

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 February 2018

**BY:** Depute Chief Executive (Resources & People Services)

**SUBJECT:** Internal Audit Plan 2018/19

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's operational plan for 2018/19.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to approve the Audit Plan for 2018/19.

## **3 BACKGROUND**

- 3.1 The annual audit plan has been prepared in accordance with Public Sector Internal Audit Standards (PSIAS).

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

- the Council Plan 2017-22 and the key actions that the Council will pursue in order to meet its objectives;
- areas highlighted by Senior Officers;
- corporate and service area 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 2018/19 (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 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.

### **Integration Joint Board**

- 3.15 The Committee is asked to note that in 2018/19 internal audit services to the East Lothian Integration Joint Board will be provided by East Lothian Council's Internal Audit team.

- 3.16 For 2018/19, time has been allocated to carry out audit work for the Integration Joint Board.

## **INTERNAL AUDIT PERFORMANCE INDICATORS**

- 3.17 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**

- 3.18 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 2018/19 in the investigations section, but by its nature reactive work is difficult to predict.
- 3.19 The plan and its completion have added importance, given its contribution to the annual Controls Assurance Statement to be prepared at the end of 2018/19.

## **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>	8 February 2018

**INTERNAL AUDIT PLAN**

**2018/19**

**CONTENTS**

**PAGE**

<b>1. Introduction</b>	<b>see attached report</b>
<b>2. Financial and Non-Financial Audits</b>	<b>1</b>
<b>3. Statutory Audits</b>	<b>4</b>
<b>4. Best Value Audit</b>	<b>4</b>
<b>5. Investigations</b>	<b>4</b>
<b>6. Other Audit Work</b>	<b>4</b>
<b>7. Training</b>	<b>6</b>

**AUDIT PLAN 2018/19**

<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>			
Bank Reconciliations	We will check to ensure that appropriate and effective systems of control are in place for the Council's bank accounts.	High	6
Creditors	We will review the procedures in place for processing supplier invoices for payment and we will check to ensure that adequate arrangements are in place for the prevention and detection of duplicate payments.	High	6
NDR – Liability	We will continue our audit work on Non-Domestic Rates (NDR) – in 2018/19, we will review the arrangements in place for determining NDR liability.	Medium	6
Council Tax	We will continue our audit work on Council Tax – for 2018/19, our review will focus on the procedures in place for the recovery of Council Tax arrears.	Medium	6
VAT	For all payments processed by the Council, we will examine the arrangements in place to ensure that VAT is correctly accounted for.	Medium	6
Adult Services – Payments on Schedule	We will review payments on schedule processed through the Mosaic system – our audit will focus on the arrangements in place for the recovery of credit balances.	Medium	5

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Adult Services – Transport	We will review the transport arrangements within Adult Services – as part of the review we will assess if the arrangements in place for securing transport are cost effective and well managed.	Medium	5
Planning Enforcement	We will check to ensure that planning enforcement is being carried out in accordance with legislation and Council policy.	Medium	5
IT Systems Access	We will review the IT access controls/access rights in place for all the Council's main systems.	High	5
Fixed Assets	We will review the systems in place for maintaining and updating the Council's Fixed Asset Register.	Medium	5
Following the Public Pound	We will review the monitoring arrangements in place for a sample of organisations receiving partnership funding from the Council in 2018/19.	Medium	5
Trade Waste Income	We will review the arrangements in place for the billing and collection of trade waste income.	Medium	5
Contracts	As part of our annual review of procurement, we will examine a sample of contracts to ensure compliance with the Council's Corporate Procurement Procedures.	Medium	6

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Building Standards	We will examine the arrangements in place for the processing of applications received for building warrants, including the collection of income due to the Council.	Medium	6
Schools	We will review the financial arrangements operating within one secondary school to ensure compliance with the financial procedures in place.	Medium	5
Adult Services – Residential Care	We will review the arrangements in place for the assessment and charging of clients in residential care.	Medium	6
Business Grants and Loans	We will review the arrangements in place for the awarding of grants and loans to businesses within East Lothian.	Medium	5
Disclosure Checks	We will review the disclosure checking arrangements in place for members of staff and volunteers working with children and/or protected adults.	Medium	5
Conflicts of Interest	We will examine the arrangements in place for the disclosure of potential conflicts of interest by members of staff.	Medium	5
Special Projects	Internal Audit will review specific areas that are identified by Senior Officers.	–	6



AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
<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	4
<b>BEST VALUE AUDIT</b>			
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	Medium	5
<b>INVESTIGATIONS</b>			
National Fraud Initiative	Time has been allocated for coordinating and submitting data for the 2018/19 National Fraud Initiative (NFI) exercise.	Medium	6
Fraud and Irregularity	Internal Audit will investigate all instances of suspected fraud or irregularity.	High	10
Whistleblowing	We will investigate concerns raised under the Council's Whistleblowing Policy.	High	6
<b>OTHER AUDIT WORK</b>			
Integration Joint Board	Time has been allocated for work that will be undertaken by Internal Audit for the East Lothian Integration Joint Board (IJB). A separate audit plan will be prepared which will be presented to the IJB Audit and Risk Committee for approval.	Medium	24

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Review of Previous Year's Work	Internal Audit will review the outcome of our previous year's work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	Medium	10
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	<p>Community Councils – Internal Audit provide advice and support to Community Councils.</p> <p>Management Committees – Internal Audit will independently examine the annual accounts of Management Committees where applicable.</p>	Medium	4
Advice and Consultancy	<p>Consultation on New Systems – for new systems implemented, Internal Audit will provide advice on internal control matters.</p> <p>Tender Evaluations – attendance at tender openings and evaluations where requested by service areas.</p> <p>Returned Cheques – investigating and recording the reasons for returned cheques.</p> <p>Financial Reports – providing service areas 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>	Medium	6

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
<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
Annual Self Assessment	Time has been allocated for internal assessment of the internal audit function against the Public Sector Internal Audit Standards (PSIAS).	–	2