

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 May 2015

BY: Internal Audit Manager

SUBJECT: Annual Internal Audit Report 2014/15

1 PURPOSE

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit Manager prepares an annual internal audit opinion and report to support the Council's Annual Governance Statement.
- 1.2 This report provides a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2014/15 and supports both the Council's Annual Governance Statement and the Internal Audit Manager's Controls Assurance Statement.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to note the contents of the Annual Internal Audit Report 2014/15.

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established by the Council to review its governance, risk management and control systems. East Lothian Council's Internal Audit Unit operates in accordance with the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013.
- 3.2 The Council's Internal Audit resources in 2014/15 were made up of:
- The Internal Audit Manager
 - Three Senior Auditors
 - One Senior Audit Assistant
- 3.3 The Internal Audit Manager reports administratively to the Depute Chief Executive – Resources and People Services, functionally to the Audit and Governance Committee and has direct access to the Chief Executive, the Section 95 Officer and the Monitoring Officer.
- 3.4 Internal Audit is continuously seeking to improve its service and aims to provide a service that remains responsive to the needs of the Council and maintains

consistently high standards. This was achieved in 2014/15 through the following processes:

- Compliance with PSIAS.
- Ongoing development of a constructive working relationship with the Chair of the Audit and Governance Committee.
- A tailored audit approach using a defined methodology for financial audits.
- A programme of quality control measures which include the supervision of staff conducting audit reviews and the detailed review of working paper files and audit reports.
- The use of satisfaction surveys for completed audit assignments.
- Annual appraisal of audit staff and the development of personal and training plans – Internal Audit staff members are required to undertake a programme of Continuous Professional Development (CPD).

3.5 The PSIAS require the development of a Quality Assurance and Improvement Plan (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The QAIP must include both internal and external assessments. An internal assessment of internal audit practices was carried out against the PSIAS, indicating conformance to the Standards in most areas and this was presented to the Audit and Governance Committee in January 2015. As a result of the assessment an action plan was developed to address areas of non-conformance and good progress has been made against the action plan.

Delivery of Internal Audit Plan 2014/15

3.6 In March 2014, the Audit and Governance Committee approved the Internal Audit Plan for 2014/15. Our audit plan was scoped to address the Council's key risks and strategic objectives.

3.7 In 2014/15 we issued 26 internal audit reports, of which 2 reports were on investigations undertaken during the year, 3 related to audits carried forward from the 2013/14 audit plan and 21 reviews formed part of the 2014/15 audit plan (see Table A below). The audit work undertaken as part of the 2014/15 audit plan resulted in the identification of 9 high, 107 medium and 6 low risk recommendations to improve the weaknesses identified in the design of controls and operating effectiveness.

3.8 In addition to the reviews listed in Table A, we undertook follow-up reviews of previous years' work to ensure that recommendations had been implemented by Management, presented a draft Internal Audit Charter to the Audit and Governance Committee and supported Management in the monitoring of ongoing projects and budget savings.

3.9 In 2014/15 we also undertook fraud and irregularity work, which included:

- reviewing and reporting on all recommended data matches received as part of the 2012/13 NFI exercise;
- assessing and where appropriate advising, investigating or supporting the investigation of cases where concerns were raised under the Council's Whistleblowing Policy;
- investigating concerns raised by Senior Management and/or the Audit and Governance Committee.

3.10 As part of the 2014/15 audit plan we have completed the following reviews:

Table A

Audit Assignment	Report Status	High	Medium	Low
Fostering and Kinship Care Allowances	Final	-	7	1
Bathroom Adaptations	Final	3	4	-
National Fraud Initiative	Final	-	-	-
Records Management <i>Public Records (Scotland) Act 2011</i>	Final	-	1	-
Financial Arrangements – Crookston Care Home	Final	-	7	-
Fleet Management	Final	-	7	-
Performance Indicators 2013/14	Final	-	1	-
IT Disaster Recovery & Business Continuity	Final	-	7	-
Tyne Esk LEADER Programme	Final	2	11	-
Cash Handling and Banking	Final	-	10	-
Self-Directed Support	Final	3	6	-
Partnership Funding	Final	-	6	-
Schools Audit – Knox Academy	Final	1	1	1
Members' Gifts and Hospitality	Final	-	-	3
Mandatory and Discretionary Financial Assistance	Final	-	6	-
Frameworkki – Payments on Schedule	Final	-	5	-
Non-Domestic Rates	Final	-	4	-
Payroll Overtime	Final	-	6	-
Borrowings	Final	-	6	1
Pensions	Final	-	7	-
Fees and Charges	Draft	-	5	-
Totals		9	107	6

Conflicts of Interest

- 3.11 There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Performance Indicators

- 3.12 We have completed our audit work in accordance with the agreed plan and each of our final reports has been reported to the Audit and Governance Committee. Performance information for 2014/15 covers:

- Completion of the annual Audit Plan – 96%
- % of recommendations accepted by Management – 97%
- % of staff with CCAB accounting qualifications – 80%

- 3.13 Internal Audit received feedback from service areas relating to 2014/15 audit work undertaken, which included positive feedback on the value and performance of the Internal Audit Unit.

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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