

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 13 June 2023

**BY:** Service Manager – Internal Audit

**SUBJECT:** Annual Internal Audit Report 2022/23

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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 2022/23 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 2022/23.

## **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 2022/23 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 March 2023. 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 2023 by the Chief Internal Auditor of Scottish Borders Council, providing a high level of assurance on internal audit's compliance with PSIAS.

### **Delivery of the Internal Audit Service**

3.5 In February 2022, the Audit and Governance Committee approved the Internal Audit Plan for 2022/23. The plan was scoped to address the Council's key risks and strategic objectives.

3.6 In order to ensure a constant review of ongoing concurrent risks to the Council and confirmation of approval by the new membership a revised Internal Audit Plan for 2022/23 was then approved by the Audit and Governance Committee in September 2022. A subsequent change to the audit plan was also notified to the Audit & Governance Committee in February 2023 with a review of Brunton Theatre Trust replacing a review of Education Workforce Planning within the Internal Audit Plan.

3.7 A Review of Homelessness is not complete however testing is now substantially progressed and the Brunton Theatre Trust review has been presented to Senior Management as a draft report with further ongoing discussions taking place, all other reviews within the plan have now been completed.

3.8 In 2022/23, Internal Audit completed 16 audit reviews. Table A (see section 3.10 below) outlines the audit work undertaken in 2022/23. For each audit, Internal Audit has provided Management with an assessment of the

adequacy and effectiveness of their systems of internal control. Of the 16 audit reviews undertaken in 2022/23:

- In 3 cases, Internal Audit provided Limited assurance.
- In 11 cases, Internal Audit provided Reasonable assurance.
- In 1 case, Internal Audit provided Substantial assurance.
- In 1 case, Internal Audit did not grade the overall report.

3.9 For the 16 audit assignments finalised, a total of 122 recommendations were made – 106 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls); 11 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 graded as 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). Our recommendations sought to address the weaknesses identified in the design of controls and/or their operational effectiveness.

3.10 We have completed the following reviews in 2022/23:

**Table A**

<b>Audit Assignment</b>	<b>Level of Assurance</b>
Finance Business Partners and Budget Monitoring	Reasonable
Performance Indicators	Reasonable
Waste Services Income	Limited
Scottish Housing Regulator Annual Assurance	Not Graded
City Deal Governance and Monitoring	Reasonable
Data Protection	Reasonable
ICT Asset Management	Limited
Sundry Accounts	Reasonable
East Lothian Works	Reasonable
Systems & Data Backup and Recovery Testing	Reasonable
HR/Payroll Recruitment and New Starters Process	Reasonable
Construction Materials Procurement	Limited
Covid-19 Recovery & Renewal Plan	Substantial
Climate Change Strategy Review and Monitoring	Reasonable
Housing Management Systems Replacement Project	Reasonable
Risk Management	Reasonable

3.11 Internal Audit has also undertaken ten Whistleblowing/Fraud and Irregularity or management request investigations/reviews in 2022/23.

3.12 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**

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

### **Performance Indicators**

3.14 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 2022/23 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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