

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

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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 2022.

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 2021/22, the Internal Audit team 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, 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; and the
 - 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 2021/22 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 2021/22 Statement of Accounts under the Group Accounts section.

Assessment of Controls and Governance

- 3.8 The Annual Internal Audit Report 2021/22 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 2021/22 were categorised as medium risk (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls). A summary of all recommendations made during 2021/22 is outlined below:

Recommendations Priority Level	Number of Recommendations	Recommendations %
Medium	130	96
Low	5	4
Total	135	100

- 3.10 In addition to the Internal Audits completed, three Assurance reviews of areas with control environments that are still being formed or are subject to significant change, have been reported to the Audit and Governance Committee. These reviews had a total of 10 non-graded recommendations.
- 3.11 During 2021/22, areas identified with scope for improvement included the following:
- Control processes in place covering the Council partnership in East Lothian Mid-Market Homes LLP required significant improvement, which has now been progressed and did not substantially impact on the current positive outcomes for this partnership;
 - The Council requires to complete development of both the Digital Learning & Teaching Strategy and IT strategies to maintain momentum on new opportunities presented by rapid developments during the pandemic period as part of recovery;

- Control processes for stock control for Property Maintenance, impacted by resourcing issues and COVID factors, require further focus to improve. Improved resourcing is being provided and system and process improvements are already being developed;
- Controls over purchasing and lower value procurement processes require systems improvement to allow for enhancement of the control processes as we enter the recovery phase.

3.12 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 2021/22 identified that at least 78% of the 101 recommendations made during 2020/21 have been fully implemented and 12% partially implemented.

3.13 During 2021/22 the Council has continued to operate under business continuity as a result of the impact of the COVID-19 pandemic and concurrent risks. The period of time under which the Council has operated under business continuity measures has been unprecedented. Due to resourcing constraints and increased workload it was identified in some management areas that whilst all reasonable attempts to ensure that robust controls and governance arrangements remain in place, given enhanced prioritisation of critical activities, enhanced focus has been on these priority areas. Control environments may have been at increased risk for short periods of time.

3.14 The opinion is restricted by the assurance work that has not yet been completed, however with 87.5% audit plan full completion, in conjunction with additional assurance work completed allows a formal assessment to be made on substantial evidence.

Opinion

3.15 It is Internal Audit's opinion, subject to the weaknesses outlined in section 3.11 above and the comments made in 3.13 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 2022.

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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