

PROGRESS UPDATE

Report by Internal Audit Manager

1. Purpose of Report

The purpose of this report is to provide members of the Audit Committee with:

- a summary of the work undertaken by Internal Audit since April 2016; and
- an update on progress with the current audit plan which was approved by the Audit Committee on 15 March 2016.

2. Detail

The Internal Audit Section has completed the following tasks since April 2016:

| Task | Description | Reported to |
|--|---|--|
| A review of the Code of Corporate Governance | An audit of a sample of controls listed in the Code of Corporate Governance was reviewed for operational effectiveness. Testing identified that the key elements were in place and operating effectively. Issues raised are recorded within the Internal Audit Manager's statement. | Reported to the May 2016 Audit Committee |
| Annual Assurance Report | A high level summary of the risk management, governance and internal control environment of the Council by the Internal Audit Manager. The statement is also used to inform the Annual Governance Statement. | Reported to the May 2016 Audit Committee |
| Public Sector Internal Audit Standards. | Assessment of Internal Audit against the Public Sector Internal Audit Standards. | Reported to the May 2016 Audit Committee |

| Task | Description | Reported to |
|--|--|--|
| Review of the Internal Audit Charter | The Charter is required to allow the Internal Audit Section to be compliant with the Public Sector Internal Audit Standards. | Reported to the May 2016 Audit Committee |
| Business Gateway | A review of controls operating over the appointment of consultants. | Reported to the May 2016 Audit Committee |
| Internal Audit Recommendations follow up | A review of a sample of recommendations that have been signed off as complete to determine whether they had been implemented satisfactorily. | Reported to the June Audit Committee. |
| Developer Contributions | A follow up review of a sample of issues raised in the report presented to the Audit Committee in March 2016 | Reported to the June Audit Committee |
| Business Transformation | A follow up review of issues raised on Business Transformation in the report presented to the Audit Committee in October 2014. | Reported to the September Audit Committee |
| Care at Home | A review of the controls operating over the monitoring of contracts with third party suppliers. | Reported to the September Audit Committee |
| Petty Cash | Follow up of issues raised as part an Internal Audit Report presented to the Audit Committee in March 2015. | Reported to the September Audit Committee |
| Self Directed Support | To review the controls in place regarding the implementation of Self-Directed Support (SDS) | Reported to the September Audit Committee |
| Construction Industry Scheme | The objective of the audit was to review the controls operating over the Construction Industry Scheme. | Summary to be included in Audit Manager's Annual Report in May 2017. |
| Welfare Reform | To review the processes and controls | Anticipated to be presented to the |

| Task | Description | Reported to |
|--|---|---|
| | put in place to deliver the new Universal Credit payments (which commence on a phased basis from April 2015) | December 2016 Audit Committee |
| Private Public Partnership | A review of the current utilisation of buildings to ensure best value is being achieved. | Anticipated to be presented to the March 2017 Audit Committee |
| Fraud policies and procedures | A review of the existing fraud policies and procedures to determine whether these require amendment / update as a result of changing regulations / legislation. | Anticipated to be presented to the December 2016 Audit Committee |
| Tyne and Esk | To review the controls in place to deliver the Tyne Esk Leader Grant Fund and to undertake compliance related work as defined by the Service Level Agreement | Anticipated to be presented to the December 2016 Audit Committee |
| Overdue Audit Recommendations | To undertake a review of Management's reported performance in closing audit issues by expected due dates. | Anticipated to be presented to the December 2016 Audit Committee |
| Corporate Fraud | A summary of the work undertaken by the Corporate Fraud unit for the period October 2015 to September 2016 | Anticipated to be presented to the December 2016 Audit Committee |
| Investigations / consultancies | Three investigations completed. | Summary to be included in Audit Manager's annual Report in May 2017 |
| Help Desk | Between the periods of April 2016 to October 2016 Internal Audit has received a total of 49 help desk enquiries. | Summary to be included in Audit Manager's annual Report in May 2017 |
| Co-ordinated the submission of Audit Scotland National Reports | These are to date: <ul style="list-style-type: none"> • An overview of local government in Scotland 2016 • National Fraud Initiative | Reported to: Audit Committee in May 2016. Anticipated to be presented to the |

| Task | Description | Reported to |
|-------------------------|---|---|
| | | December 2016 Audit Committee. |
| Integration Joint Board | Manager's Annual Audit report, update to Charter and Public Sector Internal Audit Standards Assessment, audit review on Financial Assurance and Strategic Plan. | Reported to the IJB Audit and Risk Committee. |

The following areas are work in progress:

| Task | Description | Progress |
|--|---|--|
| Bank and Cash | To review the controls over the collection, banking and accounting for income | Work in progress |
| Health and Safety | To review the adequacy of the control framework designed by management to allow compliance with Health and Safety legislation. | Work in progress |
| Arrears | To review the Council's management over the collection of overdue debt including council tax, rental income and sundry debt | Field work underway |
| Co-ordinated the submission of Audit Scotland National Reports | <p>Published reports due to be presented to the Audit Committee:</p> <ul style="list-style-type: none"> • Major capital investment in Councils follow up • Maintaining Scotland's roads: a follow up report • Social work in Scotland • Review of activity to reduce fraud and error in housing benefit • The Impact of welfare reforms on | To be presented to the Audit Committee when officers complete reports. |

| Task | Description | Progress |
|--------------------------------|--|---|
| | Council rent arrears in Scotland | |
| Investigations / consultancies | Two consultancies and one investigation underway. | Summary to be included in Audit Manager's annual Report in May 2017 |
| National Fraud Initiative | Complying with the requirements of Audit Scotland to participate in data matching. | Data down loaded and matches due to be provided in January 2017. |

The following Audits from the 2016/17 have not yet commenced:

| Task | Description |
|---|--|
| Insurance | Review the Council's arrangements for managing insurable risks including the monitoring of claims against established excesses, procurement of suppliers and the level of current cover. |
| Financial strategy and Delivering Excellence | Review the frameworks established for delivering the financial strategy including the Delivering Excellence model and testing a sample of service areas that are progressing through this model. |
| Accounts payable | This is the main system used by the Council to pay suppliers for goods and services. |
| Quality Assurance of Care Home providers | To assess the adequacy of the Council's internal quality control over third party care home providers |
| Social housing | To review the adequacy of the control framework established by management to allow successful delivery of the Social Housing Programme. |
| Sickness absence management | To review the controls in place to manage sickness absence across the Council including policy and procedures and monitoring of absence. |
| Continued support for the Integration Joint Board | Two audit reports to complete (Directions and Performance Management). |

The following table details proposed changes to the plan approved by the Audit Committee on 15 March 2016:

| Task | Proposed change |
|--|---|
| Children and Young People's Act – Named Person | There has been a delay in the implementation of this legislation following a legal challenge. It is proposed therefore to postpone this audit until this has been resolved. |

3. Report Implications

3.1 Resource

Based on the remaining work load and current internal resource there should be sufficient time remaining before the end of June 2017 to complete the 2016/17 plan.

The Internal Audit Manager will continue to monitor progress against the plan and report where required to the Audit Committee.

3.2 Risk

There is always a residual risk that investigations and consultancy could overtake risk based reviews and compliance checks on the main financial systems and limit the Audit Manager in providing an opinion on the internal controls of the Council. This risk is being controlled through the investigation / consultancy protocol.

Each internal audit assignment examines the control of risk and the perception of risk that the auditee has. 'Risk' is central to each internal audit report. This strengthens the Council's approach to risk management and the internal control system.

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 Impact on Performance and Outcomes

It is projected that there will be sufficient audits completed to allow the Internal Audit Manager to undertake an assessment of the strength of the internal controls operating within the Council.

3.5 Adopting a Preventative Approach

This report addresses the Council's policy to have a robust internal control environment, management of risk and effective governance.

3.6 Involving Communities and Other Stakeholders

The Internal Audit Plan has been discussed with the Chief Executive, the Corporate Management Team and the Audit Committee (which includes representation from External Audit).

3.7 Ensuring Equalities

For the internal audits completed to date, we found no equalities issues to report on.

3.8 Supporting Sustainable Development

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

3.9 IT Issues

There are no IT issues as a result of this report.

4. Recommendations

The Audit Committee is requested to:

- (1) note the work completed by the Internal Audit Section since April 2016;
- (2) note the progress with the current plan;
- (3) note the suggested amendment to the audit plan; and
- (4) note that the Internal Audit Manager will continue to provide updates if there is a risk of non delivery of the plan.

Date: 21 November 2016

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