

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 26 September 2023

**BY:** Service Manager – Internal Audit

**SUBJECT:** Revised Internal Audit Plan 2023/24

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's revised operational plan for 2023/24.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to approve the revised Audit Plan for 2023/24.

## **3 BACKGROUND**

- 3.1 As advised to the Audit and Governance Committee, a revised Internal Audit Plan for 2023/24 is being presented to the Audit and Governance Committee to take account of the ever changing Council risk profile, with a higher proportion of the Internal Audit Plan dedicated to areas focusing on financial sustainability. This plan will operate from September 2023 to June 2024.

- 3.2 The annual audit plan has been prepared in accordance with Public Sector Internal Audit Standards (PSIAS). Key changes in the plan are the addition of the following auditable areas to the plan:

- Capital Expenditure Contract Cost Management;
- Income Receipt, Reconciliation and Bad Debt Control;
- Treasury Management Income Maximisation;
- Agency Worker/Contractor Use Management; and
- Partnership Funding.

- 3.3 In order to ensure completion of these auditable areas the following auditable areas have been removed from the plan:
- Capital Expenditure Prioritisation
  - Petty Cash
  - IR35 Contractor Assessment Processes
  - PPP Contract Management
  - Area Partnerships
  - ALEO Enjoy Leisure
  - Risk Management
- 3.4 In preparing the annual audit plan a range of factors have been taken into account, including:
- the Council Plan 2022-27;
  - areas highlighted by Senior Officers;
  - corporate and service area risk registers;
  - the Council's performance and financial statements;
  - changes in service delivery;
  - the findings from previous years' audit work; and
  - the need to incorporate flexibility for reactive/investigatory work.
- 3.5 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.
- 3.6 Internal Audit are 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.
- 3.7 The provision of the Internal Audit service is on an in-house basis by the Council's Internal Audit Unit. The resources available have been applied to individual audits and a detailed operational plan has been produced for 2023/24 (see Appendix A).
- 3.8 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. Samples are selected according to an agreed sampling methodology.
- 3.9 For each individual audit, a detailed audit report is prepared for the relevant member(s) of the Council Management Team (CMT). Copies of the audit

report are provided to the Chief Executive, External Audit and to members of the Audit and Governance Committee.

- 3.10 Follow-up audits will be carried out to review the implementation of the recommendations made.

### **AUDIT COVERAGE**

- 3.11 Core Financial Systems, Risk Assessed Service and Corporate Audits – 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 risk assessed core financial systems and non-financial audits.
- 3.12 Statutory Audits – Internal Audit undertake audit work in respect of specific grant awards made to the Council by the Scottish Government, to ensure compliance with grant conditions. In addition work to provide assurances required by the Scottish Housing Regulator will also be completed.
- 3.13 Best Value Audit – Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.
- 3.14 Investigations – Time has been allocated to carry out work on the National Fraud Initiative 2022/23, and provide a reactive service to investigate fraud and irregularity when appropriate.
- 3.15 Integration Joint Board (IJB) – The Committee is asked to note that in 2023/24 internal audit services to the East Lothian IJB will be provided by East Lothian Council's Internal Audit Unit and time has been allocated to carry out audit work for the IJB.

### **INTERNAL AUDIT PERFORMANCE INDICATORS**

- 3.16 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**

- 3.17 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 2023/24 in the investigations section, but by its nature reactive work is difficult to predict, although further resource is available through the Counter Fraud Officer in completing some of the investigation work.
- 3.18 The plan and its completion have added importance, given its contribution to the annual Controls Assurance Statement to be prepared at the end of 2023/24.

#### **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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**REVISED INTERNAL AUDIT PLAN 2023/24****Appendix A**

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
<b>CORE FINANCIAL SYSTEMS AUDITS</b>			
Financial Sustainability/CIPFA FM Code	Examine the processes in place to demonstrate that the Council is taking all recommended steps to ensure continued financial sustainability in the long term against the financial sustainability principles within the CIPFA FM Code.	High	6
Capital Expenditure Contract Cost Management	Examine the processes in place for ensuring that capital contract costs remain within the contracted costs and are managed to remain within the budgeted project costs for each Capital Contract.	High	5
Income Receipt, Reconciliation and Bad Debt Control	For all sundry accounts examine the reconciliation controls to recorded income and the processes in place to ensure maximum recovery of income across all Council services.	Medium	5
Treasury Management Income Maximisation	Review of the Council's Treasury Management processes to ensure that maximum prudential returns are being made on available treasury funds.	Medium	4
Agency Worker/ Contractor Use Management	Examine the authorisation processes for approval of the use of agency workers and contractors across the Council and the management of the use of agency workers and contractors to ensure all risks to the Council are managed.	Medium	5

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
<b>RISK ASSESSED SERVICE &amp; CORPORATE AUDITS</b>			
Cost of Growth	Review the processes in place to establish what the revenue budget costs are of increasing Council services to meet increased population within East Lothian and how consideration of this growth is demonstrated in the annual budget process and development of medium and long term financial strategies.	High	5
Housing Void Management	Examine the processes in place within the Housing and Property Maintenance teams to manage the timely return of void properties to a compliant standard for operational use.	High	5
Devolved School Management	Examine the processes and controls in place to ensure compliance with the newly reviewed and approved Devolved School Management Procedures.	Medium	5
Asset Management Review Project Management	Examine the project management process in place in relation to the current asset management process of building moves across the Council to ensure that it is meeting the objectives set.	Medium	5
Utility Costs Management	Examine the processes in place to ensure that a best value process is in place to manage the utilities costs across the Council's buildings portfolio.	Medium	5
Musselburgh Flood Prevention Scheme Governance Processes	Examine the Governance processes in place to manage and control the development and procurement for the Musselburgh Flood Prevention Scheme.	Medium	5
Roads	Examine the Roads trading account operation and establish that this is operating in a best value format for the Council.	Medium	5

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Partnership Funding	Review the grant funding provided to external organisations by the Council and review the processes in place to ensure that funding is linked to specific outcomes and organisational sustainability promoted.	Medium	5
Education Additional Support Needs	Examine the processes around assessment and provision of additional support needs for children.	High	5
Assurance Reviews	Undertake assurance reviews on areas of key controls for new or evolving systems of control to provide support for developing systems.	–	10
<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	2
Scottish Housing Regulator (SHR) Annual Assurance Statement	Work required to provide assurance on the regulatory requirements set out in the Scottish Housing Regulator’s Chapter 3 of the Regulatory Framework.	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	4

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
<b>INVESTIGATIONS</b>			
Fraud & Irregularity	Internal Audit will investigate all instances of suspected fraud or irregularity.	High	20
National Fraud Initiative (NFI)	Time has been allocated to carry out work on the 2022/23 National Fraud Initiative (NFI) exercise, a Counter Fraud Officer has recently been recruited and will assist in progressing the matches provided through NFI.	Medium	5
<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	15
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	8
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	Community Councils – Internal Audit provide advice and support to Community Councils. Management Committees – Internal Audit will independently examine the annual accounts of Management Committees where applicable.	Medium	2



AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Advice and Consultancy	<p>Consultation on New Systems – for new systems implemented, Internal Audit will provide advice on internal control matters.</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 internal control issues.</p>	Medium	4
<b>TRAINING</b>			
Training	<p>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 to attend the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) and Computer Audit Sub Group, also for staff to undertake continuous professional development (CPD).</p>	–	4
External Quality Assessment	<p>The PSIAS requires the Internal Audit section to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Argyll &amp; Bute Council in April 2018 and the results were reported to the Audit &amp; Governance Committee in June 2018. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, indicates that East Lothian Council will be reviewed by Dumfries &amp; Galloway Council in 2023 and will review South Lanarkshire Council in 2023.</p>	–	4