

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 14 February 2023

**BY:** Service Manager – Internal Audit

**SUBJECT:** Internal Audit Report – February 2023

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit reports issued since the last meeting of the Committee, provide details of Internal Audit's follow-up work undertaken and provide an update on progress made against the 2022/23 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 2022 to February 2022 as contained in Appendix 1 and covered in agenda item 11;
  - ii. the findings from Internal Audit's follow-up work;
  - iii. Internal Audit's progress against the annual audit plan for 2022/23 as set out in Appendix 2.

## **3 BACKGROUND**

- 3.1 Since the last meeting of the Committee final reports have been issued in respect of the following audits: East Lothian Works, Systems & Data Backup and Recovery Testing.
- 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 East Lothian Works audit is contained in Appendix 1. The summary of the main findings and recommendations from the Systems & Data Backup and Recovery Testing audit is covered in agenda item 11.
- 3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:
- East Lothian Works – Reasonable Assurance
  - Systems & Data Backup and Recovery Testing – 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 two audits that were reported in previous years. Our findings are detailed below:

#### **Covid-19 Grants**

- 3.5 Internal Audit's report on Covid-19 Grants was issued in June 2022. Our follow-up review has highlighted that seven of the nine recommendations made have been implemented, and two recommendations (to transfer files from email inboxes to a secure network file location and the recovery of two overpaid grants) are in progress and scheduled for completion by April 2023.

#### **Risk Management**

- 3.6 Internal Audit's report on Risk Management was issued in June 2022. Our follow-up review has highlighted that of the two recommendations made, one has been fully implemented and the second recommendation is awaiting the implementation of new risk management software and will be complete in April 2023.

#### **Progress Report 2022/23**

- 3.7 A 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 2022/23.

### **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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<b>DATE</b>	3 February 2023

# Appendix 1 Executive Summary: East Lothian Works

## Conclusion: Reasonable Assurance

The internal controls in place for East Lothian Works are generally reliable, however there are some improvements that can be made to provide a fully effective control process, including the arrangements in place for ensuring a clear audit trail exists when completing quarterly financial reports, undertaking appropriate checks on employers prior to awarding grant funding, maintaining a summary record of the discussions held at the quarterly No One Left Behind monitoring meetings and undertaking reconciliations between the database held for each programme and the quarterly financial reports.

### Background

East Lothian Works is the Council's central hub which provides employability services across East Lothian for both young people and adults, with the aim of helping and mentoring clients with training, adult learning programmes, apprenticeships and work experience. Grant funding for programmes is provided primarily from the Scottish Government – East Lothian Works was awarded No One Left Behind funding of approximately £985k on 23 March 2022 for financial year 2022/23. The No One Left Behind scheme is designed to enable a more flexible approach, delivering a number of distinct employability programmes, including the initial phase of No One Left Behind, the Parental Employability Support Fund and the Young Person's Guarantee. The East Lothian Council Plan 2022-2027 references the Council's recovery and renewal plan, and has a commitment to improve the employability of East Lothian's workforce, together with developing our future ways of working. East Lothian Works has a key role to play in meeting this commitment moving forward.

### Summary of findings & recommendations

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

- The existing arrangements in place for completing the quarterly financial reports for the Scottish Government require review – there was a lack of reconciliations undertaken between the database held for each employability programme and the financial reports, and the reports had not been checked by a person independent of processing. *Management have advised that a template has already been developed and implemented to allow reconciliations to be undertaken. In addition, a reconciliation summary sheet will be completed and the financial reports independently reviewed, all of which will be operational by February 2023.*
- Appropriate validation checks had not been undertaken on employers prior to awarding the first phase of No One Left Behind grant funding of £202k, including checks on health and safety records, public liability insurance and on staff working with young adults, and a formal summary of the discussions held with employers at the quarterly monitoring meetings had not been maintained. *Management have already undertaken retrospective checks on the employers and have agreed to maintain a formal summary of the discussions held at the quarterly monitoring meetings by January 2023.*
- There was a lack of a clear audit trail for the quarterly financial reports submitted to the Scottish Government – supporting evidence had not been retained and in a number of instances we were unable to verify the figures on the reports as the amounts in the databases had subsequently been updated. *Management have introduced revised procedures for the next financial report and will retain supporting evidence by February 2023.*

### Recommendation Summary

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

### Materiality

East Lothian Works has an overall budget of approximately £3.7 million for financial year 2022/23, of which approximately £2.3 million is received from Scottish Government and other grant funding. The service helped 201 clients into employment in financial year 2021/22 and has assisted 69 people into employment for the first two quarters of financial year 2022/23.

\* No prior report exists for East Lothian Works.

# Headlines

Objectives	Conclusion	Comments
1. Adequate arrangements are in place for monitoring grant terms and conditions and for reporting to the Scottish Government.	Limited	From our review of the quarterly financial reports submitted to the Scottish Government, we found that there was a lack of a clear audit trail – supporting evidence had not been retained and in a number of instances we were unable to verify the figures on the reports, as the amounts in the databases had subsequently been updated and the databases had not been saved at the time the reports were completed. In addition, there was a lack of reconciliations undertaken between the database held for each employability programme and the financial reports, a summary sheet had not been completed and the reports had not been checked by a person independent of processing. We were informed that improvements are being made and support is being received from Finance for the next quarterly return.
2. Appropriate procedures are in place to ensure that local priorities have been assessed and services are configured accordingly.	Reasonable	The No One Left Behind scheme was introduced with the objective of placing people at the centre of the design and delivery of employability services. The Local Employability Partnership received 24 applications from employers for grant funding and the panel subsequently reviewed the bids using a scoring system to help select five successful employers. We found that local priorities had been assessed and services configured accordingly, the applications were assessed on the basis of quality and this included an assessment of applicants’ know-how, local knowledge, expertise, previous experience and past performance.
3. Clients are appropriately assessed and provided with services that meet their needs.	Reasonable	For a sample of 15 clients examined, we found that in each case an appropriate assessment had been carried out. In three cases East Lothian Works involvement did not lead to a positive outcome, the client did not wish to engage further or had independently found alternative employment. For the remaining cases the client had either commenced a work experience placement, training/college course or had received assistance through the East Lothian offenders recovery service, however in one case appropriate checks had not been undertaken on the financial information provided by an employer for the Young Person’s Guarantee scheme.
4. Adequate arrangements are in place for monitoring the provision of employability services with outside contractors.	Limited	East Lothian Works chairs the Local Employability Partnership (LEP), the LEP panel has responsibility for evaluating grant applications from local employers for the No One Left Behind funding programme. The panel undertook a review of the bids received, however appropriate validation checks had not been undertaken on employers prior to awarding initial funding, including checks on health and safety records, public liability insurance and on staff working with young adults. Quarterly monitoring meetings had taken place with employers, however a formal summary of the discussions held at these meetings had not been maintained.
5. The workforce plan for East Lothian Works is based on the anticipated future project funding.	Reasonable	We sought to establish if appropriate arrangements were in place to ensure that staff recruitment was analysed in conjunction with the anticipated project funding for the financial year. We found that a spreadsheet had been maintained for monitoring staff numbers along with the associated costs and the Team Leader – Funding and Contracts undertakes ongoing checks on the length of employment for temporary staff members within East Lothian Works, to ensure that the continuous employment matches the funding received and has not extended beyond two years.

# Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	Appropriate workforce planning arrangements were in place to ensure that the demand for staff within East Lothian Works is analysed in conjunction with the anticipated project funding for the financial year and ongoing checks are undertaken to confirm that the continuous employment for temporary staff members matches the funding received and does not extend beyond two years.
2.	The quarterly financial returns to the Scottish Government had been fully completed and submitted for both quarters reviewed in financial year 2022/23.
3.	Appropriate arrangements were in place to ensure that local priorities had been assessed under the No One Left Behind scheme and services had been configured accordingly.

# 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.

**INTERNAL AUDIT PROGRESS REPORT 2022/23**

**APPENDIX 2**

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
HR/Payroll Recruitment and New Starters Process	We will review the processes for recruitment, vetting, contract completion, payment and initial training of new start employees for the Council.	February 2023	Commenced
Sundry Debtors	We will examine the processes and controls in place for raising, collection, monitoring and resolution of sundry debts.	November 2022	Completed
Finance Business Partners and Budget Monitoring	We will review the processes and procedures in place to assist services in financial management through the provision of Finance Business Partners and monitoring of budgets against best practice.	September 2022	Completed
Construction Materials Procurement	We will review the processes around procurement of construction materials and services across the Council's services.	February 2023	Testing Underway
City Deal Governance and Monitoring	We will review the governance and monitoring processes in place around the progress of the Edinburgh and South-East Scotland City Deal projects and the intended monitoring of the Joint Venture with Queen Margaret University.	November 2022	Completed
Homelessness Services	We will review the processes in place and recently reviewed to meet the new regulatory requirements of the Homelessness Service.	June 2023	



AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Systems and Data Backup and Recovery Testing	We will review the processes in place to ensure that the Council has adequate processes and procedures in place to ensure that core systems have data backed-up and that systems and data could be recovered in the event of corrupted systems or data by testing this appropriately.	February 2023	Completed
ICT Asset Management	We will review the processes in place in relation to the asset management of Council ICT assets across the authority.	November 2022	Completed
COVID-19 Recovery & Renewal Plan	We will review the processes of governance and control in place to monitor progress against the East Lothian Council COVID-19 Recovery & Renewal Plan.	June 2023	In Planning
Climate Change Strategy Review and Monitoring	We will review the processes and governance in place to review and monitor the actions that are recorded against the Climate Change Strategy.	June 2023	
East Lothian Works	We will review the governance and controls in place for the operation of East Lothian Works and the links to educational outcomes.	November 2022	Completed
Housing Management System Replacement Project	We will review the governance, risk management and control measures in place for this vital systems improvement project.	June 2023	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Education Workforce Planning	We will review the policy, processes and procedures in place to develop workforce planning for Education.	February 2023	Delayed for consideration in future plans, replaced with Brunton Theatre Trust Review  In Planning
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 2023	
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 2022	Completed
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	September 2022	Completed