

REPORT TO: Audit and Governance Committee
MEETING DATE: 21 June 2022
BY: Service Manager – Internal Audit
SUBJECT: Annual Internal Audit Report 2021/22

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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 team in 2021/22 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 2021/22.

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 team seeks to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2 Internal Audit reports administratively to the Executive Director for 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 2021/22 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 2022. 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, a further review is due to be undertaken during 2022/23 by the Chief Internal Auditor of Midlothian Council, providing a high level of assurance on internal audit's compliance with PSIAS.

Delivery of the Internal Audit Service

3.5 In February 2021, the Audit and Governance Committee approved the Internal Audit Plan for 2021/22. The plan was scoped to address the Council's key risks and strategic objectives.

3.6 The ongoing COVID-19 pandemic and concurrent risks continued to result in changing risks to the operation of the Council which remained in business continuity measures throughout the year. A revised Internal Audit Plan for 2021/22 was then approved by the Audit and Governance Committee in September 2021 and it is anticipated that a mid-year review of the Internal Audit plan will be required moving forward.

3.7 Reviews of Waste Management and General Data Protection Regulations are not yet complete but have been progressed. The review of General Data Protection Regulations has an agreed scope with management but resource constraints due to higher workload have resulted in the decision to delay this work until July 2022 with the aim of reporting to the September 2022 Audit & Governance Committee. The review of Waste Management is currently being completed and will be reported to the September 2022 Audit & Governance Committee.

3.9 In 2021/22, Internal Audit completed 14 audit reviews. Table A (see section 3.11 below) outlines the audit work undertaken in 2021/22. For each audit, Internal Audit has provided Management with an assessment of the adequacy and effectiveness of their systems of internal control. Audit reports from November 2021 onwards have been completed under a new grading structure was adopted in accordance with that recommended by CIPFA resulting in the grading of moderate assurance no longer being utilised by the Internal Audit team. Of the 14 audit reviews undertaken in 2021/22:

- In 3 cases, Internal Audit provided Limited assurance.
- In 1 case, Internal Audit provided Moderate assurance.
- In 9 cases, Internal Audit provided Reasonable assurance.
- In 1 case, Internal Audit did not grade the overall report.

3.10 For the 14 audit assignments finalised, a total of 135 recommendations were made – 130 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls); 5 recommendations were graded as low (recommendations concerning minor issues that are not critical, but which may prevent the attainment of best practice); there were no high graded recommendations. 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 2021/22:

Table A

Audit Assignment	Level of Assurance
Council Tax Reliefs & Recoveries	Reasonable
NDR Relief & Recovery	Moderate
Partnership Funding	Reasonable
Corporate Appointeeship	Reasonable
East Lothian Mid-Market Homes LLP	Limited
IT Schools Procurement	Reasonable
Scottish Housing Regulator Annual Assurance	Not Graded
Restart of Capital Projects	Reasonable
Prevent & Return Project	Reasonable
Scottish Welfare Fund	Reasonable
Risk Management	Reasonable
Lower Value Purchasing	Limited
Covid 19 Grants	Reasonable
Property Maintenance Stores	Limited

3.12 In addition to the reviews listed above, three non-graded assurance statements which contained 10 recommendations were issued between September 2021 and June 2022.

- Low Income Pandemic Payments;
- School Excursions; and
- Digital Teaching & Learning Strategy.

3.13 Internal Audit has also undertaken eight Whistleblowing/Fraud and Irregularity or management request investigations/reviews in 2021/22.

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 led 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 2021/22 covers:

- Completion of the annual Audit Plan – 87.5%
- % 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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