

## **Internal Audit Plan 2017/18**

### **Report by Internal Audit Manager**

#### **1. Purpose of the Report**

The purpose of this report is to:

- present the draft Internal Audit plan for 2017/18;
- explain how the plan was developed; and
- seek Audit Committee comments on the draft plan.

#### **2. Background**

##### Risk Based Plan

The Public Sector Internal Audit Standards require the Internal Audit Manager to develop a risk based audit plan which sets out the priorities for the internal audit activity during the year. These priorities need to be consistent with the Council's goals. In order to achieve this requirement, the 2017/18 plan has been developed following a review of:

1. Midlothian Council's priority themes and objectives;
2. Midlothian Council's risk management framework including operational, project and strategic risk registers which detail the key risks, their likelihood and potential impact as well as detailing controls and residual risk;
3. Midlothian Council's quarterly Performance reporting to the Performance Review and Scrutiny Committee;
4. any budgeted overspends;
5. the previous year's annual governance statement and any issues raised;
6. the impact of national issues (eg economic factors or the introduction of new legislation);
7. the impact of local issues (eg corporate or service action plans and issues raised by external assurance bodies);
8. the available audit resource and skills;
9. the need for specialist skills, where they are not available already;
10. staff development and training;
11. an assessment of the time needed for the management of the Internal Audit Service (eg audit planning, development of the annual audit opinion, attendance at meetings, the appraisal process, the updating of relevant audit policies and procedures);
12. the need to establish a contingency for consultancy, ad hoc reviews or fraud investigations;
13. the balance of coverage required so External Audit can place reliance on Internal Audit's work;
14. the need to undertake periodic reviews of core financial and operational systems in line with Internal Audit's three year strategy;

15. Internal Audit's own knowledge and experience through previous internal audits, consultancy work and investigations (including follow up reviews of recommendations raised);
16. input received from senior management (all Heads of Service) and the Corporate Management Team; and
17. work undertaken by other assurance providers.

The Audit Plan has been developed using the process detailed in the Audit Charter approved by the Audit Committee on 10 May 2016.

Internal Audit has developed its own Audit Universe and scored all elements on a high, medium or low basis. This universe has then been used to derive the Audit Plan.

The plan is fluid and can be adapted to accommodate any escalation of risks coming to light through the risk management process or any change in Internal Audit resource.

#### Key areas and Internal Audit Manager's opinion on governance, risk management and controls

The Internal Audit Manager is required to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. In order to allow the Internal Audit Manager to form an opinion, the audit plan needs to be sufficiently broad to cover key areas over a regular cycle and for this reason a number of core processes and systems are reviewed on a regular basis.

#### Consultancy and Help Desk

Some audit resource is set aside for consultancy engagements based on the engagement's potential to improve management of risk, add value and improve Council operations.

Time is also made available to assist with requests for Internal Audit assistance through the operation of a help desk facility. This is used to support Council Services who are looking for advice or support on risk or control related issues.

#### Corporate Fraud

The 2017/18 plan provides resource for Corporate Fraud. This resource will be used to help identify and / or investigate any suspected internal or external fraud, specific audits on vulnerabilities to fraud, Council tax investigations, reviewing of NFI matches and the provision of fraud awareness training to management and employees.

#### Reporting Calendar

Appendix 2 shows the timing of likely reports to individual Audit Committees for information.

### 3. Proposed Internal Audit Plan

Appendix 1 details the audits and reviews Internal Audit plan to deliver against the available number of days.

#### Conclusion

The above approach is aimed at allowing audit resource to be allocated to high risk areas in the Council but also allows the Audit Manager to conclude on the governance, risk management and controls more generally.

### 4. Report Implications

#### 4.1 Resource

The Internal Audit Section has an FTE of 3.7 and an additional 2 FTE fraud officers. After deduction for holidays, sickness, training, management and administration this equates to a total of 1058 days available for auditing.

The Internal Audit Section is currently undergoing a Service review. This may have an impact on available resource to deliver against the 2017/18 plan.

#### 4.2 Risk

Each Internal Audit assignment is risk-based and tests the service's management of risk. The requirement to provide resource to the Midlothian IJB and the need to undertake some audits annually may impact on the Internal Audit strategy to review all key Council processes and systems on a 3 year cycle.

#### 4.3 Single Midlothian Plan

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

#### 4.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners include the following areas as key priorities under the Single Midlothian Plan:

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

Audits within the 2017/18 plan include reviews of these areas.

#### **4.5 Impact on Performance and Outcomes**

The Internal Audit plan assists the Council in improving its performance and outcomes.

#### **4.6 Adopting a Preventative Approach**

Specific audits within the 2017/18 plan will include assessments on when a preventative approach can be adopted.

#### **4.7 Involving Communities and Other Stakeholders**

The Internal Audit Plan has been discussed with Heads of Service, the Section 95 Officer and the Corporate Management Team. The plan has also been discussed with EY (the Council's external auditors).

#### **4.8 Ensuring Equalities**

There are no equalities issues with regard to this report.

#### **4.9 Supporting Sustainable Development**

There are no sustainability issues with regard to this report.

#### **4.10 IT Issues**

There are no IT issues with regard to this report.

### **5. Recommendations**

The Audit Committee is therefore asked to:

- a) note that 80 days have been set aside for Health and Social Care within the plan but that the proposed audits and time allocated may change following input from the Midlothian Integration Joint Board Audit and Risk Committee; and
- b) to otherwise review and comment on the proposed Internal Audit plan for 2017/18.

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