

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 17 March 2015

**BY:** Depute Chief Executive – Resources and People Services

**SUBJECT:** Internal Audit Plan 2015/16

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's operational plan for 2015/16.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to approve the Audit Plan for 2015/16.

## **3 BACKGROUND**

- 3.1 The annual audit plan has been prepared in accordance with Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013.

- 3.2 In preparing the annual audit plan a range of factors have been taken into account, including:

- the Council Plan 2012-17 and the key actions that the Council will pursue in order to meet its objectives;
- areas highlighted by the Council's External Auditors and Senior Officers;
- corporate and departmental risk registers;
- the Council's core financial systems;
- changes in service delivery;
- the findings from previous years' audit work;
- the need to incorporate flexibility for reactive/investigatory work.

- 3.3 Internal Audit's primary role is to independently review internal control systems within the Council. Internal Audit will evaluate the adequacy and effectiveness of controls in responding to risks within the Council's governance, operations and information systems, regarding the:

- Achievement of the Council's strategic objectives.
  - Reliability and integrity of financial and operational information.
  - Effectiveness and efficiency of operations and programmes.
  - Safeguarding of assets.
  - Compliance with laws, regulations, policies, procedures and contracts.
- 3.4 The Internal Audit Manager is required to give an opinion on the Council's control environment in the annual Controls Assurance Statement and the audit work carried out will contribute to this opinion.
- 3.5 The provision of the Internal Audit service is on an in-house basis by the Council's Internal Audit Unit, which is comprised of the Internal Audit Manager, three Senior Auditors and one Senior Audit Assistant.
- 3.6 The resources available have been applied to individual audits and a detailed operational plan has been produced for 2015/16 (see Appendix A).
- 3.7 Internal Audit will adopt a risk based approach to audit assignments as the principal means of providing assurance on the adequacy, reliability and effectiveness of internal controls. Testing of controls will be carried out on a sample basis. A standard sample size basis is used for financial systems audits and the samples are selected to provide coverage for the full financial year.
- 3.8 For each individual audit, a detailed audit report is prepared for the relevant Depute Chief Executive. Copies of the audit report are provided to the Chief Executive, Head of Service, External Audit and to members of the Audit and Governance Committee.
- 3.9 All audit reports will highlight areas where expected controls have been met and areas where there is scope for improvement. A detailed action plan will be attached to each report listing all recommendations made and recording management responses to the recommendations.
- 3.10 Follow-up audits will be carried out to review the implementation of the recommendations made.

## **AUDIT COVERAGE**

### **Financial and Non-Financial Audits**

- 3.11 Internal Audit will review the Council's systems to provide assurance on the adequacy and effectiveness of internal controls. The audit plan includes a range of financial and non-financial audits.

### **Statutory Audits**

- 3.12 Internal Audit undertakes audit work in respect of specific grant awards made to the Council by the Scottish Government, to ensure compliance with grant conditions.

### **Best Value Audit**

- 3.13 Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.

### **Investigations**

- 3.14 Time has been allocated to carry out work on the National Fraud Initiative 2014/15 (which is coordinated for Scottish Local Authorities by Audit Scotland) and to undertake fraud and irregularity investigations.

### **INTERNAL AUDIT PERFORMANCE INDICATORS**

- 3.15 Internal Audit will report on the completion of the annual audit plan, the percentage of audit recommendations accepted by Management and the percentage of audit staff with CCAB accounting qualifications.

### **OTHER FACTORS**

- 3.16 The Committee should note that reactive work may impact heavily on the Internal Audit Unit's ability to complete the audit plan. Contingency days are built in for 2015/16 in the investigations section, but by its nature reactive work is difficult to predict.
- 3.17 The plan and its completion have added importance, given its contribution to the annual Controls Assurance Statement to be prepared at the end of 2015/16.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - None
- 6.2 Personnel - None
- 6.3 Other - None

## **7 BACKGROUND PAPERS**

- 7.1 None

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<b>DATE</b>	5 March 2015

**INTERNAL AUDIT PLAN**

**2015/16**

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**AUDIT PLAN 2015/16**

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
<b>FINANCIAL AND NON-FINANCIAL AUDITS</b>			
Payroll	We will undertake a risk based review of the Payroll system, examining in particular controls relating to starters and leavers.	High	6
Council Tax	We will review the internal control arrangements in place for Council Tax income – our audit will focus on Council Tax collection.	High	6
Other Income	Our audit will focus on the internal controls in place for sundry income received by the Council.	High	6
Risk Management	We will evaluate the effectiveness of the Council's risk management processes in place including risk appetite, risk identification and the mitigation of risks.	High	6
Universal Credit	We will review the Council's arrangements for dealing with the impact of Universal Credit and Direct Payments.	High	6
Self-Directed Support – Children's Wellbeing	We will continue our review of Self-Directed Support by reviewing the progress being made within Children's Wellbeing.	High	4
Exceptional Needs Funding	We will review the arrangements in place for the allocation of Exceptional Needs Funding to Schools.	Medium	5

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Out of Authority Placements	We will review the way the Council manages the delivery of services to children with special education needs – the audit will focus on planning, budgeting, commissioning and the monitoring of service delivery.	High	5
Schools Audit	We will examine the internal controls operating within one primary school in East Lothian.	Medium	5
Home to School Transport	We will examine the procurement process for the provision of Home to School transport – our review will focus on the tendering, evaluation and awarding of contracts to operators.	Medium	5
Fuel Management	We will review the adequacy and effectiveness of the controls operating in respect of Fuel Management.	Medium	5
Section 75 Payments	Section 75 payments (developer contributions) bring significant funds to the Council for infrastructure projects. We will examine all aspects of the section 75 process and seek to provide management with assurances that the controls in place are operating effectively.	High	6
Managing Capital Projects	We will review the Council's management of significant capital projects that are underway. The review will also look at the whole approach that the Council takes to property management.	High	6

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Waste Management	We will review the Council's waste collection arrangements, focusing on whether value for money is being obtained and how efficiency savings are being achieved and will be achieved in the future.	High	6
Housing Repairs – Shared Costs	We will review the arrangements in place for charging mutual repairs and shared costs to private owners.	High	5
Contracts Audit	We will examine payments made to suppliers in respect of specific contracts.	High	6
Funding – Third Sector Organisations	We will review the partnership arrangements in place with Third Sector Organisations and assess if the Council is getting value for money from grants awarded to Third Sector Organisations.	High	6
Agency Staff	We will examine the arrangements in place for the engaging and use of agency staff – the review will include the monitoring and payment arrangements in place.	Medium	5
Employee Expenses	We will examine the internal controls in place for employee travel and subsistence claims.	Medium	5
Bad Debt Write-offs	We will examine the systems in place for the write-off of Bad Debts and Credit Balances.	Medium	4

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Special Projects	Internal Audit will review specific areas that are identified by Senior Officers.	–	6
<b>STATUTORY AUDITS</b>			
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is required to provide a statement of compliance with grant conditions on an annual basis.	Medium	6
Tyne Esk LEADER Programme	We will examine the procedures in place for LEADER funding to ensure compliance with the Technical Guidance.	High	4
Fisheries Local Action Group (FLAG)	We will examine the arrangements in place for the payment of grants by East Lothian Fisheries Local Action Group (FLAG).	High	4
<b>BEST VALUE AUDIT</b>			
Review of Performance Indicators	Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.	Medium	6
<b>INVESTIGATIONS</b>			
National Fraud Initiative	The 2014/15 National Fraud Initiative data matching exercise was undertaken by the Audit Commission in 2014. The results of the matches were provided to the Council in January 2015. We will investigate all recommended matches.	High	10
Fraud and Irregularity	Internal Audit will investigate all instances of suspected fraud or irregularity.	High	10



<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Fraud and Corruption	We will review the policies and procedures in place within the Council for the prevention and detection of fraud and corruption.	Medium	4
Whistleblowing Concerns	We will investigate the concerns raised under the Council's Whistleblowing Policy.	High	6
<b>OTHER AUDIT WORK</b>			
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	Medium	8
Attendance at Stocktakes	Internal Audit will attend the year-end stocktakes at Property Maintenance, Road Services and Waste Services. We will review the final stock sheets.	Medium	1
Community Councils and Management Committees	Community Councils – Internal Audit provide advice and support to Community Councils.  Management Committees – Internal Audit will audit the annual accounts of Management Committees where applicable.	Medium	4
Advice and Consultancy	Consultation on New Systems – for all new systems implemented, Internal Audit will provide advice on internal control matters.  Tender Evaluations – attendance at tender openings and evaluations when requested by departments.	Medium	6

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Advice and Consultancy (cont)	<p>Returned Cheques – investigating and recording the reasons for returned cheques.</p> <p>Financial Reports – providing departments with financial information about companies and offering advice where applicable.</p> <p>Consultancy – providing advice and consultancy on a range of internal control issues.</p>		
<b>TRAINING</b>			
Training	An adequate allocation of budget resources and time will be given to maintaining and improving the knowledge base and quality of the staff resource. This includes time for staff to undertake continuous professional development (CPD) and to acquire skills and knowledge required to undertake specialist audit assignments.	–	6