

**Internal Audit Plan 2012/13: Progress Report**  
**Report by Gerald Tait, Risk and Audit Manager**
**1. Introduction**

This report presents progress with the Internal Audit Plan for 2012/13 as at the end of November 2012.

**2. Background**

The Internal Audit Plan for 2012/13 was approved by the Audit Committee last February with the agreement that its progress would be regularly reported to the committee.

As at the end of November, the achievements and outstanding assignments are as follows (where audits were rated, the grid at the end of this report was used to gauge the level of assurance). However, members will also note on today's agenda there is a revised 'levels of assurance' template which if committee agrees will be used in the future:-

**Completed – Mainly Planned Work**

Audit Assignment	Findings	Level of Assurance
HR Transactional – internal check and segregation of duties review within the processes	Audit findings not scored; consultancy reported to Director, Corporate Resources	Review showed that no, one officer had unlimited powers in the staffing establishment, recruitment portal, computer system administration and payroll responsibilities
Property Maintenance Rechargeable Work	Process issues which have been dealt with. Very low income collection performance	Amber – limited assurance
Performance Indicators	Mixture of accurate and inaccurate PIs requiring more robust checking process	Amber – limited assurance
Authorised Signatories System	Audit findings not scored; consultancy. Head of Finance and HR invited Internal Audit to review controls, a year after the system became operational	System is far more reliable than the previous manual one. Security feature had been added. Recommendations for further enhancements made.
Internal Control – E-Learning course for managers	Audit findings not scored; consultancy in assisting managers develop their internal control, governance and risk management skills. Using Council's E-	MILO is being directed towards managers who are likely to face an internal audit in the future, thus heightening their awareness of what's expected of

Audit Assignment	Findings	Level of Assurance
	Learning package, MILO.	them.
Internal Controls in Children's Centres	Audit findings not scored; consultancy. Head of Service asked for recommendations on internal control for the two new centres opening in 2013.	She has adopted these recommendations which will be subjected to audit testing after the centres open.
Waste Services	Investigation into conduct of an operative and allegations about other workers	Allegations unfounded
Fuel Management - processes	Process improvement required	Amber – limited assurance
Fuel management - investigation	Internal Audit is liaising with the Police over alleged fuel pilfering. Investigation at an advanced stage.	Assurance can be given that agreed recommendations are being progressed. See paper on today's agenda.
Housing allocations	Audit findings not scored; consultancy. The report is on today's agenda and members will see that it is self-explanatory	Assurance can be given that Internal Audit found no in-depth issues with the way a sample of housing allocations were made.
Strategic Environmental Assessment (SEA)	Sample of major projects showed that SEA obligations had been met. Plans are in place to roll out the expertise across the Council.	Green – significant assurance
Corporate IT Resilience	Audit findings not scored, consultancy. The report is on today's agenda and members will see that it is self-explanatory	Members will see that the current situation is a case of balancing risk
Registrar of Births, Deaths, Marriages and Civil Partnerships	Audit Findings not scored, consultancy. Advising the new Registrar on procedures for income collection and insurance cover. Registrar is updating her procedures accordingly and briefing staff in these	Assurance that the procedures will enhance the security and efficiency of income collection.
Help desk queries on internal control	10 requests for advice have been received to date	Advice has helped the management of the control systems in the areas reviewed.

### Started - Planned Work

Audit Assignment	Progress Report
Framework computer system – control of commitments and payments	The 'major contract – home care' below audit is being used to inform

<b>Audit Assignment</b>	<b>Progress Report</b>
– social care	this audit. Furthermore, the Internal Audit service is collaborating with the East Lothian Council Internal Audit team. The latter, before Christmas, is auditing their version of Frameworki and we are planning to review the findings in the context of Midlothian's use of the software.
Major contract – Lasswade High School replacement	Audit at about 85% stage
Major contract – home care external provision	Audit at about 80% stage
Follow Up of a large number of previously made recommendations, focusing mainly on the high and medium priority recommendations	Audit at about 60% stage
Property Maintenance – Term (3 years) Contracting	Audit at about 60% stage
Extended review of Authorised Signatories system	Audit at about 80% stage
Fraud and Corruption Policy and Whistle Blowing Procedures	Development of a revised policy and improved procedures is about at 100% stage. These are presented today in draft form for Audit Committee scrutiny before they are presented to the trade unions for comment.
Extension of Internal Control: E-Learning course for managers	Other managers being brought into the training
Emergency Planning and Business Continuity Management (EP/BCM)	Audit at about 10% stage.
Held-desk queries on internal control	Requests for advice continue to be received

### **Started – Unplanned Work**

<b>Audit Assignment</b>	<b>Progress Report</b>
Investigation: Verbal report can be given at the Audit Committee	Audit at about 50% stage
Investigation: Verbal report can be given at the Audit Committee	Audit at 25% stage
East Lothian Internal Audit Report – IT Payment Card Industry Standard	Audit at about 30% stage
East Lothian Internal Audit Report – Carbon Management Reduction	Audit at about 75% stage
Acting Director, Communities & Wellbeing – review progress with Integration of Social Care and Health agenda.	Review at about 10% stage

### **Outstanding - Planned Work**

Total Repairs computer system – control of property maintenance works orders and expenditure	Q4 2012/13
High-value electronic payments – controls operating in divisions	Q4 2012/13
Council Tax	Q4 12/13 and relying on East Lothian

	report on Council Tax Refunds below
Housing and Council Tax Benefit	Q4 2012/13
Data Protection – Follow Up	Q4 2012/13
Code of Corporate Governance	Q4 2012/13
Accounts Receivable – Follow Up	Q4 2012/13
People Strategy	Has been replaced by a request to examine process changes to the HR and Payroll systems. Q4 2012/13
Business Transformation Programme (BTP)	Postponed in favour of a more focused review of risk management in the BTP.
Procurement	Cancelled because the service has been the subject of a further Procurement Compliance Assessment (PCA) and results are awaited
Help desk queries on internal control	-

### **Outstanding – Unplanned Work and Requests for Consultancy**

East Lothian Internal Audit – Non Domestic Rates	Q4 2012/13
East Lothian Internal Audit – Council Tax Refunds	Q4 2012/13

Members will see reference to East Lothian Council and the explanation for this is that we are swapping internal audit reports where they are not confidential to the one Council. In return for five reports from us, we have copies of East Lothian reports mentioned above. Sometimes findings in an audit can also be found in the other Council and we are sharing recommendations to see if they are appropriate in both Councils.

This approach is giving both Internal Audit sections extra audit opportunities within the finite audit resources available at both sites.

### Conclusion

Members will recall that the February 2013 Audit Committee approved a risk-based Internal Audit Plan for 2012/13 that would cover key matters as follows:-

- Main Financial and IT Systems;
- Corporate Risks like Governance, Standards, Financial Management, Internal Control, Business Continuity, Compliance with Policy, Performance and the Business Transformation;
- Consultancy in this period of change for the Council;
- Carrying out investigations on behalf of management; and
- Being on hand to advise managers on internal control.

Behind the scenes a calculation supports the Audit Plan process. This is that the Internal Audit resource, in terms of available auditing days in each financial year, is established. To examine matters properly, we know that a detailed audit assignment takes between 30 and 45 days, whereas a less detailed audit, which might be consultancy or a follow-up audit, can take between 20 and 30 days. Experience has shown that around 30-35 audit assignments can be carried out in a typical financial year. Close supervision of each audit assignment is a focus for each team meeting.

In terms of audit assignments completed and those underway, it does appear that the Audit Committee wish for assurance in key matters is being achieved, and that around 30-35 audits is possible. The remainder of the financial year remains challenging in terms of completing all the assignments and it may be that there is an overspill after 31 March 2013. However, I will be in a better position to report on this at the January 2013 Audit Committee.

### 3. Report Implications

#### 3.1 Resource

There are no direct resource implications in this report.

#### 3.2 Risk

With the present audit staffing complement and the way the Audit Plan is structured, the assurance work of Internal Audit is unlikely to stray from important matters for the Council. 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.

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 Policy

**Strategy** – this report addresses directly the council's policy to have a robust internal control environment, management of risk and effective governance.

**Consultation** – the Internal Audit Plan has been discussed with the Chief Executive, Director, Corporate Resources, Head of Finance and Human Resources, External Audit, Audit Committee independent chair and within the Internal Audit team.

**Equalities** – during the internal audits completed to date, we found no equalities issues to report on. Going forward, the Corporate Improvement Team has invited Internal Audit to directly consider equalities in each audit assignment. This can be easily built into audit testing.

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

### 4. Recommendations





The Audit Committee is invited to:-

- (1) Scrutinise the progress made with the 2012/13 Internal Audit Plan and note the audits still to be completed.

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**Internal Audit's means of assessing the level of assurance it can provide at the conclusion of each audit assignment**

Full Assurance	<b>BLUE</b> 	There is a <u>sound system of internal control</u> designed to achieve the system objectives and the controls are being consistently applied. Risk is managed to a high standard.
Reduced Assurance	<b>GREEN</b> 	Whilst there is <u>basically a sound system of internal control</u> there are some areas where it is viewed improvements can be made and risk controlled further.
Limited Assurance	<b>AMBER</b> 	There are <u>weaknesses in the system of internal control</u> which should be addressed within a reasonable timescale. Improvements are required in the way risks are managed.
No Assurance	<b>RED</b> 	There are <u>significant weaknesses</u> in the system of internal control which must be addressed as a matter of urgency. Unnecessary risks are being carried and the Council remains exposed.