

**Internal Audit Plan 2016/17
Report by Internal Audit Manager****1. Purpose of the Report**

The purpose of this report is to:

- present the draft Internal Audit plan for 2016/17;
- 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 2016/17 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 corporate 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), 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 5 May 2015.

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 2016/17 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 and to update fraud policy and procedures including the whistle blowing facility.

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 a current FTE of 3.7 and an additional 2 FTE fraud officers. After deduction for holidays, sickness, training and general administration this equates to a total of approximately 1080 audit days.

The total Internal Audit draft budget for 2016/17 (including the additional fraud resource) is £267K.

4.2 Risk

Each Internal Audit assignment is risk-based and tests the service's management of risk.

4.3 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**

4.4 Impact on Performance and Outcomes

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

4.5 Adopting a Preventative Approach

Specific audits within the 2016/17 plan will include assessments on when a preventative approach can be adopted.

4.6 Involving Communities and Other Stakeholders

The Internal Audit Plan has been discussed with Heads of Service, the Section 95 Officer and Corporate Management Team. The plan has also been passed to Grant Thornton for comment and will be discussed with the Audit Committee.

4.7 Ensuring Equalities

There are no equalities issues with regard to this report.

4.8 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.9 IT Issues

There are no IT issues with regard to this report.

5. Recommendations

The Audit Committee is therefore asked to:

- a) note that 100 days has 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 Integrated Joint Board Audit and Risk Committee;
- b) to otherwise review and comment on the proposed Internal Audit plan for 2016/17; and
- c) note that following a recommendation by Grant Thornton a session with members of the Audit Committee will be arranged to identify priorities for the coming year.

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