

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 June 2017

BY: Internal Audit Manager

SUBJECT: Annual Internal Audit Report 2016/17

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 2016/17 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 2016/17.

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 2016/17 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 2016/17 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.

Delivery of the Internal Audit Service 2016/17

3.6 In March 2016, the Audit and Governance Committee approved the Internal Audit Plan for 2016/17. Our audit plan was scoped to address the Council's key risks and strategic objectives.

3.7 In 2016/17 Internal Audit issued 18 reports (see Table A below). In addition, two audit reviews (Housing Benefit & Council Tax Reduction and Gas Servicing & Maintenance) are currently being finalised and a further review (Fuel Management) is outstanding.

3.8 Table A outlines the audit work undertaken which resulted in a number of recommendations being made – 16 recommendations were graded as high (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action), 123 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) and 3 low risk recommendations were made (i.e. recommendations 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 and have prepared reports for the East Lothian Integration Joint Board Audit and Risk Committee.

3.10 We have completed the following reviews in 2016/17:

Table A

Audit Assignment	Report Status	High	Medium	Low
Section 75 Payments	Final	7	7	-
Direct Payments – Children’s Wellbeing	Final	-	11	-
Housing Voids	Final	-	9	-
PPP Contract Monitoring	Final	-	15	1
Preston Lodge High School	Final	-	9	1
Contracts Audit	Final	-	2	-
Freedom of Information (FOI)	Final	-	3	-
Home to School Transport	Final	3	2	-
Payments to Third Sector Organisations	Final	1	6	-
Prevention of Tenancy Fraud	Final	-	6	-
Public Services Network (PSN)	Final	-	6	-
Income – Waste Services	Final	2	5	-
Roads Contracts	Final	1	9	-
Performance Indicators 2015/16	Final	-	4	1
Workforce Planning	Final	-	7	-
Information Security	Final	-	11	-
Housing Revenue Account	Final	-	10	-
Capital Projects – Payment Certificates	Final	2	1	-
Totals		16	123	3

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 2016/17 covers:

- Completion of the annual Audit Plan – 95%
- % of recommendations accepted by Management – 98%
- % 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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