

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 June 2019

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Annual Internal Audit Report 2018/19

1 PURPOSE

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit 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 2018/19 and supports both the Council's Annual Governance Statement and the Internal Audit Controls Assurance Statement.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to note the contents of the Annual Internal Audit Report 2018/19.

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 seeks to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2 Internal Audit 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.
- 3.3 The Public Sector Internal Audit Standards (PSIAS) require that the annual report must incorporate a statement on Internal Audit's conformance with the PSIAS and Local Government Application Note and the results of the Quality Assurance and Improvement Programme (QAIP) that covers all

aspects of the internal audit activity. 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 2018/19 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).

3.4 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 and an External Quality Assessment of the Council's Internal Audit service was undertaken in May 2018 by the Chief Internal Auditor of Argyll and Bute Council.

Delivery of the Internal Audit Service

3.5 In February 2018, the Audit and Governance Committee approved the Internal Audit Plan for 2018/19. The plan was scoped to address the Council's key risks and strategic objectives.

3.6 In 2018/19, Internal Audit completed 19 audit reviews. In addition, two audit reviews (Creditors and Following the Public Pound) are currently in progress and a further review (Fixed Assets) is outstanding. Table A (see section 3.8 below) outlines the audit work undertaken in 2018/19. For each audit, Internal Audit has provided Management with an assessment of the adequacy and effectiveness of their systems of internal control. Of the 19 audit reviews undertaken in 2018/19:

- In 7 cases, Internal Audit provided Reasonable assurance.
- In 11 cases, Internal Audit provided Moderate assurance.
- In 1 case, Internal Audit provided Limited assurance.

3.7 For the 19 audit assignments undertaken, a total of 156 recommendations were made – 10 recommendations were graded as high (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action); 145 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) and one recommendation was graded as low (recommendations concerning minor issues that are not

critical, but which may prevent the attainment of best practice). Our recommendations sought to address the weaknesses identified in the design of controls and operating effectiveness.

3.8 We have completed the following reviews in 2018/19:

Table A

Audit Assignment	Level of Assurance
Debtors	Moderate
Procurement of Goods and Services (Property Maintenance)	Limited
Residential Charging	Reasonable
Value Added Tax (VAT)	Reasonable
Payments on Schedule	Moderate
Adult Services – Transport	Moderate
IT Access Controls	Moderate
Trade Waste Income	Moderate
Disclosure Checks	Reasonable
Non-Domestic Rates – Liability	Reasonable
Windygoul Primary School	Moderate
Conflicts of Interest	Moderate
Contracts	Moderate
Council Tax – Recovery and Enforcement	Reasonable
Building Standards	Reasonable
Bank Reconciliations	Reasonable
Performance Indicators	Moderate
Planning Enforcement	Moderate
Business Grants	Moderate

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 (IJB) Audit and Risk Committee.

Conflicts of Interest

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

Performance Indicators

3.11 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 2018/19 covers:

- Completion of the annual Audit Plan – 92%
- % of recommendations accepted by Management – 100%
- % of staff with CCAB accounting qualifications – 75%

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

AUTHOR'S NAME	Stuart Allan
DESIGNATION	Senior Auditor
CONTACT INFO	01620 827311
DATE	6 June 2019