

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 11 June 2024

**BY:** Service Manager – Internal Audit

**SUBJECT:** Controls Assurance Statement 2023/24

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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 2024.

## **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 2023/24, 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 2023/24 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 2023/24 Statement of Accounts under the Group Accounts section.

### **Assessment of Controls and Governance**

- 3.8 The Annual Internal Audit Report 2023/24 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 2023/24 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 2023/24 is outlined below:

<b>Recommendations Priority Level</b>	<b>Number of Recommendations</b>	<b>Recommendations %</b>
High	7	10
Medium	49	67
Not Graded	17	23
<b>Total</b>	<b>73</b>	<b>100</b>

- 3.10 During 2023/24, areas identified with scope for improvement included the following:
- The Governance and Control processes covering the legal, financial and operational processes between the Council and the Brunton Theatre Trust had substantial gaps that required to be resolved. Work is almost complete on resolving the key elements of these gaps in agreeing a Service Level Agreement and reviewing and updating lease agreements.
  - The Council requires to improve its control processes in relation to Agency Workers in particular to ensure that a control list of agency workers is maintained, that an authorisation process is in place for agency workers that is utilised across the Council consistently, and that a process for agency worker review is in place to ensure adequate challenge of ongoing agency contracts.

- 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 2023/24 identified that 83% of the 122 recommendations made during 2022/23 have been fully implemented.
- 3.12 The Council has highlighted risk ELC CR1 Managing the Financial Environment as a Very High risk on the Corporate Risk Register which also remains Very High following mitigations. This indicates that the Council is currently operating beyond the risk tolerance of the Council. The risk identifies that: the Council is currently forecasting an overspend in the 2023/24 financial year of £19.3 million, of which £7.3 million is unplanned, which is likely to result in a significant reduction to reserves balances. In addition, the Council faces a significant funding gap, estimated to be in excess of £55.8 million over the next 5 years. This is compounded by a growing range of external cost and demand pressures, policy and legislative obligations and financial pressures aligned to population growth. The level of unallocated reserves being held by the Council as a contingency to mitigate any unforeseen events remains very low relative to the concurrent risks the Council is currently facing. Given the current level of in year overspend and future financial projections, there remains a high degree of risk that this may not be sufficient to meet current / future unplanned events.
- 3.13 The Council has also highlighted risk ELC CR2 Maintenance of Assets as a Very High risk on the Corporate Risk Register which also remains Very High following mitigations. The risk highlights that the Council may not have the available financial resource and staffing requirement to carry out essential repairs and maintenance programmes to ensure buildings are maintained in a good condition, and that the on-going capital investment required to ensure suitability and condition of buildings remain appropriate and aligned to national conditions. Both of these risks highlight concerns that the current financial position may start to impact the key control processes of the Council.
- 3.14 The opinion is restricted by the assurance work that has not yet been completed, however 75% 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 and 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 2024.

#### **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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