

REPORT TO: Audit and Governance Committee
MEETING DATE: 13 June 2023
BY: Service Manager – Internal Audit
SUBJECT: Controls Assurance Statement 2022/23

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 2023.

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 2022/23, 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;
 - 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 2022/23 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 2022/23 Statement of Accounts under the Group Accounts section.

Assessment of Controls and Governance

- 3.8 The Annual Internal Audit Report 2022/23 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 2022/23 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 2022/23 is outlined below:

Recommendations Priority Level	Number of Recommendations	Recommendations %
High	5	4
Medium	106	87
Low	11	9
Total	122	100

- 3.10 During 2022/23, areas identified with scope for improvement included the following:
- Control processes for Waste Services income were severely impacted by a loss of staff resource, which impacted upon capacity and led to key controls in respect of Waste Services Trade Waste administration and invoicing for the sale of material not operating effectively, during the COVID-19 pandemic period. Since identification of this issue staff resource has been recruited to resolve the issues identified.
 - The Council has appropriate systems in place to record all devices that are logged on to the Council network, however there is no clear record maintained of devices from original purchase through to eventual destruction, in either the Council or the Education asset estate. Work remains ongoing to develop a system to develop this system.

- The Council has not had in all cases appropriate management of suppliers in place during the year to ensure that the prices being paid matched framework contracts, authorisation processes are not always effectively in place. Improvement in the Contract Management processes were already being developed by the Procurement team during the year and when implemented will help improve the control environment.
- The Governance and Control processes covering the legal, financial and operational processes between the Council and the Brunton Theatre Trust have substantial gaps that require to be resolved. The Internal Audit review in this area whilst substantially complete is continuing to be reviewed to agree the most appropriate recommended courses of action to resolve these gaps.

3.11 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 2022/23 identified that at least 81% of the 135 recommendations made during 2021/22 have been fully implemented.

3.12 During 2022/23 a number of Council services operated under business continuity processes as a result of the recovery from the COVID-19 pandemic and concurrent risks including recruitment difficulties and resource constraints. 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.

3.13 The Council has highlighted risk ELC CR1 Managing the Financial Environment as a Very High risk on the Corporate Risk Register. This indicates that the Council is currently operating beyond the risk tolerance of the Council. The risk identifies that there is a projected medium term funding gap facing the Council over the next 5 years is £71.3 million and that the current level of reserves remains marginally above the approved minimum level of reserves. Planned Control measures are anticipated to reduce the Council risk to High risk. Whilst this highlights appropriate risk management reporting within 2022/23, it provides the context for the importance of the implementation of appropriate control measures to reduce the risk to the Council moving forward.

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 3.10 above and the comments made in 3.12 to 3.14 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 2023.

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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DATE	2 June 2023