

Investigation / Consultancy Protocol Report by Internal Audit Manager

1 Purpose of Report

The purpose of this report is to:

- highlight the need to agree a protocol where Internal Audit is requested to undertake either consultancy reviews or investigations;
- identify some of the difficulties in agreeing a protocol which is consistent with the requirements of the Public Sector Internal Audit Standards; and
- propose a protocol to the Audit Committee for approval.

2 The Need for a Protocol

The new Public Sector Internal Audit Standards require that any significant consulting assignments, not already within the Audit Plan, need to be approved by the Audit Committee.

Each year, the Internal Audit plan has time to accommodate a number of consultancy and investigation reviews. However recent experience is that many more reviews than were originally budgeted have been undertaken. This impacts on delivery of the rest of the Internal Audit plan. For example, in 2012/13, Internal Audit undertook a total of 8 investigations while the number budgeted for was 4.

The priority that is attached to consultancy and investigations work can also be high leading to the delay or interruption of Internal Audit work already approved by the Audit Committee.

The aim of this report is therefore to suggest a practical way to reach agreement on whether requests for assistance on consultancy and investigations work be undertaken by Internal Audit and if so the priority that these should be given.

3. Difficulties in establishing a protocol

There are two main difficulties in seeking Audit Committee approval in relation to consultancy and investigations:

Timeframes

Owing to the Audit Committee meeting timetable there may not always be time to submit requests to the Audit Committee for approval as request for Internal Audit assistance may be urgent;

Confidentiality

A number of the investigations that Internal Audit is asked to conduct contains sensitive personal information. Also at the start of the investigation it is not known whether any allegations are based on fact. For these reasons it would be difficult to impart details to Audit Committee members and where information is not shared, for them to be able to conclude on the need or priority of Internal Audit involvement.

4. Suggested Approach

Where the Internal Audit Manager is requested to undertake an investigation or consultancy or has separately identified the need for such work he / she will undertake a risk assessment of the assignment and make a decision on whether to undertake the review. The Internal Audit Manager will also make the decision on the priority that should be given to the review.

The assessment will be based upon the perceived risks and materiality of any:

- legal/ regulatory non compliance;
- strategic concerns / impact;
- financial impact;
- reputational damage; and
- allegations of fraud.

The Audit Committee will be kept informed of the number of consultancies and investigations that the Internal Audit team has undertaken. They will also be notified where the number budgeted has been or is likely to be exceeded and the impact this has on the current plan. The Audit Committee will also be notified where Internal Audit has taken on an urgent investigation / consultancy where this is likely to impact on the delivery of the Internal Audit plan.

Where those requesting Internal Audit involvement are not satisfied with the Internal Manger's decision on whether to undertake a review or the timing of the review an appeals process is available through the Section 95 Officer and Director Resources.

Internal Audit will not normally become involved with investigations out with the Council unless significant Council money has been provided. In such cases the work will only be undertaken where there is a clear Council right to undertake (for example through a legal contract) and where the Council is adequately covered by Indemnity Insurance.

3 Report Implications

3.1 Resource

There would only be resource implications where the budget for investigations / consultancy work agreed by the Audit Committee had

been exceeded and the risks of not undertaking the review are considered to be high.

3.2 Risk

The report provides a protocol to allow high risk investigations / consultancy arrangement to be undertaken by Internal Audit.

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 Impact on Performance and Outcomes

None

3.5 Adopting a Preventative Approach

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

3.6 Involving Communities and Other Stakeholders

This report has been discussed with the: Chief Executive, Director Corporate Resource, s95 Officer, Chair of the Audit Committee and External Audit.

3.7 Ensuring Equalities

N/A

3.8 Supporting Sustainable Development

N/A

3.9 IT Issues

N/A

4 Recommendations

The Audit Committee is requested to:

- Approve the Investigation / Consultancy protocol as set out.

Date 29 October 2013

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Declaration Box

Instructions: This box must be completed by the author of the report. The box will be copied and saved by the Council Secretariat who will delete it from the report prior to photocopying the agenda.

Title of Report:

Meeting Presented to:

Author of Report:

I confirm that I have undertaken the following actions before submitting this report to the Council Secretariat (Check boxes to confirm):-

- All resource implications have been addressed. Any financial and HR implications have been approved by the Head of Finance and Human Resources.*
- All risk implications have been addressed.*
- All other report implications have been addressed.*
- My Director has endorsed the report for submission to the Council Secretariat.*

For Cabinet reports, please advise the Council Secretariat if the report has an education interest. This will allow the report to be located on the Cabinet agenda among the items in which the Religious Representatives are entitled to participate.

Likewise, please advise the Council Secretariat if any report for Midlothian Council has an education interest. The Religious Representatives are currently entitled to attend meetings of the Council in a non-voting observer capacity, but with the right to speak (but not vote) on any education matter under consideration, subject always to observing the authority of the Chair.