East Lothian
Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 26 September 2023

BY: Service Manager – Internal Audit

SUBJECT: Internal Audit Report – September 2023

1 PURPOSE

1.1 To inform the Audit and Governance Committee of Internal Audit reports issued since the last meeting of the Committee and provide an update on progress made against the 2023/24 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 June 2023 to September 2023 as contained in Appendix 1 and covered in agenda items 2 and 7;

ii. Internal Audit's progress against the annual audit plan for 2023/24 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: Brunton Theatre Trust, Tyne & Esk Funding and the Scottish Housing Regulator Annual Assurance Statement.

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 Tyne & Esk Funding audit is contained in Appendix 1. The summary of the main findings and recommendations from the Brunton Theatre Trust audit has been covered in agenda item 2. The Internal Report on the Scottish Housing Regulator Annual Assurance Statement is covered in agenda item 7.

3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:

➤ Brunton Theatre Trust – Limited Assurance
➤ Tyne & Esk Funding – Reasonable Assurance
➤ Scottish Housing Regulator Annual Assurance Statement – Not Graded.

Progress Report 2023/24

3.4   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 revised annual audit plan for 2023/24, which is subject to the Audit & Governance Committee approval as part of Agenda item 4.

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	19 September 2023

Appendix 1 Executive Summary: Tyne & Esk Funding

Conclusion: Reasonable Assurance

The delivery of the Rural Community Led Local Development Funding was agreed in August 2022 with a completion deadline of 31 March 2023. This relatively short timescale did not allow for a member of staff to be appointed and full processes and controls to be put in place. However 16 projects were successfully funded to benefit the communities in East Lothian and Midlothian.

Background

Tyne & Esk Rural Communities Development Fund is part of the Scottish Government's Community Led Local Development Rural Programme, which is the replacement for the previous LEADER Programme that was funded by the European Union. Funding is provided under the Housing Grants, Construction and Regeneration Act 1996.

The overarching aim of the funding is to increase support to local rural communities, individuals and businesses advancing inclusion, equality and diversity. The eligible area covers rural East Lothian and Midlothian excluding the urban areas of Musselburgh and Dalkeith, but including Wallyford and Whitecraig and Dalkeith Country Park.

Community Led Local Development funding offers:
* small grants for projects of different sizes and types;
* support during the whole funding process, so you will never feel alone; and
* community representatives who ensure funding is spent wisely across the rural communities in East Lothian and Midlothian.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by the Local Action Group (LAG)**:
* Due to time constraints a full register of applications has not been put in place. *The LAG have agreed that a detailed application register will be put in place* **by August 2023**.
* In some cases, applicants did not provide all the required supporting documentation, which in all bar one case would not have changed the decision. In the one case, the applicant was requested to reapply in 2023/24. The *LAG have agreed to ensure that adequate documentation is provided* **by March 2024**.
* The spreadsheet used to calculate the application scores following the LAG voting was found not to be accurate. In four cases, the application was rejected and in one of these cases the score would have resulted in funding being eligible, however in the one case the LAG considered that the applicant would not be able to complete the project within the period allowed. The *LAG have agreed to ensure that the spreadsheet is accurate* **by March 2024**.

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	5	-	5
Prior report	N/A	N/A	N/A	N/A*

* This review is new and no prior report exists for comparison

Materiality

The LAG was offered grant funding of up to £204,382, this allocation was split £143,067 for revenue and £61,315 for capital. The final expenditure was £143,068 for revenue and £47,240 for capital.

Headlines

Objectives	Conclusion	Comment
1. Agreements are in place to support the administration of the funding applications.	Substantial	A Memorandum of Understanding was put in place between East Lothian Council and the Community Led Local Development Local Action Group (LAG). An Operating Protocol for the LAG has been put in place setting out how it should operate.
2. A complete and accurate contract register of all funding applications is maintained.	Reasonable	An accurate register of all applications should be maintained, but while a list of applications was in place the timescale of the 2022/23 funding round did not allow for a detailed register to be set up and maintained.
3. Management have adequate controls in place to ensure that all applications meet the funding requirements.	Reasonable	The application form includes a list of evidence that is required to be supplied with the submission and in all bar one case all the required documentation was provided. The failure to provide all the required documentation should have resulted in the application being rejected.
4. Management have adequate controls in place to ensure that procedures are in place for assessing the funding applications.	Reasonable	A scoring mechanism has been put in place to evaluate the projects, however the summary sheet did not include the scores for one member of the LAG who had voted manually. The overall scoring was found to be inaccurate, however in all bar one case the projects were correctly awarded funding. In the one case the LAG considered that the applicant would not be able to complete the project within the period allowed.
5. Management have adequate controls in place to ensure that the partners comply with the Scottish Government Memorandum of Understanding.	Reasonable	A Memorandum of Understanding has been signed between the LAG and the Council setting out the responsibilities of each partner. An Annual Report was produced by the LAG detailing how the funding provided had met the objectives in the Tyne & Esk Rural Community Led Vision.
6. Adequate controls are in place to confirm that adequate documentation is supplied to confirm the funding application and payment.	Reasonable	Due to the time constraints it was decided to set a date by which evidence was to be provided, but this meant that sufficient bank statements were not provided to confirm the payments made. Three applications were made to the Scottish Government for funding payments. In line with the previous Leader programme a post funding monitoring process was put in place to ensure that the funding applied for had been used in line with the original application. As part of the inspections the Co-ordinator was able to confirm that the projects had been completed.

Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	While it is not a requirement of the new scheme, the LAG took the decision that a post project monitoring visit, by the Community Led Local Development Officer, to each applicant should be undertaken. These visits ensured that the funding provided had been used to fulfil the approved aims of each project.
2.	If it was found that an applicant had failed to meet their stated aims, the Tyne & Esk programme has the ability to withhold any or all of the payments and/or to require part or all of the entire grant to be repaid.
3.	Reviews of both the initial application form and the post project funding have been put in place to ensure the project aims have been fulfilled.
4.	Voting for the approval or rejection of a project application is carried out by the members of the LAG using a personal login to the Tyne & Esk website.

Recommendation Grading/Overall opinion definitions

Recommendation	Definition
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.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance	Definition
Substantial Assurance	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.
Reasonable Assurance	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.
Limited Assurance	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
No Assurance	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 2023/24   **APPENDIX 2**

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Financial Sustainability/CIPFA FM Code	Examine the processes in place to demonstrate that the Council is taking all recommended steps to ensure continued financial sustainability in the long term against the financial sustainability principles within the CIPFA FM Code.	March 2024	
Capital Expenditure Contract Cost Management	Examine the processes in place for ensuring that capital contract costs remain within the contracted costs and are managed to remain within the budgeted project costs for each Capital Contract.	June 2024	
Income Receipt, Reconciliation and Bad Debt Control	For all sundry accounts examine the reconciliation controls to recorded income and the processes in place to ensure maximum recovery of income across all Council services.	June 2024	
Treasury Management Income Maximisation	Review of the Council's Treasury Management processes to ensure that maximum prudential returns are being made on available treasury funds.	March 2024	
Agency Worker/ Contractor Use Management	Examine the authorisation processes for approval of the use of agency workers and contractors across the Council and the management of the use of agency workers and contractors to ensure all risks to the Council are managed.	March 2024	In Planning

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Cost of Growth	Review the processes in place to establish what the revenue budget costs are of increasing Council services to meet increased population within East Lothian and how consideration of this growth is demonstrated in the annual budget process and development of medium and long term financial strategies.	March 2024	In Planning
Housing Void Management	Examine the processes in place within the Housing and Property Maintenance teams to manage the timely return of void properties to a compliant standard for operational use.	March 2024	
Devolved School Management	Examine the processes and controls in place to ensure compliance with the newly reviewed and approved Devolved School Management Procedures.	June 2024	
Asset Management Review Project Management	Examine the project management process in place in relation to the current asset management process of building moves across the Council to ensure that it is meeting the objectives set.	June 2024	
Utility Costs Management	Examine the processes in place to ensure that a best value process is in place to manage the utilities costs across the Council's buildings portfolio.	December 2023	In Progress
Musselburgh Flood Prevention Scheme Governance Processes	Examine the Governance processes in place to manage and control the development and procurement for the Musselburgh Flood Prevention Scheme.	June 2024	In Planning

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Roads	Examine the Roads trading account operation and establish that this is operating in a best value format for the Council.	June 2024	
Partnership Funding	Review the grant funding provided to external organisations by the Council and review the processes in place to ensure that funding is linked to specific outcomes and organisational sustainability promoted.	June 2024	
Education Additional Support Needs	Examine the processes around assessment and provision of additional support needs for children.	March 2024	
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is sometimes required to provide a statement of compliance with grant conditions on an annual basis.	September 2023	Complete
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 2023	Complete
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	December 2023	