

Internal Audit: Annual Assurance Report 2016/17
Report by Elaine Greaves, Internal Audit Manager**1. Purpose of Report**

The Local Authority Accounts (Scotland) Regulations 2014 require an authority to conduct a review, at least once in a year, on the effectiveness of its system of internal control and include a statement of this review in the Annual Governance Statement.

The purpose of this paper is to report on the work undertaken by Internal Audit during the financial year 2016/17 and to provide an overall assessment of the adequacy and effectiveness of the Council's framework of governance, risk management and internal control based on that work.

2. Background**2.1 Public Sector Internal Audit Standards (PSIAS)**

From 1 April 2013, all audit work has been undertaken in accordance with the Public Sector Internal Audit Standards (PSIAS). One of the requirements of these standards is that the Internal Audit Manager is required to prepare an annual internal audit opinion and report that can be used to inform the Council's overall Annual Governance Statement which is included in the published financial statements. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control and must incorporate:

- the opinion;
- a summary of the work that supports the opinion;
- a statement on conformance with the Public Sector Internal Audit Standards; and
- the results of the quality assurance and improvement programme over the level of compliance by the Internal Audit Section with the requirements of PSIAS.

The Standards require that an external assessment be conducted at least once every 5 years by a qualified, independent assessor from outside the organisation over the level of compliance against PSIAS. An external assessment was not undertaken in 2016/17 but will be undertaken in 2017/18 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). However, an assessment of Internal Audit's work is undertaken each year by the Council's external auditor as part of their annual audit. Their report in 2015/16 found this to be satisfactory.

2.2 Self Assessment of Internal Audit against the Standards

A self evaluation of compliance with the Public Sector Internal Audit Standards by Midlothian Council's Internal Audit Section was undertaken by the Internal Audit Manager. This evaluation demonstrated that the key elements of the Standards were complied with during the year, but identified a small number of areas where performance could be improved. An action plan has been developed to address these issues and the majority have already been acted upon.

2.3 Balanced Scorecard

Internal Audit has based its performance indicators on those developed by SLACIAG. These include the number of face to face meetings with the Chair of the Audit Committee and Chief Executive, the level of coverage of corporate risks in the audit plan, the follow up of recommendations raised by Internal Audit and training and qualifications of Internal Audit employees. Appendix 5 provides a summary against these targets.

2.4 Organisational Independence

The Standards state that the Internal Audit Manager is required to report to the Audit Committee and have free and unfettered access to the Chief Executive and the Chair of the Audit Committee. He/she must report to a level within the organisation that allows the Internal Audit activity to fulfil its responsibilities and the Internal Audit Manager must confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity.

The reporting line for Internal Audit is functionally to the Audit Committee and operationally to the Chief Executive.

The Internal Audit Manager met regularly throughout the year with the Chief Executive, the Director, Resources and the Section 95 Officer to discuss governance, risk management and internal control matters. The Internal Audit Manager met the Chair of the Audit Committee on a one to one basis, on six separate occasions during the year and, in addition, before each Audit Committee meeting.

There have been no threats to the independence of the internal audit activity during the period.

2.5 Proficiency and Due Professional Care

The Standards state that internal auditors must possess the knowledge, skills and competencies needed to perform their individual responsibilities and are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications. The Internal Audit Manager must hold a relevant professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

The Internal Audit Section had a resource of 4.2 FTE for the majority of the year. The role of Internal Audit Manager during this period was undertaken on a job share basis by a CIMA (Chartered Institute of Management Accounts) qualified accountant and a CMIIA (Chartered Member of the Institute of Internal Auditors) qualified auditor. Both managers have public sector and financial services experience. The senior auditor and auditors are members of the Association of Chartered Certified Accountants (ACCA).

The Internal Audit Section also has 2 Accredited Counter Fraud Specialist officers who review and identify the threats of Corporate Fraud throughout the Council, provide support to the Internal Audit team and assist with the National Fraud Initiative.

2.6 Internal Audit Resource

The Internal Audit resource has been sufficient to undertake a challenging and value adding Internal Audit Plan and this in turn has provided management, external audit, the Audit Committee and other interested parties with a significant level of assurance. However, one of the job share audit managers left the Council in March 2017 and this post remains vacant. The Internal Audit and Corporate Fraud team are undergoing a service review as part of the Delivering Excellence programme and this may result in reduced resource going forward. Any changes to the Internal Audit plan as a result of the review will require Audit Committee approval.

The Midlothian Internal Audit Manager is also the Chief Internal Auditor of the Midlothian Health and Social Care Integration Joint Board (MIJB). A resource of 100 days was allocated for the development and delivery of the MIJB Audit Plan for 2016/17 as well as all related support work (see Appendix 2 for details of work undertaken in 2016/17).

2.7 Internal Audit Plan

The Internal Audit Plan for 2016/17 was approved by the Audit Committee on 15 March 2016. The audit plan is risk based and concentrates on governance, risk and internal control matters affecting the Council.

For the financial year 2016/17, the risk assessment approach was consistent with the Internal Audit Strategy and focused Internal Audit resource towards:

- the Council's main IT and financial systems;
- high risk exposures as identified through the risk management system, particularly the strategic risk register;
- consultancy exercises requested by management;
- investigations, where required; and
- the provision of an Internal Control Help Desk service.

There have been no areas reviewed which had inappropriate scope. Progress with the Internal Audit Plan was presented to the Audit Committee in December 2016 and a verbal update was given in March 2017. Internal Audit is on course to achieve a challenging Audit Plan by the end of July 2017, with only minor adjustments (as detailed in Appendix 3).

2.8 Internal Audit Reviews

In relation to the 2016/17 Audit Plan, we reviewed the internal controls, governance and management of risk within a number of Council systems, both financial and non financial. The Internal Audit activities undertaken during 2016/17 and the conclusions arising from that work are set out at Appendix 1.

Internal Audit use a set of assurance categories to provide an opinion on the level of assurance given over internal control, governance and the management of risk within audit assignments. This can be found in Appendix 4.

From the Audits undertaken in 2016/17, we have identified a number of areas that required improvement to internal controls. The majority of reviews have shown either average or good internal controls with only 1 specific area rated as weak (related to the lack of an assessment of the Council's Devolved School Budgets Scheme against the revised Scottish Government guidance).

The results of our audits were reported to management and the Audit Committee and action plans for improvement over controls were agreed on the conclusion of each audit. The recommendations arising from the action plans were loaded into the Council's Covalent system and progress with their implementation is recorded on the system by management.

2.9 Implementation of Internal Audit Recommendations

Internal Audit periodically reviews whether recommendations have been implemented and reports the outcome of this to the Corporate Management Team and the Audit Committee. A review of overdue recommendations was undertaken in December 2016 and this highlighted that 93% of the recommendations were either 'completed' or 'on target' and only 7% were overdue. In June 2016, a sample of 40 recommendations recorded as 'completed' by management on the Covalent system were reviewed to confirm the adequacy of the actions taken. 26 were found to have been implemented satisfactorily, 13 were partially complete and 1 was found to be unsatisfactory (related to Construction Industry Scheme and the requirement to deliver annual training to managers). This exercise will be repeated in 2017 and the results reported to the Audit Committee.

We are pleased to note from this follow up work that management have acted on Internal Audit recommendations and therefore controls have been strengthened.

2.10 Code of Corporate Governance

Each year, Internal Audit undertakes a review of the Code of Corporate Governance and tests a sample of the key elements listed as controls to determine whether they are working in practice. Our testing identified that the control elements were working effectively although we did identify the following:

- the 'Delivering Good Governance in Local Government: Framework' was updated by CIPFA/SOLACE in 2016 but this has not yet been fully embedded. Midlothian Council's Code of Corporate Governance has been updated but this is still in draft and hasn't yet been presented to Council;
- draft workforce plans have been developed but these require updating and a Council wide plan is required;
- although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects;
- the Council's current Incident Response Plans focus heavily on disruption to service delivery associated with building availability. A Business Continuity Policy, detailing the Council's approach to ensuring critical services and outcomes can be delivered during periods of business disruption, has been created and once approved by CMT, training and Business Continuity Plans will be rolled out across the Council;
- a Register of Interests for Council Officials requires further development; and
- a standalone Gifts and Hospitality policy requires to be developed.

2.11 Risk Management

Internal Audit reviews management's perception of risk in all audits undertaken and reviews risk more generally as part of the planning cycle for each year's audit plan. From these assessments, it is noted that Midlothian Council's risk management process is developing in its maturity with key risks monitored by the Council's Risk Management Group, the Corporate Management Team and the Audit Committee.

We noted that in 2016/17:

- there is an established risk management process within Midlothian Council and there has been significant input to the Risk Management process by management. This has resulted in the identification of strategic risks, strategic opportunities and top issues;
- the Risk Manager has assigned actions to the Strategic Risk Profile and is continuing to support services to develop operational risk registers with service managers;

- there is a need to update the Risk Policy with changes introduced as part of the Risk Management Guidance; and
- not all operational risk registers are updated in a timely manner.

The Internal Audit Section has identified instances, through testing, where revisions to risk registers were required and have also identified a small number of risks that are not being updated on a quarterly basis. Generally however we are of the opinion that the current process is working effectively.

2.12 Fraud

Midlothian Council has a number of controls in place to limit the risk of fraud and to highlight where fraud may have occurred. These include:

- a Corporate Fraud team with dedicated resource to help prevent and detect fraudulent activity within the Council;
- an Anti-fraud and Corruption Policy and Strategy;
- an Anti-bribery Policy;
- a Whistle-blowing Policy and reporting system
- an Anti-money Laundering Policy;
- segregation of duties;
- fraud policies make it clear that management are responsible for introducing robust controls to reduce fraud and the requirement to update risk registers quarterly documenting the controls in place to mitigate against fraud;
- Heads of Service are required to assess fraud risk annually as part of the Annual Governance process; and
- the Internal Audit section reviews the risk of fraud within all work undertaken. They also undertake specific investigations where fraud is suspected.

A standalone Gifts and Hospitality policy is being created. The Council's Employee Code of Conduct makes reference to Gifts, Hospitality and Services but the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and various training courses delivered by Police Scotland and CIPFA have detailed the need to have a stand-alone policy in this area.

An Integrity Group, chaired by the Director, Resources, has been established within the Council to investigate any vulnerabilities to fraud. The Group met 4 times in 2016/17 and was attended by key Council officers and Police Scotland. A presentation was given to the Council's Leadership Forum in April 2017 on Serious Organised Crime and the steps the Council should be taking to reduce the risk of fraud.

Since October 2015, the Corporate Fraud team has: undertaken reviews of council tax discounts and exemptions; worked with Housing to identify tenancy fraud; investigated matches as part of the Council's participation in the National Fraud Initiative; and delivered fraud awareness training to a number of areas in the Council. The team has identified circa £750,000 of savings (calculated using Audit Scotland's

guidance) in relation to this work. £651,000¹ of this is as a result of the recovery of 7 Council houses (4 of these houses totalling £372,000 were recovered in 2016/17).

The levels of reported fraud / theft within the Council continue to remain relatively low although there have been a number of reported incidents in 2016/17. These include: theft of a quad bike (£7,000), theft of a grass-cutter (£5,000), theft of a safe from a school (containing £207), theft of monies within a school (£317), theft of monies from a residential home (£190), theft of a laptop and mobile telephones (totalling £950), theft of tools (amount unknown), theft of fuel from Council vehicles parked overnight (approx £450 in total) and alleged thefts of fuel / scrap metal. Investigations have been undertaken or are underway and controls implemented to help reduce future such incidents.

2.13 National Fraud Initiative

Midlothian participates in the National Fraud Initiative led by Audit Scotland using data-matching techniques to identify potentially fraudulent activity involving social security payments and other entitlements, such as the Blue Badge disabled parking scheme. A data match was undertaken in October 2016 and matches were received in January 2017. Key changes for the 2016/17 return included:

- Council tax reduction scheme data is an additional dataset required;
- Housing waiting list data is an additional dataset required; and
- Council tax and electoral register data is now required the same year as the main exercise, but on a slightly different timescale.

Work is ongoing to check through the matches received to identify any fraudulent activity or overpaid benefits and discounts. Matches related to means tested benefits from DWP (such as Universal Credit, etc) have been sent directly to the DWP for checking. This has reduced the number of Housing Benefit matches reported to the Council.

2.14 Internal Audit Opinion

I am content that the breadth and depth of coverage is sufficient to allow me to provide a balanced opinion on the overall adequacy of the Council's framework of governance, risk management and internal controls over the period 2016/17. No direct reliance has been placed on the work of other assurance providers in providing this opinion.

It is my view that overall the Council's framework of governance, risk management and internal control over the period 2016/17 are of a satisfactory standard and have been implemented and are monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment.

¹ Audit Scotland has advised that the appropriate calculation for the loss in respect of a fraudulent tenancy is £93,000 per tenancy to cover 2 years homeless accommodation, legal and administrative costs and 2 years future savings, assuming an average tenancy period of 4 years.

In arriving at this overall opinion I have considered:

- the ratings applied to each individual audit undertaken in the period and their relative importance in relation to the control environment within Midlothian Council;
- management's performance in addressing issues raised by Internal Audit;
- the strength of governance arrangements including the Code of Corporate Governance and adherence to its requirements;
- the risk management system; and
- strategies designed to manage fraud risk.

2.15 Annual Governance Statement

The following issues from this report have been used within the Annual Governance Statement:

- the 'Delivering Good Governance in Local Government: Framework' was updated by CIPFA/SOLACE in 2016 but this has not yet been fully embedded. Midlothian Council's Code of Corporate Governance has been updated but this is still in draft and hasn't yet been presented to Council;
- draft workforce plans have been developed but these require updating and a Council wide plan is required;
- although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects;
- the Council's current Incident Response Plans focus heavily on disruption to service delivery associated with building availability. A Business Continuity Policy, detailing the Council's approach to ensuring critical services and outcomes can be delivered during periods of business disruption, has been created and once approved by CMT, training and Business Continuity Plans will be rolled out across the Council;
- a Register of Interests for Council Officials requires further development;
- a standalone Gifts and Hospitality policy requires to be developed; and
- the service review of Internal Audit should be completed and any subsequent changes to the Internal Audit plan (if any) should be approved by the Audit Committee.

2.16 Audit Committee Chair's Report

Each year the Internal Audit Section assists the Chair of the Audit Committee in completing the Chair's annual report to the Audit Committee and assists with the assessment of the Audit Committee against the CIPFA Practical Guidance for Local Authorities.

3. Report Implications

3.1 Resource

There are no direct resource implications arising from this report.

3.2 Risk

In overall terms, our Internal Audit assignments, the risk management system, investigations, consultancy and help-desk advice provides a sufficient level of assurance over the governance, risk management and internal control compliance with the Financial Directives and key Council policies. However, the areas highlighted for improvement present residual risk which management are progressing.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

3.4 Key Priorities within the Single Midlothian Plan

This report does not relate directly to the key priorities within the Single Midlothian Plan.

3.5 Impact on Performance and Outcomes

None.

3.6 Adopting a Preventative Approach

This report addresses the Council's policy to have a robust internal control environment, management of risk and effective governance.

3.7 Involving Communities and Other Stakeholders

This statement on the Council's Internal Control Environment is as a result of consultation with management during audit assignments, the Corporate Management Team and the Chief Executive.

3.8 Ensuring Equalities

We found no equalities issues to report on during the financial year. Internal Audit considers equalities issues as part of every audit assignment.

3.9 Supporting Sustainable Development

Internal Audit provides an independent assurance function which assists the sustainability of the Council's internal control environment, governance and management of risk. During the year, we have found no sustainability issues.

3.10 IT Issues

There are no IT issues with regard to this report.

4. Recommendations

The Audit Committee is invited to:

- (1) note and comment on the Annual Assurance Report; and
- (2) note that the weaknesses identified with internal controls in 2016/17 will be followed up in 2017/18 and updates will be provided to the Audit Committee.

Date: 23 May 2017
Report Contact: Elaine Greaves, Internal Audit Manager
Tel: 0131 271 3285
E-Mail: Elaine.Greaves@midlothian.gov.uk

Appendices:

Appendix 1: Summary of work undertaken in 2016/17 and progress against the 2016/17 Internal Audit Plan

Appendix 2: Impact of Integration Joint Board

Appendix 3: Changes to Audit Plan

Appendix 4: Definition of Internal Audit Assurance Categories

Appendix 5: Balanced Scorecard Measures

**SUMMARY OF WORK UNDERTAKEN IN 2016/17 AND PERFORMANCE
AGAINST THE INTERNAL AUDIT PLAN**

No	Audit Activity	Date reported to Audit Committee	Comment
1	A review of the Code of Corporate Governance	June 2017	An audit of a sample of controls listed in the Code of Corporate Governance was reviewed for operational effectiveness. Testing identified that the key elements were in place and operating effectively. Issues raised are recorded within the Internal Audit Manager's annual assurance report.
2	Annual Assurance Report	June 2017	A high level summary of the control environment of the Council by the Internal Audit Manager. The statement is also used to inform the Annual Governance Statement.
3	Self assessment against the public sector internal audit standards	June 2017 (incorporated into Annual Assurance report)	No material exceptions to the standards were noted through undertaking the assessment.
4	Devolved School Budgets	May 2016	This audit reviewed the controls in place to allow budgets to be calculated and allocated in a consistent and equitable way, the controls designed to monitor actual to budget spend and whether the Devolved Scheme had been updated following publication of the revised Scottish Government guidance. The Audit identified that there had not been an assessment of the Council's Devolved Scheme against the revised Scottish Government Guidance so this element was rated as weak. The other control objectives were rated as Good.
5	Financial Assurance for money delegated to the Integration Joint Board	May 2016	This audit concluded that the Financial Assurance carried out by the Council has followed the guidelines laid out by the Scottish Government and therefore has followed an adequate assurance process. Recommendations were raised relating to the management of risk.
6	Follow up of Completed Internal Audit Recommendations	June 2016	A follow up review was undertaken of a sample of previously raised recommendations made by Internal Audit. A sample of 40 recommendations recorded as 'completed' by management on the Covalent system was reviewed to confirm the adequacy of the actions taken. 26 were found to have been implemented satisfactorily, 13 were partially complete and 1 was found to be unsatisfactory (related to Construction Industry Scheme and the requirement to deliver annual training to managers).
7	Follow up of Controls Operating over Developer Contributions	June 2016	A follow up review was undertaken which concluded that management are addressing the risks identified in the original audit and that the recommendations already completed or underway will, once fully implemented, reduce risk to an acceptable level.

No	Audit Activity	Date reported to Audit Committee	Comment
8	Follow up review of Business Transformation Programme	September 2016	A follow up review was undertaken which concluded that of the 35 recommendations originally raised in the report, 8 of the recommendations required further work. This related to highlight reports, annual report, health checks, closure reports, central register of projects, risk register and Corporate Asset Management Strategy.
9	Review of Controls Operating over Care at Home	September 2016	This audit reviewed the controls in place over the monitoring of service provision by Care at Home suppliers. The audit was rated as average, with recommendations raised in relation to service provision (quality issues and shortage of delivered care hours), vacant quality assurance officer post and management of complaints.
10	Petty Cash Follow up review	September 2016	A follow up review was undertaken which concluded that controls over petty cash have improved and the level of petty cash spend has reduced. Further work is required for 6 recommendations and 3 recommendations are still in progress. Additional testing highlighted some services still failing to record VAT correctly and claiming for items that should have been processed through the Accounts Payable system.
11	Self-Directed Support	September 2016	This audit reviewed the controls operating over Self-Directed Support. The audit was rated as average with recommendations raised in relation to the risk register, updating of policies, monitoring the roll out of self-directed support, letters of agreement and audit trails.
12	Internal Audit Recommendations Performance Report	December 2016	A review of overdue recommendations was undertaken and this highlighted that Internal Audit had raised 497 recommendations over the last 4 years. 82% of these had been completed, 11% had not reached their due date and 7% were overdue at the time of testing.
13	Welfare Reform	December 2016	This audit reviewed the key controls in place over the implementation of Universal Credits. The audit was rated as good with recommendations raised in relation to improving management information, system interface issues and the recovery of Housing Benefit overpayments.
14	Tyne Esk Leader Grant Fund	December 2016	This audit reviewed the controls in place for the Tyne Esk LEADER Programme. The audit was rated as good with recommendations raised in relation to the register of interests, storage facilities for records, minutes of meetings and the requirement to obtain clarification from the Scottish Government on a number of points (eg Performance Indicators)
15	National Fraud Initiative	December 2016	The purpose of the report was to provide a summary of how the Audit Scotland report (published in June 2016) relates to the work undertaken within Midlothian, to review actions taken to address the

No	Audit Activity	Date reported to Audit Committee	Comment
			recommendations made and to provide comment on the self appraisal checklist undertaken.
16	Corporate Fraud Annual Report	December 2016	The purpose of the report was to provide an update on the activities of the Corporate Fraud team for the period October 2015 to September 2016. Activities included reviews of Council tax discounts and exemptions to identify any discounts or exemptions that are claimed when they should not be and providing training to the Housing team to identify potential social housing recoveries. This work identified savings of around £250K. The team have been involved in updating council fraud related policies, carrying out internal investigations, handling helpdesk enquiries and supporting the Internal Audit section with elements of their work including reviews of Corporate Governance and Petty Cash.
17	Fraud Policy and Procedures	December 2016	The Council's policies on Whistle blowing and Anti-fraud and Corruption were reviewed and updated and a new stand alone Anti-bribery policy was created following new guidance from the Scottish Government and CIPFA. A draft stand alone policy on Gifts and Hospitality has been created but this has not yet been finalised.
18	Progress Report Against the Internal Audit Plan	December 2016	Noted progress and proposal to delay the review on Named Person (Children and Young People's Act) since there is a delay in implementing this legislation.
19	Progress Report Against the Internal Audit Plan	March 2017	Verbal update on the plan and proposal to delay 3 audits (Insurance, Bank & Cash and Sickness Absence).
20	Construction Industry Scheme	Included within the Annual Assurance report	The objective of the audit was to carry out an annual review (as requested by HM Revenue and Customs) of the controls operating over the Construction Industry Scheme and to test that the scheme rules are being complied with. Controls were found to be satisfactory with 2 minor recommendations raised.
21	Arrears	Estimated for June 2017 Audit Committee At final reporting stage	The objective of the audit was to review the Council's management over the collection of overdue debt including council tax, rental income and overpaid housing benefit. The audit was rated as average with recommendations raised in relation to performance information, procedures, complaints and management information.
22	Arrears – Sundry Debt	Estimated for June 2017 Audit Committee At final reporting stage	The objective of the audit was to review the Council's management over the collection of overdue sundry debt. The audit was rated as average with recommendations raised in relation to performance information, procedures, performance monitoring, reconciliation of bad debt write offs, legal escalation of debt and invoicing of customers already in debt.

No	Audit Activity	Date reported to Audit Committee	Comment
23	Private Public Partnerships	Estimated for June 2017 Audit Committee At final reporting stage	The objective of the audit was to review the current utilisation of buildings to ensure best value is being achieved. The audit was rated as average with recommendations raised in relation to third party income, access to and marketing of facilities and management information.
24	Health and Safety	Estimated for September 2017 Audit Committee At draft reporting stage	To review the adequacy of the control framework designed by management to allow compliance with Health and Safety legislation.
25	Accounts Payable Compliance Review	Fieldwork Underway	This is the main system used by the Council to pay suppliers for goods and services.
26	Monitoring of External Care Homes	Fieldwork Underway	To assess the adequacy of the Council's internal quality control over third party care home providers.
27	Financial Strategy / Delivering Excellence	Planning underway	To review the frameworks established for delivering the financial strategy including the Delivering Excellence model and testing a sample of service areas that are progressing through this model.
28	Fleet Management	Planning underway	To review the controls over the management of the Council's fleet vehicles including the linkage to the Council's asset management plans.
29	Social Housing Audit	Not commenced	To review the adequacy of the control framework established by management to allow successful delivery of the Social Housing Programme.
30	Investigations	N/A	2 investigations have been undertaken and 2 are underway.
31	Consultancy engagements undertaken / underway are: <ul style="list-style-type: none"> • 5 Investigations undertaken on behalf of Human Resources (acting as the Investigating Officer) • Advice to Communities and Performance Team on the Following the Public Pound Policy • Control Advice over payment of a grant to a playgroup • Control Advice to Adult Services for Carers' Mileage Claims • Assisting with Service Review of the section • Purchasing Cards (underway) 	N/A	Where consultancy reviews highlight control issues these are reported to the Audit Committee.

No	Audit Activity	Date reported to Audit Committee	Comment
	<ul style="list-style-type: none"> • Stores (underway) 		
32	Support for the Risk Management Group / Integrity and Contest Groups	N/A	Internal Audit provided support to the Risk Management Group and the Integrity and Contest Groups throughout the year.
33	Help Desk Facility	N/A	71 individual enquires were raised with Internal Audit over the year. The nature of the enquires vary considerably but have included: concerns raised by members of the public which were either managed by the Internal Audit team or were referred for resolution to the appropriate Council area; and the provision of advice on internal controls.
34	Co-ordinating the submission of Audit Scotland Reports to the Audit Committee	Various dates	<p>A total of 4 Audit Scotland Reports have been submitted to the Audit Committee over the period and include:</p> <ul style="list-style-type: none"> • An overview of local government in Scotland 2016 – reported in May 2016 • The National Fraud Initiative in Scotland – reported in December 2016 • Maintaining Scotland's roads: a follow up report – reported in December 2016 • Local Government in Scotland Financial Overview 2015/16 – reported in March 2017

MIDLOTHIAN INTEGRATION JOINT BOARD (MIJB)

On 20 August 2015, the Internal Audit Manager of Midlothian Council was appointed as the Chief Internal Auditor of the Midlothian Integration Joint Board. This necessitated the development of an Audit Plan for the Midlothian Integration Joint Board. The following work was undertaken in 2016/17 in relation to the Midlothian Integration Joint Board:

No	Audit Activity	Date reported to the MIJB Audit & Risk Committee	Comment
1	MIJB Internal Audit Charter	June 2016	This report presented the Internal Audit Charter, specified for the Midlothian Integration Joint Board, to the Audit and Risk Committee for approval.
2	Strategic plan	June 2016	This audit reviewed the processes used to develop the MIJB Strategic Plan and directions. It concluded that generally these processes were adequate and operating effectively.
3	Financial Assurance	August 2016	The objective of this audit was to provide an opinion on the Financial Assurance paper from the Chief Finance Officer of the MIJB. Recommendations were made in relation to agreement of overspends, performance reporting, the budgeting process and the use of the Social Care fund.
4	Internal Audit Recommendations Performance report	December 2016	A review of overdue recommendations was undertaken and this highlighted that Internal Audit had raised a total of 43 recommendations. 20 of these had been completed, 3 had not yet reached their due date and 20 were overdue. It was reported that the original expected completion dates were too optimistic and new implementation dates were agreed.
5	Progress report against the Internal Audit Plan	December 2016	Noted progress on the plan and provided indicative dates for completion of outstanding tasks.
6	Self- Directed Support	December 2016	This report was provided to the MIJB for information.
7	Review of controls operating over Care at Home	December 2016	This report was provided to the MIJB for information.
8	Follow up of Completed Internal Audit Recommendations	March 2017	A follow up review was undertaken of a sample of previously raised recommendations made by Internal Audit. A sample of 10 recommendations recorded as 'completed' by management on the Covalent system was reviewed to confirm the adequacy of the actions taken. 9 were found to have been implemented satisfactorily and 1 was not implemented (related to resource allocation at locality level).
9	Review of Corporate Governance and support for the Annual Governance Statement	To be timed to support the Annual Governance Statement (June 2017 MIJB)	Assessment of code of Corporate Governance undertaken.
10	Chief Internal Auditor's Annual Assurance Report	To be timed to support the Annual Governance Statement (June 2017)	A high level summary of the control environment of the MIJB by the Chief Internal Auditor. The statement is also used to inform

No	Audit Activity	Date reported to the MIJB Audit & Risk Committee	Comment
		MIJB)	the Annual Governance Statement.
11	Assessment against PSIAS	To be timed to support the Annual Governance Statement (June 2017 MIJB)	This will be incorporated into the Annual Assurance report.
12	Monitoring of Performance	Fieldwork underway	Fieldwork has commenced but awaiting drafting of the Annual Performance report before this can be reviewed.
13	Directions to the NHS and Midlothian Council	Fieldwork underway	This is being undertaken by NHS Lothian Internal Audit. The Terms of reference has been agreed and the audit is planned to be concluded by 23 June 2017.
14	Help Desk / Administration	N/A	Internal Audit has provided guidance and advice to management on internal control in 2016/17 which included: a comparison of other Lothian IJB Risk Frameworks; assistance with development of a Code of Corporate Governance and Annual Governance Statement; and monitoring for submission of relevant Audit Scotland Reports to MIJB Audit and Risk Committee.

Internal Audit has also provided support in relation to the development of the MIJB Financial Directives, Standing Orders and the Code of Corporate Governance.

CHANGES TO THE MIDLOTHIAN COUNCIL AUDIT PLAN FOR 2016/17

The following amendments have been made to the Audit Plan approved by the Audit Committee in March 2016:

No	Audit	Change (Added / Delayed)
1	Purchasing Cards	Added A request was received to review the controls over purchasing cards, recently rolled out across the Council. Planning undertaken
2	Stores	Added Management requested that this be postponed from 2015/16 so it was included in the 2016/17 Internal Audit Plan. Fieldwork underway
3	Service Review	Added A service review of the Internal Audit and Corporate Fraud team, as part of the Delivering Excellence programme, is underway. Initial rationale report presented to CMT on 29 March 2017.
4	Bank and Cash Compliance Review	Delayed Audit delayed until 2017/18 as new till and management information systems are being introduced at leisure centres.
5	Children and Young People's Act – Named Person	Delayed Audit delayed until 2017/18 as national delay in implementing legislation.
6	Insurance	Delayed Audit delayed until 2017/18 as a tender exercise is in progress.
7	Sickness Absence Management	Delayed Audit delayed until 2017/18 as a project is in place to review the current processes and it would be appropriate therefore to delay until project is completed.

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Control	Reason for the level of Assurance given
Excellent	The control framework is of a high standard with no unacceptable risks identified.
Good	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
Average	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
Weak	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
Poor	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

Summary of Balanced Scorecard Measures

Target / Measure	Performance
To hold at least quarterly one to one meetings with the Chair of the Audit Committee	6 meetings held. Met.
To hold at least quarterly one to one meetings with the Chief Executive	10 meetings held. Met.
To Audit all Corporate Risks on a three year cycle	All major risks were covered in the 2016/17 audit plan Met.
The follow up of recommendations. Two reports per year and specific follow up reviews.	Met.
Adoption of PSIAS	Self assessments show a good level of overall compliance. This will be subject to external scrutiny in 2017/18. Met.
Percentage of qualified staff	All internal auditors hold a relevant professional qualification. The two fraud officers hold accredited fraud qualifications. Met.
Training provided to Internal Audit Staff	Budget available / training needs identified as part of performance management framework. All staff are members of professional bodies and must undertake continual professional development. Development plans / training logs maintained. Met.
Satisfaction rates from client surveys	Feedback questionnaire received from Chair of Audit Committee in March 2017. Post Audit Questionnaires are being reviewed and were therefore not issued during 2016/17. Off target.
Involvement of Internal Auditors in major change initiatives	Review of Delivering Excellence / Financial Strategy including in audit plan. Met.
Compliance with Internal Audit strategy	Audit strategy is to review strategic risks, key processes and systems, and to have time set aside for investigations and consultancy. This approach has been followed in 2016/17. Met.