

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 17 May 2016

**BY:** Internal Audit Manager

**SUBJECT:** Annual Internal Audit Report 2015/16

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## **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 2015/16 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 2015/16.

## **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).
- 3.2 The Council's Internal Audit resources in 2015/16 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 2015/16 through the following processes:

- Compliance with PSIAS.
- 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 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 Programme (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 to ensure conformance to the Standards. There has been ongoing monitoring of the QAIP throughout 2015/16.

#### **Delivery of the Internal Audit Service 2015/16**

- 3.6 In March 2015, the Audit and Governance Committee approved the Internal Audit Plan for 2015/16. Our audit plan was scoped to address the Council's key risks and strategic objectives.
- 3.7 In 2015/16 Internal Audit issued 20 reports (see Table A below). In addition, two audit reviews (Self-Directed Support – Children's Wellbeing and Section 75 Payments) are currently being finalised and a further review (Managing Capital Projects) is outstanding.
- 3.8 The audit work undertaken as part of the 2015/16 audit plan resulted in a number of recommendations being made (see Table A) – 15 recommendations were graded as high (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action), 112 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) and one low risk recommendation was made (i.e. a recommendation concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency). Our recommendations sought to address the weaknesses identified in the design of controls and operating effectiveness.
- 3.9 In addition to the reviews listed in Table A, Internal Audit has undertaken follow-up reviews of previous years' work to ensure that recommendations have been implemented by Management; carried out a review in respect of an associated committee of the Council and prepared reports for the Integration Joint Board Audit and Risk Committee.

3.10 As part of the 2015/16 audit plan we have completed the following reviews:

**Table A**

<b>Audit Assignment</b>	<b>Report Status</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
Exceptional Needs Funding	Final	-	6	-
Fuel Management	Final	1	7	-
Fisheries Local Action Group (FLAG)	Final	-	1	-
Travel and Subsistence	Final	-	8	-
Musselburgh Burgh Primary School	Final	-	12	1
Bad Debt Write-Offs	Final	-	7	-
Waste Management	Final	2	4	-
Risk Management	Final	-	3	-
Payments to Third Sector Organisations	Final	-	7	-
Out of Authority Placements	Final	-	7	-
Performance Indicators	Final	-	2	-
National Fraud Initiative	Final	-	7	-
Contracts Audit – Mid Road, Prestonpans	Final	5	-	-
Payroll	Final	-	8	-
Home to School Transport	Final	2	3	-
Housing Repairs Shared Costs	Final	5	1	-
Other Income	Final	-	14	-
Council Tax	Final	-	3	-
Agency Workers	Final	-	12	-
Universal Credit	Interim	-	-	-
<b>Totals</b>		<b>15</b>	<b>112</b>	<b>1</b>

### **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 undertaken 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 2015/16 covers:

- Completion of the annual Audit Plan – 95%
- % of recommendations accepted by Management – 99%
- % of staff with CCAB accounting qualifications – 80%

## **4 POLICY IMPLICATIONS**

4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **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 May 2016