

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 December 2024

BY: Service Manager – Internal Audit

SUBJECT: Internal Audit Report – December 2024

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit reports issued since the last meeting of the Committee, provide details of Internal Audit's follow-up work undertaken 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 September 2024 to December 2024 as contained in Appendix 1;
 - ii. the findings from Internal Audit's follow-up work, per Appendix 2;
 - iii. Internal Audit's progress against the annual audit plan for 2024/25 as set out in Appendix 3.

3 BACKGROUND

- 3.1 Since the last meeting of the Committee final reports have been issued in respect of the following audits: IT Education Software Purchasing and Treasury Management - Income Generation.
- 3.2 The main objective of the audits was to ensure that the governance, risk management and internal controls in place were operating effectively. A summary of the main findings and recommendations from the IT Education Software Purchasing and Treasury Management - Income Generation audits are contained in Appendix 1.
- 3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:
- IT Education Software Purchasing – Reasonable Assurance
 - Treasury Management - Income Generation – Reasonable Assurance

- 3.4 Internal Audit follows-up on recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for two audits that were reported in previous years. Recommendations that have not been fully implemented are detailed in Appendix 2 with revised dates for implementation. Our findings are detailed below:

Utilities Cost Management

- 3.5 The Internal Audit report on Utilities Cost Management was issued in December 2023. The report made 6 recommendations. Our follow-up review identified that 5 recommendations have been partially implemented and 1 recommendation has yet to be implemented. It is understood that resources in this area are constrained and one of the actions that is being taken forward is a Service Review to create the business case for additional resource, which may then assist with the implementation of the other recommendations.

Performance Indicators

- 3.6 The Internal Audit report on Performance Indicators was issued in December 2023. The report made 10 recommendations, of which; 4 have been fully implemented, 4 have been partially implemented and 2 are yet to be implemented. The outstanding recommendations should now all be complete by June 2025.

Progress Report 2024/25

- 3.7 A progress report attached as Appendix 3 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.

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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Appendix 1 Executive Summary: IT Education Software Purchasing

Conclusion: Reasonable Assurance

Education related software purchases are overseen by a combination of the central IT team and staff within the central Education team. The IT team have responsibility for the core systems and the Education team have responsibility for specialist education software used across East Lothian Schools. Over the last year procedures relating to requests for software purchases from schools have been revised by Education to ensure that appropriate software isn't already available within East Lothian and that the Council's security requirements are complied with. Processes for ensuring that all school staff are aware of the software available and training is progressed still require further improvement. A single register of all Education software is also required.

Background

Education use a combination of both windows based equipment and Chrome books. IT services are provided to the Council's schools via a combination of the central IT teams together with an Educational Support Officer and Learning Technologist within the central Educational Team. IT have responsibility for purchasing and installing software onto computers used by Education, while the staff within Education have responsibility for reviewing applications to be used with Chrome books and ensuring the Data Protection Impact Assessments are carried out to ensure that software being requested complies with both the Council's Information Governance and Information Security requirements.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have all been **agreed by the Service Manager – Strategy & Operations & Service Manager IT** :

- A library of google apps has been prepared for use by the schools with guidance document and procedures not in place at the time of the audit now having been developed and a soft roll out commenced with a further roll out to all teaching staff during 2025. *Management have agreed that these documents will be rolled out to all staff by February 2025.*
- Within the Primary Schools the main point of contact was usually one of the school admin staff, management have now developed a Digital Community to fulfil this role in a different way. *Management have agreed to continue to develop the digital community to aim to ensure representation from all schools by April 2025.*
- Two separate registers of software used are maintained by IT and Education with the Education team not having access to the records held by IT. *Management should ensure that Education staff are aware of all contracts on an ongoing basis.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	3	1	4
Prior report	N/A	N/A	N/A	N/A*

Materiality

Over a variety of software a total of 32,132 licences are held by the Council and software disclosed as an intangible asset within the Council's accounts has a written down value of £395,405.

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

Headlines

Objectives	Conclusion	Comment
<p>1. Adequate software asset management (SAM) policies, procedures and guidelines, including staff training and awareness are in place.</p>	<p>Reasonable</p>	<p>Policies and procedures have been updated to reflect how the central Education team want to engage with the Council’s central IT team to ensure that both sides are aware of the software being used across the Education estate. However, there was at the time of the audit no recorded specific IT point of contact for each East Lothian School, particularly within the Primary Schools. Management are in the process of developing the Digital Community to provide coverage across each school to provide support for training of staff in the recommended apps that are being allowed for use on the East Lothian Council network.</p>
<p>2. Educational software is appropriately assessed for Data Protection implications (e.g. Data Protection Impact Assessments – DPIAs), educational benefit and best value;</p>	<p>Reasonable</p>	<p>A Data Protection Impact Assessment has been developed to ensure that all requests for new software are considered from both an Information Governance and Information Security perspective. A library of appropriate software applications has been put together and will be available to all schools during the academic year 2024/25 and this will be developed going forward. Prior to purchasing software a review is undertaken by the central Education team to confirm that an equivalent piece of software isn’t already in place and that it meets an educational need.</p>
<p>3. Adequate SAM controls and processes are in place including user access controls, monitoring and management of software utilised within the Service.</p>	<p>Reasonable</p>	<p>Appropriate user access controls are in place and there has recently been work completed on identifying software being used. Further work following implementation of the approved list of applications may be required to continue to monitor the usage of these applications and ensure that the appropriate applications are available to staff. Processes are in place to facilitate this.</p>
<p>4. Software licensing terms and conditions are adhered to, proof of entitlement is in place for all installed software and non-compliance is identified and remediated as required.</p>	<p>Reasonable</p>	<p>Two software registers are maintained, one by IT of the software they oversee and the second is held by Education of the software overseen by Education. The register maintained by the Council IT team is monitored with diary notes and suppliers informing the team when licences are due to expire. A shared set of details would assist in monitoring the software budget and allowing decisions on software purchasing to be made with complete information.</p>

Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	A data protection impact assessment form has been put in place and needs to be completed prior to software being purchased.
2.	Registers are maintained setting out the software being used within schools together with the number of licences held by the Council and the expiry date of these licences.

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: Treasury Management – Income Generation

Conclusion: Reasonable Assurance

The Council has a generally sound system of internal controls in place for Treasury Management Income Generation, including a detailed cashflow for the Council on which investment decisions are made where possible, in conjunction with external treasury advice, and within the Council Treasury Strategy. Procedures and practice documents are in some cases out of date or in need of finalising, and some improvements could be made to improve the value of income made when possible, this should be balanced against the resource input required.

Background

The Council's Treasury Management team has responsibility for overseeing the Council's cash flow and long-term funding. As part of this they should be making best use of any excess funds that the Council holds by investing these in appropriate short-term investments in accordance with the prudential code and the approved treasury management strategy to reduce overall interest being paid by the council and maximise interest earned. Short-term cash surpluses are invested with low-risk counterparties. The list of these approved counterparties are reviewed on a regular basis and the Council continues to follow the longstanding view that only UK based counterparties and Local Government will be used.

Summary of findings & recommendations

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

- A Treasury Management Practices document has been in draft since 2023. *Management have agreed that this will be finalised and approved **by February 2025**.*
- The Council's Standing Orders do not reflect the most up-to-date Code of Practice and Regulations. *Management have agreed that these will be updated **by December 2024**.*
- A short-term investments basic procedure was put together for the audit. *Management have agreed to complete that detailed guidance will be drafted and approved **by December 2024**.*
- Whilst a detailed Cashflow is maintained by the Finance team for Treasury Management purposes large value property payments are included at expected times, more regular updates to this information would allow occasionally for greater interest by the Council. *Management have agreed to all Services will provide sufficient cashflow information when requested **by December 2024***
- While investments have been made during the period there have been balances available where investments have not been made as a result of timely approvals not being achieved. *Management have agreed to review authorisation processes and ensure wherever possible investments are made **by December 2024**.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	4	2	6
Prior report *	n/a	n/a	n/a	n/a

Materiality

In the period under review a total of 35 investments have been provided the Council with approximately £550,000 of income.

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

Headlines

Objectives	Conclusion	Comment
1. Clear, accessible, relevant and appropriate Council Treasury Management strategies, policies and procedures are in place covering investment of available cash reserves.	Reasonable	The Council has a treasury management strategy in place, the Treasury Management Strategy 2024 – 2029 had been approved by the Council at its meeting on 24 February 2024. However, a document is required to clearly link the strategy to the CIPFA Treasury Management Code of Practice and in particular the Treasury Management Practices.
2. The council maintains an appropriate cashflow forecast on a daily, weekly and monthly basis identifying excess funds available for placing, on an accurate basis.	Reasonable	A cashflow is maintained and updated on a regular basis however some services who make high value payments could be asked to provide more regular updates to provide sufficient detail to allow further investment income to be generated by the Council.
3. Additional cash funds are placed with appropriate counterparties at best rates and for appropriate lengths of time as identified in the treasury strategy, following an appropriate authorisation process with trained and qualified staff, following appropriate treasury guidance.	Reasonable	The Council's Standing Orders set out which senior officer has overall responsibility for overseeing Treasury Management. Day-to-day operation of Treasury Management is carried out by the Treasury & Banking team. Requests for investments to be made are generally approved promptly. While investments have been made during the period there are occasions where funds could have been invested but weren't as approvals could not be provided on a timely basis. Consideration should be given to widening the group of staff marginally who can make specific treasury investment decisions with clear risk-based limits.
4. Management should ensure that the approved list of counterparties for placement of funds is monitored regularly and counterparties removed if they do not meet the treasury strategy requirements, or advice indicates the risk has increased.	Substantial	A review of the cashflow showed that 36 investments had been made and that each of these had been with counterparties from the advisers Credit Rating List. A revised Credit Rating List is provided by the Council's Treasury adviser on a weekly basis. All of the counterparties in accordance with the treasury strategy.
5. The council's bank accounts are appropriately grouped to ensure maximisation of interest payments.	Substantial	While the Council has seven bank accounts these are operated as a pooled account and on an end of day basis interest, is added to the General account, based on the overall end of day balance. Consideration should be given to developing an arrangement with the Councils' Banking provider to include a higher interest account for transferring funds not required without requiring specific transfer of funds to another investment provider.

Areas where expected controls are met/good practice.

No.	Areas of Positive Assurance
1.	A Treasury Management Strategy for 2024-25 to 2028-29 has been put in place and approved by the Council.
2.	There is adequate segregation between staff authorised to approve investments and those making the payments.
3.	Under the current bank contract interest is paid monthly on the end of day pooled bank balances.
4.	A cash flow is maintained and used to identify occasions when there are sufficient funds available to put excess funds into investments.
5.	All investments purchased are via counterparties identified in the Council's external advisers weekly Credit Rating Reports.

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.

OUTSTANDING RECOMMENDATIONS

UTILITIES COST MANAGEMENT (DECEMBER 2023)

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
1.1	<u>Partly Implemented</u> Management should clearly document an operational Heating Policy.	Medium	Service Manager – Engineering Services & Building Standards	A documented Operational Building Heating Protocol will be developed that will sit behind both the Council's Asset Strategy and Climate Change Strategy.	March 2024	June 2025
1.2	<u>Partly Implemented</u> Management should ensure that the procedures to be carried out by the Energy Officer are formalised and documented.	Medium	Service Manager – Engineering Services & Building Standards	The Job Overview that is already in place for the Energy Officer does include some of this detail, however there is an intention to review and update this following approval of the Assistant Energy Officer post.	March 2024	May 2025

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
1.3	<p><u>Partly Implemented</u></p> <p>A business case should be put forward to provide further resource to complete basic administrative tasks of meter reading, data entry and building entry for the Energy Officer, in order that this Officer can complete more energy saving measures to make costs savings above the cost of that additional resource.</p>	High	Service Manager – Engineering Services & Building Standards	Job Description has been prepared for an Assistant Energy Officer and is currently with the Job Evaluation Team for consideration. Draft Service Review document has been prepared and is being progressed.	March 2024	May 2025
3.1	<p><u>Partly Implemented</u></p> <p>Evidence should be retained of the checks carried out to confirm that the rates charged by the suppliers are in agreement with the Scottish Procurement rates.</p>	Medium	Service Manager – Engineering Services & Building Standards	Price checks are carried out electronically on the Teams Software used. Rate changes will normally apply on 1st April each year, and these are checked from the first payment date in May and every payment thereafter. This is all flagged up and checked electronically. Going forward we will take screen dumps of these checks identifying rate changes applied and where we check to ensure the correct rates are being applied. These will be stored in a “rate check file” for any future auditing purposes.	March 2024	May 2025

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
3.2	<p><u>Partly Implemented</u></p> <p>Checks should be undertaken to confirm that the Council is obtaining best value under the Scottish Procurement utilities contracts before confirming that the Council will continue to use these contracts.</p>	Medium	Transformation & Digital Portfolio Manager	Are currently exploring alternative frameworks for Electricity and are awaiting various responses from the main framework providers.	March 2024	May 2025
4.1	<p><u>Awaiting Implementation</u></p> <p>Management should add an overhead charge onto the utilities costs that are recharged to third parties in line with the Council Charging Policy.</p>	Medium	Service Manager – Engineering Services & Building Standards	Agreed, however we need to discuss and agree any re-charging / management charges with Estates colleagues when rental agreements are reviewed in order for this to apply. This has not been applicable to any reviews taking place since the date of the audit.	March 2024	May 2025

PERFORMANCE INDICATORS (DECEMBER 2023)

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
3.1	<p><u>Partly Implemented</u></p> <p>Management should ensure that the Top 50 Council Plan Report provides complete and comprehensive information for each of the 50 indicators.</p>	Medium	Transformation & Digital Portfolio Manager	<p>The Council Plan 2022-2027 Top 50 Performance Report presented to PPRC on 19 September 2024 included a small number of indicators without commentary. Aim to have commentary in place for all indicators by the March 2025 PPRC.</p>	December 2023	March 2025
3.2	<p><u>Awaiting Implementation</u></p> <p>Management should aim to present the LGBF annual report to the March PPRC meeting.</p>	Medium	Transformation & Digital Portfolio Manager	<p>The LGBF report for 2022-23 was delayed and was scheduled to be reported to the June 2024 PPRC meeting, however this meeting did not take place and the report was not presented to the PPRC (the report was submitted to Members' Library instead). The release of the 2023-24 LGBF report is unlikely to be in time for the March 2025 PPRC, and the report will be presented to the June 2025 PPRC meeting.</p>	March 2024	June 2025

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
4.1	<p><u>Partly Implemented</u></p> <p>An action list of reports should be developed, to reflect requests from Members on specific areas that have arisen out of the performance data.</p>	Medium	Head of Corporate Support	<p>Work is ongoing to refine the way we record actions from all committee meetings, and these will be implemented consistently across all committees going forward. Should be in place for the March 2025 PPRC.</p>	December 2023	March 2025
4.3	<p><u>Awaiting Implementation</u></p> <p>The PPRC should meet four times per year as scheduled, to allow performance to be considered for each quarter.</p>	Medium	Transformation & Digital Portfolio Manager	<p>The June 2024 PPRC meeting was not held. This is the second year that only three of the four scheduled PPRC meetings have taken place (The March 2023 PPRC meeting also did not take place).</p> <p>All four scheduled PPRC meetings will be held in 2024-25.</p>	March 2024	June 2025

REC REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	ACTION UPDATE	AGREED TARGET DATE	REVISED TARGET DATE
5.1	<p><u>Partly Implemented</u></p> <p>Management should ensure that the Quarterly PI reports provided to PPRC are complete and contain all relevant details, including up to date figures and comments for each indicator.</p>	Medium	Transformation & Digital Portfolio Manager	<p>The 2023/24 Q4 and 2024/25 Q1 Performance Indicators Report as presented to the PPRC on 19 September 2024 was very comprehensive, although for a small number of indicators commentary was not provided.</p> <p>However the Quarter 2 2024/25 Performance Indicator Report (Appendix 1 to 12 December 2024 PPRC Report) does not include a commentary for each indicator, we are advised this is due to a system error and hopefully should be rectified for the Quarter 3 report in March 2025 (note however that the covering report has sought to provide commentary for many of the key indicators).</p>	December 2023	March 2025
5.2	<p><u>Partly Implemented</u></p> <p>Where service areas do not provide PI details to the Policy & Performance team by the required deadline, this should be escalated to Head of Service level.</p>	Medium	Transformation & Digital Portfolio Manager	Linked to 5.1 above – will escalate where appropriate commentary is not provided.	December 2023	March 2025

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 Progress
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 Progress
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.	March 2025	In Progress
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.	March 2025	In Progress

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.	June 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	Complete
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.	