

**Internal Audit Mid-Term Performance Report 2018/19  
Report by the Chief Internal Auditor****1 Purpose of Report**

- 1.1 The purpose of this report is to inform the Audit Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2018, towards completing the Internal Audit Annual Plan 2018/19. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

**2 Background**

- 2.1 As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- In support of the Council's vision, values and priorities.
  - As a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
  - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
  - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
  - As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.
- 2.2 Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.
- 2.3 The Internal Audit Annual Plan 2018/19 that was approved by the Audit Committee on 13 March 2018 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 2.4 Internal Audit assurance services are also provided during the year to the Midlothian Health and Social Care Integration Joint Board, and an annual opinion is provided to its respective Management and Board/Audit and Risk Committee to meet its obligations.

### 3 Half Year Results Against Internal Audit Plan 2018/19

- 3.1 The Internal Audit programme of work takes account of the availability of auditor resources and consultation with Management to reflect the timing of some of Council's strategic programmes. The following table summarises the Internal Audit activity for the 6 months to 30 September 2018:

Category	Plan Days Apr-Sep 2018/19	Actual Days Apr-Sep 2018/19	Plan Report Nos. Apr-Sep 2018/19	Actual Report Nos. Apr-Sep 2018/19
Assurance	202	161	7	3
Legislative and Other Compliance	10	13	1	1
Consultancy	10	4		
Other	51	52		
Non MLC	33	32		
<b>Total</b>	<b>307</b>	<b>262</b>	<b>8</b>	<b>4</b>

- 3.2 The Actual Days and Report Numbers reflect the extraordinary impact on staff resources of the roads contract investigation and ongoing response within the first half of the year. The work Internal Audit has carried out in the first half of the year equates to Productive Days Achieved as a percentage of Productive Days as per the Audit Plan of 85% (CIPFA Directors of Finance PI for Internal Audit services) and 50% completion of planned audit reports.
- 3.3 The allocation of audit plan days is not an exact science and some of the audit work has been carried out using less than planned days and some using more than planned days in the 6 months to 30 September 2018. Four of the Assurance audit reports have not been fully delivered as planned in the 6 months to 30 September 2018 in the main due to the extraordinary impact on staff resources of the roads contract investigation and ongoing response within the first half of the year, as follows (marked with \* in the Appendix 1):
- Payroll - Report scheduled 3<sup>rd</sup> Quarter;
  - Procurement and Management of Contracts - planned activity on Contract Tenders, Procurement to Payment, and Contract Management has been combined within the scope of this audit to provide assurance on the whole of the Procurement journey - Report scheduled 4<sup>th</sup> Qtr.
  - Following The Public Pound - Report scheduled 3<sup>rd</sup> Quarter;
  - Learning Estate Strategy - Audit work done though no report to be produced. Learning Estate Strategy is being reviewed and Internal Auditor to be engaged to add value in the review process.
- 3.4 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work to deliver the approved Internal Audit Annual Plan 2018/19 (those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, and those scheduled for the second half of the year are not shaded).

- 3.5 The continuous audit approach enables Internal Audit to provide added value advice on internal controls and governance and ‘critical friend’ consultancy services as the Council continues to transform its service delivery, for example, Business Transformation Board, Strategic Leadership Group and Preparation Best Value Review forums. The continuous audit approach is applied to non-MLC Internal Audit work for the Midlothian Health and Social Care Integration Joint Board.

#### 4 Remaining Internal Audit work in 2018/19 Plan

- 4.1 The Internal Audit staff resources taking account of the shared Internal Audit services arrangement with Scottish Borders Council comprises the Chief Internal Auditor (0.5FTE), one Principal Internal Auditor (0.72FTE), one Interim Internal Auditor (0.5FTE), two Internal Auditors (2FTE), and two Fraud and Audit Officers (1FTE Audit). The Internal Audit activity is aligned to the Corporate Fraud activity to provide assurance and compliance services.
- 4.2 The Internal Audit programme of work for the six months from October 2018 to March 2019 to complete the delayed work and prioritise the Assurance audit work in order to deliver the statutory independent and objective Internal Audit assurance opinion within available staff resources for the remainder of the year, taking into account the continued impact on staff resources of the ongoing response associated with the roads contract investigation, indicates that adjustments are required to the Internal Audit Annual Plan 2018/19.
- 4.3 It is proposed to defer three of the planned Assurance audit activities to the 2019/20 plan, as follows:
- Community Engagement - Scheduled 4th Quarter, however Best Value Assurance review will cover aspects of this area. Proposed deferral to 2019/20 plan;
  - Commercial Rents - Scheduled 3rd Qtr. Proposed deferral to 2019/20 plan;
  - Business Gateway - Scheduled 4th Quarter. Proposed deferral to 2019/20 plan.

In addition, some reduced plan days across various audit activities within Legislative, Consultancy and Other as shown in Appendix 1. These are the changes proposed to the Internal Audit Annual Plan 2018/19 that would require approval by the Audit Committee.

- 4.4 The following table summarises the Internal Audit planned activity in the second half of the year to 31 March 2019:

Category	Revised Plan days Oct-Mar 2018/19	Revised Plan Report Nos. Oct-Mar 2018/19
Assurance	222+40*	10+3*
Legislative and Other Compliance	10	1
Consultancy	10	
Other	51	
Non MLC	35	1
<b>Total</b>	<b>368</b>	<b>12+3*</b>

- 4.5 Each of the Final Internal Audit Reports issued to the relevant Service Management, which include audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance, will continue to be reported to the Corporate Management Team and to the Audit Committee.
- 4.6 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report which will also provide an opinion on the levels of assurance based on audit findings over the year.

## **5 The Local Authority Accounts (Scotland) Regulations 2014**

- 5.1 The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector (PSIAS)*. The standards require internal audit to have suitable operational independence from the authority.
- 5.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

## **6 Public Sector Internal Audit Standards (PSIAS) and Quality Assurance & Improvement Plan (QAIP)**

- 6.1 The MLC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
  - Code of Ethics;
  - Attribute Standards (responsibility, independence, proficiency, quality);
  - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 6.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Internal Auditor, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 6.3 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Highland Council in March 2018 and the results were outlined in the Internal Audit Annual Assurance Report 2017/18 reported to the Audit Committee in June 2018. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, is being prepared. The CAE has indicated that Midlothian Council will take part.

- 6.4 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2018/19. The results and any associated improvement actions will continue to be reported to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

## **7 Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG) Annual Report 2017**

- 7.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 7.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams and a copy of the report for 2017 is attached at Appendix 2 for information.
- 7.3 In particular, the Audit Committee may wish to note that:
- The Group considers learning and development needs and procures training for its members via its Training Sub-Group. Economies of scale make this cost effective;
  - Working groups are set up to consider time-specific matters of interest; such as the development of the 'peer review' approach for the periodic (at least 5 yearly) External Quality Assessment (EQA) against the Public Sector Internal Audit Standards (PSIAS); and
  - Sub-groups are in place to deliver specific remits e.g. Computer Audit (CASG) and Counter Fraud (SLAIG).
- 7.4 The Chief Internal Auditor has been a member of its Management Committee for many years, including Chair 2014-2016, and attends quarterly meetings. One of the Internal Auditors is a member of CASG, and the Fraud & Audit Officers are members of SLAIG; thus attend those Sub-Group regular meetings. The Chief Internal Auditor, Principal Internal Auditor, and the two Internal Auditors attended all or part of the SLACIAG Conference in June 2017, which had the theme of 'Transformation and the Role of Internal Audit', to hear from a range of engaging and entertaining speakers and to participate in workshops.

## **8 Report Implications**

### **8.1 Resource**

There are staff and other resources either in place or scheduled to be available to achieve the proposed revised Internal Audit Annual Plan 2018/19 and to meet the key objective of delivering an effective Internal Audit function to provide independent and objective assurance on systems of internal financial control, internal control and governance, and to highlight good practice and recommend improvements.

Budget monitoring of the Internal Audit function is carried out to ensure service delivery is managed within available financial resources.

## **8.2 Risk**

The Objectives of Internal Audit are set out in its Charter. “As part of Midlothian Council’s system of corporate governance, Internal Audit’s purpose is to support the Council in its activities designed to achieve its declared objectives.” Specifically as “a contribution to the Council’s corporate management of risk”.

Key components of the audit planning process include a clear understanding of the Council’s functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2018/19, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered, to ensure the Plan is formulated on a risk-based approach.

If planned Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council. This has been mitigated by way of workforce planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

## **8.3 Single Midlothian Plan and Business Transformation**

Themes indirectly 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

## **8.4 Key Priorities within the Single Midlothian Plan**

Although this report does not relate directly to the key priorities within the Single Midlothian Plan (Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the gap in economic circumstances) by providing an independent and objective annual assessment of the adequacy of the entire control environment, Internal Audit supports the Council to achieve its objectives.

## **8.5 Impact on Performance and Outcomes**

The Findings and Recommendations from Internal Audit work during the year assists the Council in improving its performance and outcomes which are designed to maintain and / or enhance internal controls, governance arrangements and risk management.

## **8.6 Adopting a Preventative Approach**

Having robust internal controls, governance arrangements and risk management in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Internal Audit assurance and consultancy activity is designed to improve operations and assist the Council in accomplishing its objectives.

## **8.7 Involving Communities and Other Stakeholders**

Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives for the benefit of Midlothian's communities and other stakeholders.

## **8.8 Ensuring Equalities**

There are no direct equalities issues with regard to this report.

## **8.9 Supporting Sustainable Development**

There are no direct sustainability issues with regard to this report.

## **8.10 IT Issues**

There are no direct IT issues with regard to this report.

## **8.11 Consultation**

Midlothian Council's Corporate Management Team has been consulted on the proposals relating to the revised Internal Audit Annual Plan 2018/19 and are in agreement with the proposals.

## **9 Recommendations**

The Audit Committee is therefore asked to:

- i. note the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2018/19 by the mid-year point; and
- ii. approve the revised Internal Audit Annual Plan 2018/19 as set out in Appendix 1 that reflects the proposals set out in this report and is achievable within current staff resources.

**Date:** 28 November 2018  
**Report Authors:** Jill Stacey, Chief Internal Auditor  
**E-Mail:** [Jill.Stacey@midlothian.gov.uk](mailto:Jill.Stacey@midlothian.gov.uk)