroll**

- 3.6 Internal Audit's report on Payroll was issued in June 2021. Our follow-up review has highlighted that of the seventeen recommendations made six have been fully implemented and eleven partially implemented with revised implementation dates by April 2022 for full implementation. Full implementation of the recommendations has not been achieved as available resources have been prioritised on essential activities. Details of the partly implemented recommendations and the revised dates of completion are shown in Appendix 2.

### **Housing Rents**

- 3.7 Internal Audit's report on Housing Rents was issued in November 2020. Our follow-up review has highlighted that of the thirteen recommendations made eleven have been fully implemented and two partially implemented with revised implementation dates by March 2022 for full implementation. Full implementation of the recommendations has not been achieved as some reconciliations of rent increases have not been completed due to rent freezes being applied. Details of the partly implemented recommendations and the revised dates of completion are shown in Appendix 2.

### **Progress Report 2021/22**

- 3.8 A progress report attached as Appendix 3 is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan for 2021/22.

## **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

<b>AUTHOR'S NAME</b>	Duncan Stainbank
<b>DESIGNATION</b>	Service Manager – Internal Audit
<b>CONTACT INFO</b>	dstainbank@eastlothian.gov.uk
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# Appendix 1 Executive Summary: Prevent and Return Project

## Conclusion: Reasonable Assurance

The Prevent and Return Project has demonstrated capabilities of returning children to care within East Lothian and an ability to reduce budget overspends over the last two years. Internal controls and governance frameworks have also continued to develop over this period, however there is scope for improvement to ensure a fully effective control and governance process, including updating the existing policies and procedures in place across Education and Children's Services to ensure that the aims of the Prevent and Return Project are properly embedded, clarifying the interaction and roles and responsibilities of the groups within the governance framework to ensure a co-ordinated decision making process, introducing analytical reviews of the data sets held for vulnerable children to model future predictive needs, the recording of decisions to place children in external residential care placements and the reporting on the success of outcomes for children returning to East Lothian.

## Background

The Children (Scotland) Act 1995 sets out the regulations and guidance for children looked after by local authorities. In addition, The Looked After Children (Scotland) Regulations 2009 bring together the regulation of the care planning services offered to children looked after at home, with the care provision required when children are separated from their birth parents and the Children and Young People (Scotland) Act 2014 places additional responsibilities on local authorities for children and young people in care.

The Prevent and Return Project was one of the initiatives introduced in 2019 after significant overspends were identified in Children's Services and a review highlighted that the deficits were mainly due to the number of vulnerable children being placed in external residential care outwith East Lothian. The objectives of the project were to introduce processes to prevent children being placed in out of authority placements at significant cost to the Council and to bring children back to their communities in a planned and safe way, taking into account the individual needs of the children.

The Senior Officer Resource Group (SORG) is made up of multi-agency Senior Managers and decision makers, and was initially set up to consider children's individual circumstances following a referral and to provide authorisation for external residential care placements where applicable. In addition, this group has over the last two years reviewed each individual child placed in external residential care and 24 children have been returned to care settings within East Lothian in this period, which has been challenging as a result of Covid-19 restrictions. Additional funding has been provided and utilised with local organisations to provide a variety of care support to assist in preventing children entering external residential care, including promoting family group decision making at an early stage to encourage placement within a family setting.

Overspends in the Children's Services residential budgets have decreased from £3 million in 2019/20 to a projected overspend of £0.9 million in 2021/22, with overall expenditure on Children's Services external residential accommodation dropping from £4.4 million to £4 million, despite the population continuing to increase across East Lothian during this period. There are currently 23 children being accommodated in residential care outwith East Lothian, including those in secure accommodation. A service review of Children's Services in conjunction with the Transforming Services for Children Programme is focused on developing improved services across Children's Services and Education for children and families, with one of the key goals being to keep children in East Lothian.

The number of children admitted to care within East Lothian has been decreasing over the last six years, from 90 in 2016 to 35 in 2021, however the full impact of Covid-19 restrictions on these figures and likely future numbers remains uncertain.

# Executive Summary (cont): Prevent and Return Project

## Summary of findings & recommendations

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

- There was a lack of clarity around the interaction and roles and responsibilities of the groups within the governance framework, including the Senior Officer Resource Group, Multi-Agency Resource Group and Education Resource Group to ensure a co-ordinated decision making process for the Prevent and Return Project. *Management have agreed to review the governance framework in place to define the roles and responsibilities of all relevant groups and to reflect the interrelationships between the different parties by December 2022.*
- The existing policies and procedures in place across Education and Children's Services require review to ensure that the aims of the Prevent and Return Project are properly embedded. *Management have agreed to complete a review of the policies and procedures by December 2022.*
- There was a lack of evidence to confirm that analysis had been undertaken on the data sets maintained for vulnerable children in East Lothian for modelling predictive educational and social care needs, and future capacity requirements. *A review of data is currently being undertaken as part of the workstream within the Transforming Services for Children Programme and will be complete by January 2023.*
- The existing arrangements in place for recording the authorisation of external residential care placements following a decision by senior members of staff in Education and Children's Services require review. *Management have agreed that a case note will be created on Mosaic with the details of decisions made on placements by February 2022.*
- LAAC (Looked After and Accommodated Children) reviews of children in external residential care placements do not currently consider the options available for children to return to East Lothian. *Management have agreed that the LAAC review process will be amended to include consideration of the options available for children to return to East Lothian by June 2022.*
- The arrangements in place for recording potential costs and benefits of implementing different care and educational options require review to assist in decisions when considering external residential care placements. *Management have agreed to update the SORG referral form with information on the dates of previous decisions and budgeted costs for other options by March 2022.*
- The reporting arrangements for children returning to East Lothian from external residential care placements require review to ensure that appropriate feedback on the success of outcomes is regularly reported to the Senior Officer Resource Group. *Management have agreed to introduce reporting arrangements for children returning to East Lothian by September 2022.*

## Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	16	-	16
Prior Report (January 2016)*	-	9	-	9

\* The prior report was for Out of Authority Placements and did not cover the same objectives.

## Materiality

At the time of the audit, the Council had 22 children in external residential care placements outside East Lothian and a further one child in secure accommodation. The associated costs were £97,000 per week with the overall Children's Services expenditure forecast at £4 million for 2021/22, resulting in a predicted overspend of approximately £0.9 million for the year.

# Headlines

Objectives	Conclusion	Comments
1. Adequate policies and procedures are in place for administering the Prevent and Return Project.	Reasonable	The existing policies and procedures in place across Education and Children's Services require review to ensure that the aims of the Prevent and Return Project are properly embedded, including the consideration of a clear policy statement within Education stating that the Council's objective is to keep children in education within East Lothian where possible. There was a lack of clarity around the interaction and roles and responsibilities of the groups within the governance framework, including the SORG, MARG and ERG to ensure a co-ordinated decision making process for the Prevent and Return Project.
2. Adequate arrangements are in place for identifying children's educational and social care needs and for providing the appropriate care and support in East Lothian.	Reasonable	LAAC (Looked After and Accommodated Children) reviews of children in external residential care placements do not currently consider the options available for children to return to East Lothian. A review of the objectives of the SORG is required to ensure that the group oversees the LAAC review process and meetings consider the trends from analytical reviews of vulnerable children from East Lothian and the impact on future funding requirements. There was a lack of evidence to confirm that analysis had been undertaken on the data sets maintained for vulnerable children in East Lothian for modelling future predictive educational and social care needs on an ongoing basis. A review of the current facilities in East Lothian should then be undertaken to establish what options are available for producing additional capacity.
3. Adequate arrangements are in place to ensure that all options and funding implications are considered in the decision making process for children.	Reasonable	For a sample of eight cases reviewed, we found that the existing arrangements in place for recording the authorisation of external residential care placements following a decision by senior members of staff in Education and Children's Services require review. A standard referral form is submitted to the SORG for each child to assist with the decision making process, however the minutes in respect of any funding/support provided by the Internal Panel/MARG and the ERG were not attached and the referrals did not include the budgeted costs for any other options available. For the eight cases reviewed, we found that in three cases Individual Placement Agreements (IPAs) had not been uploaded on to the Mosaic system.
4. Adequate procedures are in place for planning, supporting and managing the return of children to East Lothian.	Reasonable	We sought to establish if adequate arrangements are in place for managing the return of children from external residential care placements to East Lothian. For a sample of three cases selected for review, we found that a needs assessment and a Care Plan had been completed for each child, setting out the support that was going to be provided on their return. In one case, we found that the child was placed in semi-independent living accommodation and for the remaining two cases the children had initially returned to their home environment.
5. Adequate arrangements are in place for providing appropriate feedback on the return of children to East Lothian.	Limited	We sought to establish if adequate arrangements are in place for reporting on children returning to East Lothian from external residential care placements. A total of 24 children had returned to East Lothian since October 2019, however we found that appropriate feedback and learning on the success of outcomes had not been reported to the Senior Officer Resource Group (SORG) to help facilitate the continuous improvement of services to children.

# Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	Adequate arrangements are in place to ensure that the progress of children in external residential care placements is reviewed and monitored on a regular basis at the Senior Officer Resource Group (SORG), with 24 children returning to East Lothian from external placements since October 2019.
2.	Children's Services have achieved reduced overspends and a reduction in the overall expenditure on external residential care placements over the last two financial years.
3.	Appropriate arrangements are in place to ensure that the Business Finance Team are involved in the SORG decision making process to help assist with budget management and the overall monitoring of external residential care placements.
4.	Reviews of data for children within residential care have been completed and improvements have been made in the kinship care service, providing greater support to the informal kinship care process and introducing an improved long term assessment process.
5.	Adequate arrangements are in place for planning, supporting and managing the return of children to East Lothian.



# Recommendation Grading/Overall opinion definitions

Recommendation	Definition
<b>High</b>	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.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance	Definition
<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.



# Executive Summary: IT Schools Procurement

## Conclusion: Reasonable Assurance

Clear processes, procedures and guidance are in place for school ICT purchases, from the identification of IT requirements/priorities through to the procurement processes undertaken. ICT purchases are required to be made via the Council's IT section and Scottish Procurement and Scotland Excel national frameworks are being utilised for the procurement of ICT hardware. A number of areas with scope for improvement were identified, including the purchase and accounting treatment of software licence renewals/updates and the need for a documented strategy for school ICT procurement.

### Background

Ensuring that staff, children and young people have access to the devices, platforms and connectivity to engage in digital learning is essential in ensuring the necessary skills are incorporated in learning experiences in schools. The Council spends substantial sums annually on the procurement of IT hardware and software for schools and is continuously assessing the number of devices in schools and how this is working with regards to connectivity, to ensure that the devices supplied are meeting the needs of teachers and learners. All devices are part of a four-year refresh programme and if devices are beyond repair they will be replaced on a like for like basis, regardless of the refresh status. Google Classroom is currently the Council's preferred learning platform and provides teachers and learners with a range of high quality applications. The Council is continuing to plan for the delivery of 1:1 devices through Scottish Government funding and discussions around these changes to learning, teaching and infrastructure will be at the forefront of plans moving forward.

### Summary of findings & recommendations

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

- A documented school's ICT procurement strategy requires to be put in place, clearly addressing the agreed priorities for school's ICT capital and revenue spending over the next 3 to 5 years, together with a documented asset management and refreshment programme for school ICT assets. *Management have confirmed that these will be put in place following finalisation and approval of the new **Digital Learning and Teaching Strategy**.*
- For the purchase of curriculum related software there is a need to ensure that the appropriate procurement route is followed and that appropriate procurement documentation is completed. *Management have agreed to put arrangements in place **by March 2022**.*
- An accurate and up to date record requires to be maintained of all ELC devices being held on the Council's behalf as part of the Computer Services contract. *Management have agreed that an accurate record will be put in place and maintained **by February 2022**.*
- The accounting treatment of curriculum related software licences and expenditure on annual renewals/updates requires review. *Management have confirmed that this will be reviewed, and guidance sought from Finance colleagues where appropriate, **by March 2022**.*
- There was an anomaly in the treatment of school ICT assets purchased in 2012/13, which were being depreciated over 25 years rather than the normal 3 to 5 years. *Management have agreed to address this in the preparation of the **Council's 2021/22 annual accounts**.*

### Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	8	-	8
Prior Report	N/A	N/A	N/A	N/A*

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

### Materiality

The Council's procurement procedures specify that all IT purchases should be made through the Council's IT section. An IT Infrastructure Capital Programme is in place which details capital funding requirements for both schools and corporate IT infrastructure (approx. £1.2 million p.a. for schools). For school ICT funding, the aim is to ensure that all schools have the infrastructure and suitable hardware and software to deliver the curriculum. In addition, in both 2020/21 and 2021/22 the Council received additional Covid-19 Scottish Government funding to address digital inclusion.

# Headlines

Objectives	Conclusion	Comment
1. An appropriate strategy is in place, which informs the procurement of ICT for schools and appropriate budgetary processes are in place in respect of the financial resources required for IT schools procurement.	Limited	A Draft Education Service Digital Learning Strategy was presented to the Education Committee on 11 June 2019. The strategy is still to be finalised, however it is currently being reviewed to reflect the changes brought about by Covid-19, which necessitate a vital re-think of current engagement with learning and teaching, and of support for the health and wellbeing of young people and staff. The updated strategy will seek to build on the recent progress made with the delivery of digital learning and teaching, and will form part of a separate Internal Audit review later in 2022.
2. Clear and appropriate policies, procedures and guidance documents are in place for all aspects of IT schools procurement.	Reasonable	Detailed procurement documentation is in place outlining the procurement routes to be followed and procurement guidance has been provided to schools, clearly advising that all ICT purchases should be made through the Council's IT section. However, a documented procurement strategy requires to be put in place, clearly addressing the agreed priorities for school's ICT capital and revenue spending over the next 3 to 5 years, together with a documented asset management and refreshment programme for school ICT assets.
3. There is clear liaison and communication between IT and Education covering all aspects of IT schools procurement, from the identification of IT needs/priorities through to the actual procurement carried out.	Reasonable	Regular meetings are held between Education and IT in respect of school ICT requirements which are attended by key members of staff from both services. Following finalisation and approval of the new Digital Learning and Teaching Strategy, there will be the opportunity to further strengthen and enhance collaboration through the establishment of a formal oversight group with representation from Education, IT and school leaders, which will support planning and strategic decision making in all matters relating to learning technology.
4. Appropriate processes are in place to ensure that the procurement of ICT hardware and software is in compliance with the Council's approved Corporate Procurement Procedures, including the use of national frameworks where appropriate.	Reasonable	The Council utilises Scottish Procurement and Scotland Excel national frameworks for the purchase of ICT hardware, which allows for the purchase of goods compliantly, with the benefit of aggregated spend with other organisations. For other purchases not covered by framework agreements, there was evidence of competitive tendering being undertaken, however for annual renewals/updates of curriculum related software licences, Management require to ensure that the appropriate procurement route is followed and procurement documentation completed.
5. Appropriate processes are in place for dealing with the ICT challenges faced by schools arising from Covid-19 – additional ICT funding received from the Scottish Government has been properly used for the designated purposes.	Reasonable	Appropriate processes are in place for dealing with the digital inclusion challenges faced by schools arising from Covid-19. The Council received specific Covid-19 funding from the Scottish Government for Education and was initially allocated £401,200 capital funding and £69,040 revenue funding and was able to provide 1,806 Chromebooks and 400 annual unlimited filtered internet packages. Additional funding was received in early 2021 and a further £149,000 was allocated for digital devices and connectivity solutions in April 2021, £99,000 of which was allocated for 468 Chromebooks and £50,000 to support severe and complex needs provision.
6. All expenditure on school ICT hardware and software is properly recorded and allocated to the correct ledger codes.	Reasonable	Expenditure on laptops and Chromebooks is capitalised as part of Vehicles, Plant, Furniture and Equipment and depreciated over their useful economic life. Software licences are classed as intangible assets and amortised, however the current accounting treatment of annual licence renewals, updates and support for curriculum related software requires review.

# Areas where expected controls are met/good practice

No	Areas of Positive Assurance
1.	<p>Clear and appropriate procedures and guidance documents are in place for school's ICT procurement. Documentation is in place (Quick Guide – Procurement Processes for Goods and Services) outlining the procurement routes to be followed, while procurement guidance has been provided to schools, clearly advising that all ICT purchases should be made through the Council's IT section, thereby ensuring compatibility and compliance with existing systems and information. Where schools contact the IT section to request the purchase of specific IT equipment, checks are carried out with Business Finance prior to processing the orders, to ensure that there is sufficient budget provision for the purchases, and the goods and services are ordered via the PECOS online procurement system. The Council utilises national and sectoral framework agreements that allow the purchase of goods and services compliantly, with the benefit of aggregated spend with other organisations. IT equipment has been purchased through Scottish Procurement National Frameworks (National IT Peripherals Framework, Web and Proprietary Client Device Framework, Mobile Client Framework and Desktop Client Device Framework) and the Scotland Excel Framework for Audio Visual Equipment.</p>
2.	<p>Regular meetings are held between Education and IT in respect of school ICT requirements, which are attended by key members of staff from both services (Education Support Officer (Digital Learning), Learning Technologist, IT Team Manager – Service Desk &amp; Desktop Services and IT Information Security officers), to discuss ongoing projects and seek to share knowledge in trying to implement the most effective solutions for schools.</p>
3.	<p>Appropriate processes are in place for dealing with the digital inclusion challenges faced by schools arising from Covid-19. The Council prepared a bid for the Scottish Government in July 2020, which advised that the Council has surveyed all schools (Digital Inclusion Devices and Connectivity Survey) in order to ascertain which pupils have no access to digital devices and of that group, how many need connectivity support. The survey sought to identify those children and young people who were digitally excluded. This may be because they are in a vulnerable group, such as those who are looked after or care-experienced, or for financial reasons such as those who are eligible for free school meals. There may be other reasons why children cannot connect, for example where there are three learners in one household who are sharing one or two devices; or where a number of devices/users are sharing one, data-limited internet connection. The Council proposed to purchase Chromebooks for those children with no device along with Mifi devices and data for those that required connectivity. The Council was allocated £401,200 capital funding and £69,040 of revenue funding and was able to provide 1,806 Chromebooks and 400 unlimited filtered internet packages. We found that detailed records were maintained of the orders to which the funding related and that there was statutory reporting of progress back to the Scottish Government on a monthly basis. We note that further Scottish Government grant funding was provided in early 2021 to support education recovery and a further £149,000 was allocated for digital devices and connectivity solutions in April 2021, £99,000 of which was allocated for 468 Chromebooks and £50,000 to support severe and complex needs provision.</p>
4.	<p>As part of the Council's ongoing response to Covid-19, a Laptops for Teachers' project was initiated to provide a laptop for all teachers and the initial roll-out phase is now complete.</p>

# 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	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

# Executive Summary: Restart of Capital Projects

## Conclusion: Reasonable Assurance

The Council put appropriate processes and procedures in place to ensure that projects were closed down securely and that Government restrictions were followed when sites were allowed to reopen. Decisions taken by the Council ensured that additional costs as a result of the pandemic were minimised, although some minor improvements have been recommended.

## Background

On 11 March 2020 the WHO declared a global pandemic as Covid-19 became a significant issue across the world. With the number of cases increasing the Scottish Government, in conjunction with the UK Government and the other devolved nations, took the decision to impose a lockdown from 23 March 2020 which resulted in all building sites within East Lothian being shut and they would ultimately remain shut until 28 May 2020. The imposition of this complete lockdown would have an impact on the Council's ability to complete its planned capital projects in 2020/21 and this resulted in a revision of the capital budget for 2021/22 and subsequent years.

As work restarted contractors were having to restart work with social distancing and additional hygiene restrictions resulting in fewer workers on site at the same time, causing further delays to the completion of projects. In addition contractors started to suffer from a shortage of materials which lead to price increases which would put an additional strain on the Council's capital budget. In November 2021 the RICS stated that the costs of construction were at a 40 year high. Calculations internally are showing that school extension costs have risen by 44% from sites commencing in quarter 1 of 2020 to quarter 3 of 2020.

## Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by the Service Manager – Strategic Asset & Capital Plan Management**:

- In one case documents submitted by a contractor related to common Health & Safety risks rather than specific Covid risks. *Management have already implemented Covid secure environments into existing Health & Safety processes for projects moving forward. This is **in place**.*
- Improvements to the monitoring of work carried out by external consultants would provide additional assurance that budget costs continue to be fully minimised. *Management have agreed to consider what additional processes can be put in place to improve oversight and assurance **by April 2022**.*

## Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	1	1	2
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 2020/21 East Lothian Council had a gross Capital Plan budget of approximately £96 million which was reduced to approximately £81 million for 2021/22. These budgets covered 58 and 43 projects respectively. The capital budget outturn for 2020/21 reduced to approximately £36 million. The capital budget for 2021/22 increased to approximately £92 million with an increase of 13 projects.

# Headlines

Objectives	Conclusion	Comment
1. A complete and accurate contract register of capital projects and their status of development has been and continues to be maintained.	Reasonable	The architects maintain a register of all projects being undertaken which is updated on a weekly basis. Prior to shutdown starting a report was taken of all projects that were underway to allow for monitoring, including one project that had yet to commence.
2. A risk analysis and mitigation process has been completed that focuses on specific suspension and restart risks including other project execution risks.	Reasonable	As part of the shutdown of construction sites all contractors informed the Council what steps they were taking to ensure the security of sites while work was not being carried out. Before work could be restarted contractors carried out risk assessments to ensure that they complied with the Government's Covid regulations. In all but one case detailed Covid risk assessments had been documented, however on one of the smaller projects the documented assessment was more limited and could have been improved.
3. A plan has been put in place to review projects that were put on hold at the start of Covid and the impact of the delays on the Council Capital Plan, establishing for each project if it remains affordable, necessary or requires specification/objective reassessment within the current Capital Plan.	Reasonable	The Covid shutdown had a direct impact on the Council's Capital Plan and where appropriate the Services affected held regular meetings to assess the long-term impact. The Capital Programme continues to be considered at Cabinet and Council meetings. In only one sampled project were additional Covid costs payable under the contracts that the Council had in place. The one project requiring additional payment had this claim fully scrutinised through Council governance processes and was confirmed as being legally due before payment of a reduced value was made. Time lines for project completions have been agreed and extended appropriately as a result of Covid.
4. Management have reviewed the financial risks of Covid and it's potential to make a project financially unviable and completed reviews through appropriate Council governance structures confirming the viability of each project that is being taken forward.	Reasonable	A review of the projects selected showed that none had their viability affected by the delays caused by the shutdown as there were no significant increases in costs. In the case of a school extension being built via a Hub contract a claim was made and approved by the Hub. A further review by the Council and a Senior Management discussion resulted in an offer being made to Hub SE Scotland and the contractor, which was accepted by both parties and represented only 4% of the total project cost.
5. Management have maintained contact with contractors to assess their ability and capacity to restart or start projects and the full and complete additional costs to be incurred if any.	Reasonable	A central log is maintained of all emails relating to each project. Procedures were put in place to consider extension of time applications by the contractors and where the request was clearly related to Covid delays the extension was allowed. Delays resulted in part from the period of shutdown, but also from the restrictions on the number of people being on site at the same time. For the projects the average extension time allowed as a result of the Covid shutdown was 14 weeks.
6. Adequate processes are in place and operating for contract management and monitoring on a risk assessed basis.	Reasonable	Procedures are in place to review the monthly valuations submitted by the contractors and to ensure that any variations are valid. In one case an external Quantity Surveyor was used as this project had the largest percentage increase in costs from all the projects reviewed and, whilst a significant internal review was undertaken for this project, it has been recommended that a further review of the operation by external surveyors may assist in maintaining budgetary control.



# Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	A register of all projects is maintained by the architects and updated on a regular basis which sets out the stage of each project.
2.	During the period of lockdown payments were only made to contractors where this related to work that had been carried out on site prior to the suspension of all work.
3.	Following discussions with the Council's legal team no additional payments were made to contractors during the period of lockdown. In reaching this decision consideration was given to the Government funding that would be available to the contractors. Compensating funding would not have been available to the Council.
4.	Risk assessments were carried out by contractors before work was finally suspended on site, to confirm steps had been taken to secure the site during the period of lockdown. A second set of risk assessments were carried out by contractors prior to work recommencing, to ensure that the sites complied with the Government restrictions that were to remain in place.
5.	Regular communication was held with contractors to confirm their plans for reopening sites once the restrictions had been lifted by the Government.
6.	A number of the contractors sought to get extensions of time as a result of the period of shutdown. The Council only allowed extensions where these were genuinely due as a result of the period of shutdown.

# Recommendation Grading/Overall opinion definitions

Recommendation	Definition
<b>High</b>	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.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance	Definition
<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

**OUTSTANDING RECOMMENDATIONS**  
**Cybersecurity**

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
1.2	<p><b><u>Partly Implemented</u></b></p> <p>Management should ensure that all policies are subjected to a regular review schedule.</p>	Medium	Team Manager – Infrastructure & Security	Agreed. The IT Infrastructure & Security Team have been diverted on to other tasks which has meant that policies could not be updated on a regular basis.	February 2022	March 2022
2.3	<p><b><u>Not Implemented</u></b></p> <p>Management should consider how to deliver information security training to all appropriate staff who do not have regular access to a council laptop or PC.</p>	Medium	Service Manager – Property Maintenance	Agreed, training will be delivered via face-to-face sessions.	December 2021	June 2022

Payroll

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
1.1	<p><b><u>Partly Implemented</u></b></p> <p>Management should ensure that detailed procedures are in place to provide clear guidance to staff responsible for administering the Payroll function.</p>	Medium	Service Manager People & Council Support	Agreed – this has already been recognised and work is underway to review and update documents with a view to creating a centralised procedures document.	September 2021	March 2022
2.1	<p><b><u>Partly Implemented</u></b></p> <p>Management should ensure that the Employee Appointment Form is provided to Human Resources prior to employees commencing work with the Council, to enable the appropriate pre-employment checks to be validated.</p>	Medium	Service Manager People & Council Support	Agreed – work is already underway on issuing new guidance to service areas, the guidance will highlight the need to submit information on new starts timeously.	June 2021	February 2022
3.1	<p><b><u>Partly Implemented</u></b></p> <p>Management should ensure that all Change of Contract Forms are authorised by the Manager or an appropriate officer prior to the effective date of change.</p>	Medium	Service Manager People & Council Support	Agreed – new guidance will be issued highlighting the need to complete change of contract forms timeously.	June 2021	February 2022

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
4.1	<u>Partly Implemented</u> Management should ensure that the number of days employed in the year are correctly calculated for the annual leave entitlement on the Leavers Form.	Medium	Service Manager People & Council Support	Agreed – this will be incorporated in the guidance issued to service areas.	June 2021	February 2022
4.3	<u>Partly Implemented</u> Management should ensure that appropriate checking procedures are in place to confirm that HR leave calculations for employees on sessional contracts are accurate and complete.	Medium	Service Manager People & Council Support	Agreed – independent checks will be undertaken.	June 2021	February 2022
4.4	<u>Partly Implemented</u> Management should ensure that service areas are regularly advised to complete and authorise Leavers Forms timeously prior to the leaving date.	Medium	Service Manager People & Council Support	Agreed – new guidance will be issued highlighting the need to complete Leavers Forms timeously.	June 2021	February 2022
4.5	<u>Partly Implemented</u> Management should ensure that appropriate checks are carried out on the start date and end date of sessional contracts to confirm that the last pay has been correctly calculated.	Medium	Service Manager People & Council Support	Agreed – detailed supervisory checks will be undertaken on the last pay calculations for sessional contracts.	June 2021	March 2022

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
4.6	<p><u>Partly Implemented</u></p> <p>Management should ensure that the actual amounts paid to date are included in the final pay calculations for sessional contracts rather than being based on assumed calculated amounts.</p>	Medium	Service Manager People & Council Support	Agreed – detailed supervisory checks will be undertaken on the last pay calculations for sessional contracts.	June 2021	March 2022
4.7	<p><u>Partly Implemented</u></p> <p>Management should ensure that all manual adjustments to employees' pay are properly actioned on EDRMS.</p>	Medium	Service Manager People & Council Support	Agreed – this will be reinforced in the new guidance.	June 2021	February 2022
6.1	<p><u>Partly Implemented</u></p> <p>Management should ensure that monthly reconciliations between the net pay figure and the BACs payments in the general ledger are performed timeously.</p>	Medium	Service Manager People & Council Support	Agreed – the reconciliations will be brought up to date.	September 2021	April 2022
6.2	<p><u>Partly Implemented</u></p> <p>Consideration should be given to creating separate general ledger codes for overpayments and pay advances to help facilitate monthly reconciliations between the net pay figure and the BACs payments.</p>	Medium	Service Manager People & Council Support	Agreed – work is underway on creating new general ledger codes.	June 2021	April 2022

**Housing Rents**

<b>REC REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>AGREED DATE OF COMPLETION</b>	<b>REVISED DATE OF COMPLETION</b>
4.2	<p><b><u>Partly Implemented</u></b></p> <p>Management should ensure that appropriate checks are undertaken of rent increases applied to Housing Association and homeless properties – the Homelessness Section should be provided with reports of the actual rent increases applied.</p>	Medium	Team Leader – Systems Development & Business Support, Business Rates and Sundry Accounts / Team Manager – Homelessness	Agreed.	February 2021	March 2022
6.1	<p><b><u>Partly Implemented</u></b></p> <p>Management should ensure that a reconciliation is undertaken between the number of properties identified for a housing rent increase and the number of properties that receive an annual rent charge letter.</p>	Medium	Team Leader – Systems Development & Business Support, Business Rates and Sundry Accounts	Agreed – we shall undertake this reconciliation and the evidence will be retained.	February 2021	March 2022





AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Scottish Welfare Fund	We will examine the control processes in place over the last year and the changes in control processes implemented as a result of the Covid pandemic.	June 2022	
Lower Value Purchasing	Focusing on purchasing and procurement below £50k, examining that appropriate authorisation and procurement routes are in place prior to making purchases. Reviewing that aggregated expenditure levels are monitored and appropriate action taken on a regular basis.	June 2022	
Payroll Overtime Payments	We will review the processes for making overtime payments from authorisation to payment.	June 2021	Completed
Property Maintenance Stores	This audit was rolled forward from the 2019/20 Internal Audit Plan and will focus on the controls in place for managing and maintaining the stores assets and purchasing of stores materials to support property maintenance requirements.	June 2022	In Draft
IT School Procurement	We will examine the strategy and compliance with processes around ICT purchases for schools.	February 2022	Completed
Digital Learning Strategy	We will review the Digital Learning Strategy progress and assess the governance and control environment in place to establish if this is robust to deliver the strategy.	June 2022	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Prevent & Return Strategy Children's Services	We will review the Governance and Control structures in place to support this strategy and examine if they provide an appropriate embedded framework for the future.	February 2022	Completed
COVID Support and Grants	We will review the processes in place for provision of COVID Support Grants and other support offered across the Council including reconciliation and recovery of support when required.	June 2022	
Restart of Capital Projects	As Projects that have been delayed or progress paused as a result of the COVID pandemic recommence, risks will arise in relation to tendering, budget management, timescale delivery and clarity on continued appropriate specification. We will review the controls in place to manage these risks.	February 2022	Completed
Waste Management	We will review the policies, procedures and processes in place for provision of waste management services.	June 2022	
General Data Protection Regulations (GDPR)	This audit was rolled forward from the 2019/20 Internal Audit Plan and will focus on the arrangements in place within the Council for ensuring compliance with the provisions of GDPR.	June 2022	
Corporate Appointeeship	We will examine the implementation of a corporate appointeeship scheme for social work clients being taken into East Lothian Council responsibility during 2021.	November 2021	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
ALEO East Lothian Mid-Market Homes LLP	We will review the governance and operational control processes in place within the Council in relation to the East Lothian Mid-Market Homes LLP.	November 2021	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.	June 2022	Commenced
Scottish Housing Regulator (SHR) Annual Assurance Statement	Work required to provide assurance on the regulatory requirements set out in the Scottish Housing Regulator's Chapter 3 of the Regulatory Framework.	September 2021	Completed
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	June 2021	Completed

