

Internal Audit: Annual Assurance Report 2013/14
Report by Elaine Greaves, Internal Audit Manager**1. Purpose of Report**

This purpose of this paper is to report on the work undertaken by Internal Audit during the financial year 2013/14 and to provide an overall assessment of the Council's control framework based on that work.

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

From 1 April 2013, all audit work was undertaken in accordance with the new Public Sector Internal Audit Standards (PSIAS). A paper on these new standards was reported to the Audit Committee on 18 June 2013. 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 (AGS) 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 (this is reported separately to the Audit Committee on today's agenda).

The Standards require that an external assessment be conducted at least once every 5 years by a qualified, independent assessor from outside the organisation. An external assessment, in accordance with the Standards, was not undertaken in 2013/14 as the system of reciprocal assessments is currently being developed 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, and this was found to be satisfactory, by Grant Thornton, as part of their annual audit for 2012/13.

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 demonstrated that the key elements of the Standards were complied with during the year and identified a few areas where performance could be improved.

2.3 Balanced Scorecard

Internal Audit intends to adopt the national indicators developed by SLACIAG over the course of 2014 and these will be reported to the Audit Committee in due course.

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 committee, at least annually, the organisational independence of the internal audit activity.

The reporting line for Internal Audit was to the Council's Section 95 officer (Head of Finance and Integrated Service Support) until 12 January 2014. From 13 January 2014, Internal Audit reports directly 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. In addition, the Internal Audit Manager met with the chair of the Audit Committee before every Audit Committee meeting.

The organisational independence of Internal Audit has therefore been effective and in accordance with the Standards.

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 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.

Internal Audit resource was reduced by 1 Full Time Equivalent (FTE) at the start of the financial year resulting in a compliment of 3.7 FTE for the 2013/14 financial year. The role of Internal Audit Manager was undertaken by 2 employees on a job share basis to accommodate the

working pattern of 1 employee. Both employees hold a professional qualification (CMIIA and CIMA) and have extensive experience in the public and private sectors. The auditor is professionally qualified (ACCA) and the trainee auditor is making good progress towards obtaining a professional qualification (ACCA).

2.6 Internal Audit Resource

The Internal Audit resource has been sufficient to complete 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.

2.7 Internal Audit Plan

The Internal Audit Plan for 2013/14 was approved by the Audit Committee on 12 March 2013. The audit plan is risk based and concentrates on governance, risk and internal control matters affecting the Council. This is aimed at giving optimum assurance over these key areas.

For the financial year 2013/14, 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 in the risk management system, particularly the corporate risk register;
- consultancy exercises requested by management;
- investigations, where required; and
- the provision of an Internal Control Help Desk service.

Progress with the Internal Audit Plan was presented regularly to the Audit Committee during 2013/14. A number of audits were carried forward from 2012/13 due to the significant number of investigations undertaken in that financial year. However, Internal Audit is on course to achieve a very challenging Audit Plan by the end of June 2014, which is the target completion date for the 2013/14 plan.

2.8 Overall Opinion

In relation to the 2013/14 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 2013/14 and the conclusions arising from that work are set out at Appendix 1.

The results of our audits were reported to management 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.

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 2013 and this highlighted that 96% of all recommendations were either 'completed' or 'on target' and only 4% were overdue. In June 2013, a sample of recommendations recorded as 'completed' by management on the Covalent system were reviewed to confirm the adequacy of the actions taken. The majority were found to have been implemented satisfactorily. This exercise will be repeated in May 2014 and the results will be reported to the June 2014 Audit Committee.

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 control environment.

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 each audit assignment. This can be found in Appendix 2.

Whilst no areas were identified as having 'limited' or 'very limited' levels of assurance during 2013/14, we identified a number of areas that required improvement including:

- controls over the Accounts Receivable system;
- the management of term contractors;
- compliance against the Electronic Payment Guideline; and
- controls over access to the Frameworki system.

Improvements have been identified and are to be progressed in 2014/15 for:

- risk management and the mitigation of risks; and
- the Business Transformation Programme and mechanisms to ensure that the necessary financial savings are achieved and more efficient processes are introduced at reduced cost.

Each Internal Audit assignment has identified strengths and weaknesses and overall I have found that internal controls 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.

I am pleased to report that management is currently addressing these areas for improvement and the Internal Audit team will be following up its recommendations during 2014/15.

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, external audit, 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 and the Chief Executive.

3.8 Ensuring Equalities

We found no equalities issues to report on during the financial year. Internal Audit consider 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) Endorse the Annual Assurance Report; and
- (2) Note that the weaknesses in internal controls identified in 2013/14 will continue to be followed up in 2014/15 and updates will be provided to the Audit Committee.

Date: 24 April 2014
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Appendices

Appendix 1 - Summary of 2013/14 Internal Audit Plan

Appendix 2 - Definition of Internal Audit Assurance Categories

SUMMARY OF 2013/14 INTERNAL AUDIT PLAN

No	Audit Activity	Date reported to Audit Committee and rating (where applicable)	Comment
1	Annual Governance Statement (AGS)	May 2013 Audit Committee	An audit of a sample of controls listed in the code of corporate governance was reviewed for operational effectiveness. A number of high level issues were raised which are being tracked within an action plan and are included in the AGS.
2	Annual Assurance Report	May 2013 Audit Committee	High level summary of the control environment of the Council by the Internal Audit Manager. The statement is used to inform the annual governance statement
3	Development of an Internal Audit Charter based on the new Public Sector Internal Audit Standards	June 2013 Audit Committee	The new charter is required to allow the Internal Audit Section to be compliant with s95 of the Local Government Scotland Act.
4	Internal Audit Recommendations Follow up	June 2013 Audit Committee	A follow up review was undertaken of a sample of previously raised recommendations made by Internal Audit. The majority were found to have been implemented satisfactorily.
5	Follow up of Data Protection Issues previously raised by Internal Audit	June 2013 Audit Committee Rating - Reasonable Assurance (this rating was awarded by the Information Commissioner)	A consolidated action plan was developed along with report findings from the Information Commissioner's independent review.
6	Investigation – Esk Bridge	September 2013 Audit Committee	Independent assurance on the way the Council managed its involvement with a landslide on private property with recommendations made for improvement should there be further such incidents.
7	Investigation – Term Contractors	October 2013 Audit Committee	A number of weaknesses were identified over the management of term contractors and recommendations made to improve controls.
8	Code of Corporate Governance	October 2013 Audit Committee	To assist management to develop an updated code of corporate governance.
9	Investigation / Consultancy Protocol	October 2013 Audit Committee	New protocol for determining the priority of requests for internal audit resource to undertake investigations / consultancy work.
10	Audit Scotland Reports	Reported to various Audit Committees - ongoing	To alert the Audit Committee to any National Audit Scotland reports and identify any actions to the appropriate council officers.
11	Framework	December 2013 Audit Committee Rating - Yellow (Moderate Assurance)	Reviewed the controls over system access, quality of data, policies and procedures and case closure. Some weaknesses over access controls were identified and improvements over procedures/case closure were required.
12	Internal Audit Recommendations Performance Report	December 2013 Audit Committee	A review of overdue recommendations was undertaken and this highlighted that 96% of all recommendations were either 'completed' or 'on target' and only 4% were overdue.
13	Accounts Receivable -	March 2014 Audit	Review focused on the extent to which

No	Audit Activity	Date reported to Audit Committee and rating (where applicable)	Comment
	Follow Up	Committee	previous recommendations have been adopted and the adequacy of any locally agreed actions. It was found that not all recommendations had been fully adopted and outstanding debt had increased since the previous audit.
14	Electronic Payments	March 2014 Audit Committee Rating - Yellow (Moderate Assurance)	Reviewed the level of compliance against the Payment Guideline for electronic payments paid out by the Council. It was found that there was general compliance but there were some areas where the guide was not followed in full.
15	National Fraud Initiative (NFI)	March 2014 Audit Committee Final report to be reported to the June 2014 Audit Committee	Provided oversight over the reporting of progress for the 2012/13 NFI exercise to the Audit Committee
16	Anti-Money Laundering Policy	March 2014 Audit Committee	New policy created by Internal Audit to improve on corporate governance and allow the Council to demonstrate best practice as recommended by CIPFA.
17	Self Assessment of the Internal Audit Section against PSIAS	To be reported to the May 2014 Audit Committee Rating - Good Compliance found	Undertook a self evaluation of compliance with the Public Sector Internal Audit Standards by Midlothian Council's Internal Audit Section
18	Self Assessment of the Audit Committee	To be reported to the June 2014 Audit Committee	Undertook an assessment of the Audit Committee against the new CIPFA guide "Practical Guidance for Local Authorities" published in December 2013.
19	Following the Public Pound	At draft report stage	This included an examination of a sample of significant grants provided to third parties and a review of the Council's compliance with the Audit Scotland national report on 'Following the Public Pound'.
20	Business Transformation Programme	At draft report stage	This audit reviewed progress and the effectiveness of the Council's Business Transformation Programme.
21	Council Tax Liability and Billing	At draft report stage	This audit reviewed the processes and controls in place over the establishment of council tax liability and subsequent billing.
22	Scottish Welfare Fund Community Care Grants & Crisis Grants	At draft report stage	This audit reviewed the adequacy of controls in place over the Scottish Welfare Fund Community Care Grants and Crisis Grants.
23	HR Transactional	At planning stage	This audit will review the controls in place to manage changes to the staffing establishment and control of payments to employees and to third parties. This audit was delayed at the request of Management.
24	Risk Management	At planning stage	This audit will review compliance with policy, success of the Risk Control Programme and achievement of acceptable risk appetite.
25	Purchase to Pay	Audit to commence in April 2014	This is a Business Transformation Project and the audit will review the controls in place over the purchasing of goods via the new system.
26	Investigations - Petty	Audit to commence in	This audit will review petty cash controls

No	Audit Activity	Date reported to Audit Committee and rating (where applicable)	Comment
	Cash	April 2014	across the Council.
27	Help Desk Enquiries	n/a	A total of 59 Help Desk Enquiries have been undertaken in 2013/14. These were wide ranging in nature and included assistance with potential disciplinary investigations, fraud, review of housing allocations and assisting the police with investigations.

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Colour	Level of Assurance	Reason for the level of Assurance given
Blue	Very High	Internal Control, Governance and the Management of Risk are at a very high standard with no unacceptable residual risk existing.
Green	High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Yellow	Moderate	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Amber	Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Red	Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

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 (Chief Executive) 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.