

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 September 2024
BY: Service Manager – Internal Audit
SUBJECT: Internal Audit Report – September 2024

2

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 2024/25 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 2024 to September 2024 as contained in Appendix 1 and covered in the Scottish Housing Regulator Agenda Item; and
 - ii. Internal Audit's progress against the annual audit plan for 2024/25 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: Additional Support Needs, Capital Expenditure Contract Cost Management, Musselburgh Flood Protection Scheme, 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 Additional Support Needs, Capital Expenditure Contract Cost Management, Musselburgh Flood Protection Scheme and Tyne & Esk Funding audits are contained in Appendix 1. The Internal Audit Report on the Scottish Housing Regulator Annual Assurance Statement is covered later in the agenda.
- 3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:
- Additional Support Needs – Reasonable Assurance
 - Capital Expenditure Contract Cost Management – Reasonable Assurance
 - Musselburgh Flood Protection Scheme – Reasonable Assurance
 - Tyne & Esk Funding – Substantial Assurance
 - Scottish Housing Regulator Annual Assurance Statement – Not Graded.

Progress Report 2024/25

- 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 2024/25, which is subject to the Audit & Governance Committee approval as part of the agenda.

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

AUTHOR'S NAME	Duncan Stainbank
DESIGNATION	Service Manager – Internal Audit
CONTACT INFO	dstainbank@eastlothian.gov.uk
DATE	9 September 2024

Conclusion: Reasonable Assurance

The Council has appropriate arrangements in place for the identification and assessment of Additional Support Needs (ASN) at an early stage and for the subsequent planning for, regular review and meeting of these needs, in line with the Child’s Planning Framework. Both the national and East Lothian contexts for ASN remain challenging with better identification of ASN, poorer mental health, increasing complexity of need and a near doubling of those with ASN in the past 10 years, and the Council is taking steps to mitigate these challenges, including a more holistic interpretation of ASN, development of a revised funding formula for pupils with ASN, increasing capacity for specialist provision and the newly formed Child Planning Framework Locality Teams.

Background

Children and young people may have additional support needs if they are unable to benefit from their school education without help beyond that which is normally given to children or young people of the same age. The Council, as the education authority, are responsible for making arrangements to identify additional support needs and aim to do this working in close co-operation with parents and other services in contact with children or young people. The Council has a detailed Child’s Planning Framework in place based on the Getting it right for every child (GIRFEC) policy statement (2022), which builds on existing processes for meeting learner’s additional support needs, but also takes account of the National Practice Model within the legislation of the Children and Young People (Scotland) Act 2014. The Framework is a staged intervention model with three levels (universal, additional and targeted) under which the additional support needs of children and young people are identified, assessed, planned for and met. The additional support needs and wellbeing needs of children at level 1 (universal) and level 2 (additional) will generally be met in mainstream schools. Children and young people who require targeted support (level 3) often have needs that are required to be met in specialist provision.

Summary of findings & recommendations

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

- Appropriate Council-wide priority should be given to ensuring there is sufficient capacity within the school estate for specialist ASN provision for 2025/26 and beyond. *Management have confirmed that Education will work collaboratively with the CMT and with colleagues across the Council to address the challenges of ensuring sufficient capacity for ASN provision across the school estate **by August 2025**.*
- Where Individualised Education Plans (IEPs) are in place, these should be fully completed to record the evaluation/next steps required and timeously updated to indicate if learning targets have been achieved. *Management have confirmed that reminders will be issued to schools **by September 2024** and Link Education Officers will work with schools on an ongoing basis to ensure all IEPs are fully completed and timeously updated.*
- Co-ordinated Support Plans (CSPs), which are in place for children and young people with the most complex and enduring additional support needs, should be reviewed and amended in line with statutory timescales. *Management have confirmed that timescales for completion of individual CSPs will be tracked and monitored **by September 2024**.*
- A comprehensive range of policy and guidance documentation is in place for ASN, however there is a need to ensure that information provided on the Council’s website is up to date. *Management have confirmed that all information will be updated **by September 2024**.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	4	1	5
Prior Report	n/a	n/a	n/a	n/a

Materiality

In East Lothian Council, the number of pupils with ASN increased by 84% between 2014 and 2023 (compared to an 11% increase in overall pupil numbers), 36% of children/young people have additional support needs, the predominant reason for ASN is now “social, emotional and behavioural difficulty” for both primary and secondary pupils, there has been a large increase in parental placing requests for specialist provision and movement into East Lothian is placing additional pressures on the Council.

Headlines

Objectives	Conclusion	Comment
1. The Council has an appropriate framework in place for the assessment and provision of required services for young people with additional support needs, including relevant policies, procedures and documented guidance, and complies fully with all relevant legislation.	Substantial	A Child's Planning Framework is in place based on the Getting it right for every child (GIRFEC) policy statement (2022), which takes account of the National Practice Model within the Children and Young People (Scotland) Act 2014. Child's Planning Framework Guidelines are in place (August 2017), although there is a need to ensure information on the Council's website is up to date.
2. Appropriate arrangements are in place for the identification and assessment of additional support needs at an early stage and for the subsequent planning for, regular review and meeting of these needs, in line with the Child's Planning Framework and the National Practice Model.	Substantial	A detailed Policy (August 2018) is in place on Identifying, Assessing and Providing for Additional Support Needs, together with a range of guidance, including for Child Planning Framework – Locality Teams and the Education Outreach Team. New Child Planning Framework training has been developed and sessions are being delivered in each locality.
3. Appropriate governance, planning and reporting processes are in place to ensure provision of required ASN services across the Council area on a best value basis.	Reasonable	The Council has appropriate arrangements in place for the provision of ASN services, however priority requires to be given to ensuring sufficient capacity within the school estate for specialist ASN provision for 2025/26 and beyond.
4. Appropriate processes are in place for the allocation of predictable needs funding and the provision of exceptional needs funding where required.	Reasonable	Existing processes are in place for the allocation of predictable and exceptional needs funding and development of a revised funding formula for pupils with ASN is ongoing with proposed implementation by August 2025.
5. There is evidence of appropriate planning arrangements for additional support needs, with an up to date Child's Plan and/or Individualised Education Plan (IEP) being in place for all children or young people with level 2 (additional) or level 3 (targeted) needs, and a Co-ordinated Support Plan (CSP) being in place for those children and young people at level 3 (targeted) with complex and enduring additional support needs, requiring a significant level of co-ordinated input to educational planning from different agencies.	Reasonable	The Council's Policy on Identifying, Assessing and Providing for Additional Support Needs of Children and Young People (August 2018) has a section on Planning for Additional Support Needs, which includes coverage of The Child's Plan, Individualised Education Plan (IEP) and Co-ordinated Support Plan (CSP). Our review of a sample of plans highlighted that all plans were comprehensive, however in some cases the evaluation/next steps section of IEPs were not completed, and the plans were not being updated timeously to indicate if learning targets had been achieved, while in two cases reviewed CSPs were not updated in line with the timescales contained in legislation.
6. There is clear, documented decision making at a senior level for those children and young people with the most complex additional support needs who may require specialist educational provision.	Substantial	The Education Resource Group (ERG), which comprises of senior managers from Education and Children's Services and allied Health Care professionals considers admissions to specialist educational provision both within and outwith East Lothian. The ERG meets regularly, and all decisions are clearly documented.
7. The Council has arrangements in place for resolving disagreements with young people and/or parents/carers in respect of how a child or young person is being supported and complies fully with the provisions of the Education (Additional Support for Learning) (Scotland) Act 2004.	Substantial	Information is available on resolving disagreements informally, the Council's formal complaints process and on ways of resolving disagreements provided by legislation. An Education Complaints Tracker is in place for 2024/25, while decision letters provided to parents following ERG decisions, clearly outline the reasons for the decisions made and the right to appeal to Tribunal.

Areas where expected controls are met/good practice

No	Areas of Positive Assurance
1.	<p>The Council's website contains a comprehensive range of information on Additional Support for Learning, including sections on the Child's Planning Framework; Identifying additional support needs; Assessment of additional support needs; Providing additional support; Planning for additional support needs; Individualised Education Plans; Co-ordinated Support Plans; Role of the Education Resource Group; Resolving disagreements; Complaints; and Ways of resolving disagreement provided by the Education (Additional Support for Learning) (Scotland) Act 2004. In addition to the information on the Council's website, there is a specific GIRFEC in East Lothian website (accessed through edubuzz.com), which is updated regularly and contains a range of relevant content, including the National Policy and Legislative Context (including the National Practice Guidance 2022); sections on Child Protection, Neurodiversity and the Child's Planning Framework; and a wide range of planning documents and guidance, including on the Child/Young Person's Plan, Positive Support Plans (PCPs), Individualised Education Plans and Co-ordinated Support Plans.</p>
2.	<p>Processes are in place for the allocation of funding to support schools in meeting the additional support needs of children and young people. All schools in East Lothian currently receive a predictable needs budget based on school roll and level of deprivation (as determined by Free School Meals entitlement). In many cases this is used to fund Support for Learning staff who can assist class teachers to identify and address additional support needs. In addition, children and young people who have additional support needs that are so complex and of relatively low incidence can access exceptional needs (EN) funding. Comprehensive guidance is in place on the EN process, including EN criteria and measures, and how applications are moderated, scored and allocated a level of funding in hours. An Exceptional Needs Working Group has been established and development of a revised funding formula, to better reflect measures directly impacting on children/young people with additional support needs in each school, is ongoing with proposed implementation by August 2025.</p>
3.	<p>The Council has clear guidance on admission to specialist education provision (updated August 2024). The Education Resource Group (ERG) and Early Years Education Resource Group (EYERG), which comprise of senior managers from Education and Children's Services and allied Health Care professionals, consider admissions to specialist educational provision both within and outwith East Lothian. All support and interventions at levels 1 and 2 (including exceptional needs funding) should have been implemented and exhausted prior to the referral to the ERG. To allow appropriate transitions to be planned the ERG and EYERG consider referrals of children and young people at key transition stages of entry to pre-school, pre-school to P1 and P7 to S1. As part of the audit, we reviewed the key outcomes/action points from the minutes of the ERG meetings held in March 2024 and May 2024. In both cases, we found that the Group was chaired by the Quality Improvement Manager for Equity and Inclusion and was attended by the Principal Educational Psychologist, together with a wide range of staff from Education and Children's Services.</p>

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.

Executive Summary: Capital Expenditure Contract Cost Management

Conclusion: Reasonable Assurance

The internal controls in place for Capital Expenditure Contract Cost Management are generally reliable, however there are some improvements that can be made to provide a fully effective control process, including introducing formal procedures to assist staff with responsibility for capital contracts cost management, the arrangements in place for processing and monitoring contract variations and maintaining a record of the business case for capital projects following approval through an appropriate governance framework.

Background

The financial pressures on capital budgets have been growing due to higher interest rates, supply chain issues and the escalating costs of construction. These higher costs together with the ongoing limitations on spending have resulted in increased scrutiny of capital expenditure in local authorities, and on 13 December 2022 the Council formally approved the Capital Strategy for the period from 2023/24 to 2027/28. The Capital Strategy sets out how the Council will realise its strategic objectives through investment over the medium term, and the governance arrangements in place to help support these strategic objectives. Capital infrastructure projects have on-going revenue implications and the business case for any capital proposals should include consideration of revenue consequences and be submitted to an appropriate governance group prior to Council approval at the annual budget setting process, and once approved the projects will be passed to the Strategic Asset and Capital Plan Management Team for delivery within the appropriate timescales.

Summary of findings & recommendations

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

- While staff in the Strategic Asset and Capital Plan Management Team have access to a number of guidance documents, including the Council's Procurement Strategy and Procedures Working Instructions, the Local Development Plan Supplementary Guidance: Developer Contributions Framework and the SBCC (Scottish Building Contracts Committee) suite of contracts and conditions, there was a lack of formal procedures in place to provide clear guidance to staff with responsibility for capital contracts cost management. *Management have advised that a set of procedures are currently being drafted and will be completed by December 2024.*
- The existing arrangements in place for processing and monitoring contract variations require review – for some contracts, there was a lack of a clear audit trail and a consistent approach for the authorisation of contract variations, a cost estimate was not always undertaken prior to agreeing the change of contract and a spreadsheet had not been maintained for monitoring contract variations. *Management have advised that the reintroduction of the monthly cost reporting tool will help facilitate the monitoring of contract variations and ensure that a consistent approach is adopted by October 2024.*
- In some instances, there was a lack of a clear audit trail to confirm that a business case had been presented and approved through an appropriate governance framework, prior to the projects being included in the Capital Budget. *Management have advised that working practices have changed, and there has been a turnover in staff since the inception of a number of the projects selected for review, going forward the Finance Section will retain all supporting evidence for capital projects by October 2024.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	6	-	6
Prior Report	N/A	N/A	N/A	N/A*

* No prior report exists for Capital Expenditure Contract Cost Management.

Materiality

The Council had budgeted capital expenditure for 2023/24 of approximately £98.9 million for General Services and £33.96 million for the Housing Revenue Account. The budgets included 51 projects for General Services and 27 projects for the Housing Revenue Account.

Headlines

Objectives	Conclusion	Comments
1. Adequate policies and procedures are in place for administering Capital Expenditure Contract Cost Management.	Reasonable	Capital contracts are governed by the SBCC (Scottish Building Contracts Committee) suite of building contracts and conditions, and the Strategic Asset and Capital Plan Management Team also have access to a number of guidance documents, including the Council's Standing Orders, the Procurement Procedures Working Instructions, and the Local Development Plan 2018. However, there was a lack of formal procedures in place to provide guidance to staff with responsibility for capital contracts, including procedures on variations to the original contract value, which outline authorisation limits for staff and contract workers.
2. Capital projects are adequately assessed to ensure that the specifications can be achieved within the approved budget.	Reasonable	We found that the Strategic Asset and Capital Plan Management Team undertake appropriate assessments on capital projects to ensure that the specifications can be achieved within the approved budget, and budget cost estimates are carried out using the Scottish Futures Trust (SFT) metric costs for schools prior to completing the Procurement Initiation Document (PID). However, in one case the budget estimate had to be revised after an adjustment (increase) in the SFT metric costs. For the projects reviewed, the contracts were processed through the correct Procurement route based on the works value.
3. Adequate arrangements are in place to undertake value engineering, to allow a systematic approach in achieving the necessary outcomes for the project.	Reasonable	For the five contracts reviewed, we sought to establish if appropriate arrangements were in place to undertake value engineering where applicable, to ensure that the outcomes of the project could be achieved within the budgeted cost. We found that in four cases the Council accepted the value submitted by the lowest tenderer (after checking and corrections) or from the first ranked contractor on the ELC Joinery and Builderwork Framework, for the remaining case value engineering was carried out for the building of a new school, however in this case additional legislative requirements and the indexed S75 developer contributions (using the BCIS All-in TPI) not keeping pace with construction costs resulted in a significant funding gap.
4. All contract variations for capital expenditure are appropriately documented and properly authorised.	Limited	We found that there was a lack of a clear audit trail and a consistent approach for authorising contract variations, and a cost estimate was not always undertaken prior to agreeing the change of contract. In some instances, Contract Instructions were not held on file, and the existing arrangements in place for monitoring contract variations require review.
5. The viability for each stage of capital projects has been adequately reviewed and authorised through the appropriate governance bodies within the Council.	Reasonable	For the capital projects examined, we found that a formal statutory schools' consultation took place for the establishment of a new catchment area and primary school at Craighall and the closure of North Berwick Nursery School and redesignation to a nursery class at Law Primary School, and the proposals were formally approved by Council on 28 March 2017 and 24 April 2018 respectively. In addition, four of the five projects reviewed were approved through the Planning Service. In some instances, there was a lack of a clear audit trail to confirm that a business case had been presented and approved through an appropriate governance framework, prior to the projects being included in the Capital Budget. We found that all the projects had been included in the General Services Capital Budget and approved by Council during the relevant annual budget setting process.

Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	Capital projects are adequately assessed to ensure that the specifications can be achieved within the approved budget.
2.	Adequate arrangements are in place to undertake value engineering, to allow a systematic approach in achieving the necessary outcomes for the project.

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.

Executive Summary: Musselburgh Flood Protection Scheme

Conclusion: Reasonable Assurance

In accordance with the council legislative requirements to act with a view to achieving the objectives set out in the local flood risk management plan, the Council has put in place a project to develop a flood protection scheme for Musselburgh. Project documentation has been developed appropriately throughout this project, however the project commenced in 2016 and there is now a need to reconsider project roles and responsibilities. The Council approved an outline design of the flood protection scheme in January 2024. The council is now developing a full business case documenting the costs, benefits and objectives of this substantial scheme identified in the project to date.

Background

The Flood Risk Management (Scotland) Act 2009 required a full assessment of flooding around the Scottish coastline. A list of Flood Protection Scheme Programmes within Cycle 1 was drawn up and Musselburgh was ranked at 11 out of 42. Funding for the project is being split between the Scottish Government (80%) and East Lothian Council (20%). A project board was established in 2016 to oversee the flood protection project and hopefully the final implementation of the approved scheme. A professional services company have provided a Project manager who specialises in flood protection who is appointed to manage the project. When the Project was initially proposed reporting on progress was to the Council's Cabinet, but from 2022 ongoing reporting was to be done via the full Council. The outline design of the Musselburgh Flood Protection Scheme was approved by the Council in January 2024.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by the Service Manager for Roads**:

- The roles and responsibilities of the key member of the Project Board had been documented and approved at the beginning of the project, however these had not been updated to reflect the current roles and responsibilities of these key members of the Project Board. Management have agreed to review these roles and responsibilities **by September 2024**.
- Whilst significant project documentation has been created, including economic impact assessments, due to the current project stage a full business case has not yet been put in place clarifying the clear benefits, objectives and timelines against which the project can be monitored for success. *A Full business case will be put in place at the appropriate project stage in line with development of future project stages.*
- Appropriate procurement exercises have been undertaken for all contracts let as part of this project to date, one procurement initiation document (PID) was found to have been signed off by a manager slightly above their authorisation limit. Recommendations have been made and accepted immediately to ensure authorisation in line with council procedures going forward, with new more realistic authorisation limits updated for appropriate capacity.

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	2	3	5
Prior report	N/A	N/A	N/A	N/A*

Materiality

The estimated cost of the Scheme as reported in the Council report of January 2024 is approximately £53.9 million. The estimated cost of the Ash Lagoons seawall repair is £52.1 million. The Scottish Government will contribute 80% of the cost of the Scheme, in accordance with the Scottish Government's criteria the Scheme's cost would be confirmed when a Construction Works Contract is signed. The remainder of the 20% will need to come from ELC. There are approximately 3,200 residential and non-residential properties as well significant strategic infrastructure at risk of flooding in Musselburgh from the 0.5% AEP Flood Event, with an allowance for climate change, as determined by the hydraulic modelling and assessments undertaken by the Scheme.

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

Headlines

Objectives	Conclusion	Comment
1. Clear, accessible, relevant, and appropriate Governance arrangements are in place to oversee the development of the Musselburgh Flood Protection Scheme.	Reasonable	A project board was put together following the requirements of the Prince 2 methodology. Terms of reference, which include clear Roles & Responsibilities for members, have been approved by the Board. There is a project plan in place with stage gate approval processes for the project. Key final decisions on the project are made through the Council and therefore remain transparent in the Council decision making process.
2. A project board has been put in place to oversee the development of the overall project.	Substantial	The Project Board meets regularly to discuss all aspects of the project. To support the Project Board a series of Working Groups have been put in place to focus on specific topics which require professional support. Risk is a standing item on the Project Board agenda. A risk register is in place for this project and maintained on a regular basis and in a searchable manner.
3. Procurement procedures have been followed for procuring specialist contractors.	Reasonable	Appropriate procurement exercises have been undertaken for all contracts let as part of this project to date, one procurement initiation document (PID) was found to have been signed off by a manager slightly above their authorisation limit. Recommendations have been made and accepted immediately to ensure authorisation is always in line with council processes going forward.
4. Management have adequate controls in place to ensure that contract rates agreed following a procurement process are being correctly monitored during each stage of the project.	Substantial	The cost plan is a standing item on the Project Board meeting agenda, but this is not a topic that is raised at each meeting. A Financial Working Group was established in 2017, and detailed discussions are held within this group and a summary submitted to the Project Board. This process has been appropriate for the current stages of the project, however further control process will be required at construction phases due to the increased risk.
5. Adequate consultation has been undertaken.	Substantial	A total of 18 meetings and 2 exhibitions have been held between July 2019 and September 2023 which allowed the public to raise their concerns about the impact on their properties and the environmental impact across Musselburgh. The MFPS has its own website as well as submitting significant detail to Council and the Members library. Since the inception of the project there have been 2 meetings with the Cabinet between 2016 and 2020 and 5 with the Council between 2022 and 2024. There has been a significant amount of further consultation including substantial 'Drop in' sessions

Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	A Project Board has been put in place, consisting of appropriate staff members from all services who are involved with the development of the flood protection scheme. Regular meetings are held by the Project Board to monitor the progress of the Project.
2.	The flood protection project is regularly reported to the Council to provide assurance on this significant project.
3.	A detailed risk register has been put in place which details a wide variety of potential risks that could impact the progress of the project and this is managed and maintained on a regular basis.
4.	Over 50 public consultation events have been held with the over the last 5 years, ranging from exhibitions to formal meetings, to explain the aims and objectives of the project to the local residents and businesses.
5.	Fortnightly meetings between Senior Officers of the Board and the Project Manager and the Council Executive Team are held and provide a regular form of communication on this strategically important project.
6.	A total of 10 working groups have been put in place including Land & Legal, Procurement, Financial and Communications. All these groups feed into the Project Team and the board.
7.	Reporting to the Scottish Government on the financial situation has been carried out on a regular basis.
8.	A communications strategy and consultation plan has been put in place for the outline design stage of the project, and as part of this a dedicated website has been set up.

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.

Executive Summary: Tyne & Esk Funding

Conclusion: Substantial Assurance

An initial grant offer was made May 2023 of £173,768 for revenue grants, which was subsequently increased in January 2024 to £180,768 for revenue and an additional £150,000 for capital projects. A total of 21 projects were funded during the 2023/24 funding year across both 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 are highlighted, which have all been **agreed by the Local Action Group (LAG)**:

- All five of the recommendations made in the previous audit completed in September 2023 have been implemented, specifically including the following:
 - A detailed register of all funding applications is now in place, including both successful and unsuccessful applications across all years;
 - For all five of the successful 2023/24 grant applications selected all applicants had provided all required documentation including constitution documents and bank statements to ensure an appropriate award;
 - The spreadsheet used to summarise scoring of each LAG member was calculating the correct totals for the 2023/24 grant assessments;
 - Scoring was being completed as per the scoring guidance provided for the 5 grant scores reviewed including LAG members not scoring when a declaration of interest had been made.
 - From the sample of 5 grants reviewed bank statements have been provided for all expenditure incurred.
- As a result of all the testing completed for 2023/24 all grants have been awarded and expenditure incurred appropriately to the grant terms and conditions as a result no recommendations for improvements have been made.

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	-	-	-
Prior report	-	5	-	5

Materiality

The LAG was offered grant funding for 2023/24 of up to £330,768, this allocation was split £180,768 for revenue and £150,000 for capital. In addition collaboration funding of £14,900 was also received this year. The final expenditure was £108,155 for revenue and £149,792 capital.

Headlines

Objectives	Conclusion	Comment
1. Agreements are in place to support the administration of the funding applications	Substantial	A revised Memorandum of Understanding was signed between East Lothian Council and the Community Led Local Development Action Group (LAG).
2. A complete and accurate contract register of all funding applications is maintained	Substantial	A detailed register of applications has been put in place setting out all the details of the applications received together with the funds paid to the successful applicants.
3. Management have adequate controls in place to ensure that all applications meet the funding requirements	Substantial	The application form details the evidence that needs to be supplied with the submission. For the sample of applications selected in all cases the required documentation had been provided.
4. Management have adequate controls in place to ensure that procedures are in place for assessing the funding applications	Substantial	An amended scoring spreadsheet had been created to evaluate the projects. The scores for each project, from the sample selected, were correctly calculated and then divided by the number of members who were scoring each project. An appeals process is in place and for the 2 appeals made for the 2023/24 grant applications they were both dealt with appropriately to conclusion.
5. Management have adequate controls in place to ensure that the partners comply with the Scottish Government Memorandum of Understanding	Substantial	The Memorandum of Understanding signed by the LAG and the Council sets out the responsibilities of each party. An Annual Report has been prepared by the LAG which sets out how the funding was distributed and met the objectives of 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	Substantial	Adequate bank statements were provided to confirm that payments had been made. Four claims were made to the Scottish Government for funding payments. The Community Led Local Development Officer visited a sample of projects to confirm that all 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 if 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. To date no applicant has failed to meet the aims of the programme so the LAG has not had to withhold funding or seek repayment of funding already paid.
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 2024/25

APPENDIX 2

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Procurement	Examine the processes in place to ensure appropriate contract management, particularly ensuring contracted goods and services are being provided at the price in the contracts, is in place across the Council to meet our statutory requirements and ensure that procurement continues to be monitored against achievement of the outcomes agreed during tendering, including best value and community benefits.	March 2025	In Planning
Adult Social Care Case Management, including Contract Award, Billing and Payment	Review the revised processes following upgrading of the Mosaic system to ensure that the case management processes have appropriate control over contract award, billing and payment processes, linked to professional assessment of need in line with appropriate procedures and guidelines.	March 2025	In Planning
Sickness and Absence Monitoring	Review the processes in place to record and manage sickness and absence across the Council to ensure that it is being effectively and consistently used and monitored to improve the efficiency and effectiveness of staff.	December 2024	In Planning
Housing voids	Carried over from the 2023/24 Internal Audit Plan. 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.	December 2024	In Planning

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Pupil Equity Funding/Strategic Equity Fund	Review the processes in place to identify appropriate outcomes, identify expenditure against these outcomes, manage and report this expenditure and report against outcomes from the Pupil Equity Funding provided to individual schools across the Council area.	March 2025	
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 is promoted.	June 2025	
Building Asset Data	Review the processes to maintain accurate, up to date and reliable information on building assets across the Council. Particularly examine the data cleansing and transfer processes that have been put in place as a result of the transfer of building data from Badger to CIPFA systems.	June 2025	
IT Education Software Purchasing	Review the processes in place to ensure that only appropriately vetted and authorised software is in use across the schools' network and that data is only uploaded into verified software.	December 2024	Draft Report Issued to Management
Roads	Brought Forward from the 2023/24 Audit Plan. Examine the Roads trading account operation and establish that this is operating in a best value format for the Council.	June 2025	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
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 2024	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 2024	Complete
Assurance Reviews	<p>Where resources allow, undertake assurance reviews on areas of key controls for new or evolving systems of control to provide support for developing systems. Potentially including the following:</p> <ul style="list-style-type: none"> ➤ Transformation Project Management Reviews; ➤ Financial Systems project reviews developing new processes; ➤ School Transport; and ➤ Asylum and Refugee scheme funding monitoring. 	Not yet scheduled, dependent upon in year resource availability.	