

UPDATE ON PROGRESS WITH THE 2014/15 INTERNAL AUDIT PLAN
Report by Graham Herbert, Internal Audit Manager
1. Purpose of Report

The purpose of this report is to:

- provide members of the Audit Committee with a summary of the work performed by Internal Audit since April 2014; and
- detail the work that the team intends to complete up to the end of June 2015.

2. Detail

The Internal Audit Section has completed the following tasks since April 2014:

Task	Description	Reported to
Annual Governance Statement	Testing a total of 18 of the 54 elements of the Code of Corporate Governance to determine whether these were operating as described. Conclusions were included within the Annual Governance Statement.	Reported to the 6 May Audit Committee.
Statement of Internal Control	High level statement of the Internal Control environment of the Council by the Internal Audit Manager. This statement is also used to inform the Annual Governance Statement.	Reported to the 6 May Audit Committee.
Internal Assessment of Internal Audit	Assessment of Internal Audit against the new Public Sector Internal Audit Standards	Reported to the 6 May Audit Committee
Risk Management Report	Review of the controls operating over risk management	Reported to 17 June Audit Committee
Scottish Welfare Fund	A review of the adequacy of the	Reported to 17 June Audit Committee

	controls in place over the Scottish Welfare Fund Community Care Grants and Crisis Grants	
Follow up of Recommendations	A review of a sample of recommendations that have been signed off as complete to determine whether they had been implemented satisfactorily	Reported to 17 June Audit Committee
Following the Public Pound	A review of the controls in place to allow compliance with the Code of Guidance on Funding External Bodies, Following the Public Pound	Reported to 17 June Audit Committee
Assessment of the Audit Committee	Assessment of the Audit Committee against the Audit Committee Combined Code (2008) and the 2013 Chartered Institute of Public Finance Accountancy (CIPFA) document "Practical Guidance for Local Authorities- Audit Committees".	Reported to 17 June Audit Committee
Co-ordinated the submission of Audit Scotland National Reports	These are to date: <ul style="list-style-type: none"> • Charging for services; • Options appraisals; • Self Directed Support Implementation; and • Overview of local government. 	Reported to the 28 October Audit Committee.
Transformation Programme	A review of the controls operating over the Council's transformation programme.	Reported to 28 October Audit Committee.
Council Tax Liability and Billing	A review of the adequacy of controls over the council tax system with coverage limited to liability and billing.	Reported to 28 October Audit Committee.
New Internal Audit	A new template for	Reported to 28

Report template	Internal Audit reports based on a benchmarking exercise and new public sector internal audit standards.	October Audit Committee.
Internal Audit Charter	An update to the Audit Charter reflecting Internal Audit's revised reporting line and process for external assessments.	Reported to 28 October Audit Committee.
Scottish Local Authority Chief Internal Audit Group –Annual Report	A report detailing the work of the Scottish Local Authority Chief Internal Audit Group in 2013/14.	Reported to 28 October Audit Committee.
Audit Committee - Reporting Calendar	A guide for Elected Members on which reports should be submitted to each Audit Committee.	Reported to 28 October Audit Committee.
Data Matching	Undertaking data matches to assist the Income Maximisation Transformation Project.	N/A
Integrity Group	Establishment of a group to review and reduce any potential vulnerability to serious organised crime.	N/A
Purchase to Pay	A review of the processes and controls in place to manage the risks in relation to the Purchase to Pay system and to review the governance and controls surrounding the Purchase to Pay business transformation project.	Scheduled to be reported to the 9 December 2014 or 3 February 2105 Audit Committee.
Petty Cash	A review of the controls operating over the petty cash system within the Council.	To be reported to the 3 February 2015 Audit Committee.
Internal Audit Recommendations	Council performance in closing Internal Audit issues by the expected due date.	Scheduled to be reported to the 9 December 2014 Audit Committee.
Help Desk	Between the periods	N/A

	of April 2014 to October 2014 internal Audit has received a total of 38 help desk enquiries. These are wide in nature but include providing assistance with the management of complaints over Council services, advice on cash being taken from cash floats, document retention etc.	
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The following areas are work in progress:

Task	Description	Progress
Developer Contributions	Scope to include the receipt and utilisation of developer contributions.	At Terms of Reference stage.
Cashless Catering	Scope to cover the adequacy of controls, consistency of application of controls across schools and the administration of free school meals.	Fieldwork underway.
Positive Destinations	To review Council initiatives to improve Midlothian's performance.	Fieldwork underway.
Payroll	To review the controls operating over the Council's payroll system.	Fieldwork underway.
Statutory Performance indicators	A review of a sample of statutory indicators to determine accuracy of calculation.	Fieldwork underway.
Three investigations	Internal Audit has been leading / assisting with three internal investigations.	Fieldwork underway.

The following Audits have not yet commenced:

Task	Description
Commercial Rent	Scope to include commercial rental arrangements, interpretation of contracts and ensuring value for money in the market place.
Sickness absence	To review initiatives to reduce sickness absence and to review the accuracy of the calculated performance indicator.
Contract Management	Scope to include a review of the contracts with Care Homes and Care at Home and the quality assurance process associated with these.
Property Maintenance	An audit of Mobile Working was postponed in 2013/14 at the request of management.
House Rents	This is one of the Council's core systems. Circa £22 million is raised for House / Garage rents per annum.
Arrears	Rated as a high risk in the register due to rising levels of arrears. This may be mitigated by Scottish Government Grant.
Follow up of Internal Audit Recommendations	To follow up on a sample of recommendations that management have flagged as closed to determine whether the action taken has adequately addressed the management action.
Code of Corporate Governance / Annual Governance Statement	AGS is audited every year by Internal Audit to give assurance over the accuracy and completeness of the governance statement. The Audit Manager will also provide an Annual Internal Audit opinion.

Summary of changes from the initial plan:

Task	Addition	Proposed Deletion
Payroll	This Internal Audit was originally on our 2012/13 Audit plan but was held back because a number of internal reviews were being undertaken within the section. This is a key function within the Council.	N/A
Petty Cash	Internal Audit had a high level review of petty cash in its 2013/14 Audit plan. Early work suggested	N/A

	that a wider review was required and this has therefore developed into a full audit in the current year.	
Follow up of Internal Audit Recommendations	Audits undertaken in 2013/14 highlighted a number of concerns and the Audit Committee has requested follow up reviews of these reports. This audit will therefore review whether previously made recommendations have been adequately implemented (and will include Following the Public Pound).	N/A
Housing Benefit		It is proposed to delete this audit from the current year's plan since Audit Scotland have undertaken recent work in this area with a report scheduled to be presented to the 9 December 2014 Audit Committee.
Accounts Receivable		Income Maximisation Project forms part of the Transformation programme and includes a review of accounts receivable. It is viewed as too early to assess the impact of this project and therefore it is proposed to postpone this review until 2015/16. A sample of the recommendations made by Internal Audit in 2013/14 will however be included in the Follow-up of

		Internal Audit Recommendations.
IT environment		The IT environment has been reviewed by Grant Thornton and their assessment of controls was provided to the October 2014 Audit Committee. No high risk issues were raised and therefore this review will be delayed until 2015/16.
Payment Card Industry Standards (PCIS)		Management has indicated that a detailed action plan is in place to allow the Council to become fully PCIS compliant. This is not however expected to be fully implemented until 2015/16 and therefore it is proposed to postpone this audit review until then.
Early Years		One other strategic review is being undertaken in 2014/15 on positive destinations by Internal Audit. Because Internal Audit has added some additional reviews and is temporarily losing skilled resource a reduction in the number of achievable audits is required. This audit will however be carried forward to 2015/16.

3. Report Implications

3.1 Resource

The proposed changes to the Audit Plan have taken account of the temporary absence of a member of the Internal Audit team through maternity leave. The attached updated plan is however dependant on recruiting suitable alternative resource.

Whilst the Internal Audit Section will seek a temporary replacement, there will be an impact on the plan through the need to train the new member of staff.

3.2 Risk

There is always a residual risk that investigations and consultancy could overtake routine checks on the main financial systems but this risk is being controlled through the introduction of an investigation / consultancy protocol.

Each internal audit assignment is examining the control of risk and the perception of risk that the auditee has. 'Risk' is central to each internal audit report. This can only strengthen the Council's approach to risk management and the internal control system.

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

There is a reduction in the number of achievable audits in 2014/15. This still leaves sufficient audits however to allow the Internal Audit Manager to undertake an assessment on internal controls operating within the Council.

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

The Internal Audit Plan has been discussed with the Chief Executive, the Corporate Management team and the Audit Committee (which includes representation from External Audit).

3.7 Ensuring Equalities

During the internal audits completed to date, we found no equalities issues to report on.

3.8 Supporting Sustainable Development

Internal Audit provides an independent assurance function which assists the sustainability of the Council's internal control system, governance and management of risk.

3.9 IT Issues

The planned review of IT is to be postponed until 2015/16.

4. Recommendations

The Audit Committee is requested to:

- (1) note the work completed by the Internal Audit Section since April 2014;
- (2) note the proposed changes to the Audit plan for the period up to the end of June 2015; and
- (3) note that a further report will be provided detailing any impact on the current year plan should there be difficulty in recruiting to the vacant post.

Date: 20 November 2014

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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.