

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 16 June 2020

**BY:** Service Manager – Internal Audit

**SUBJECT:** Annual Internal Audit Report 2019/20

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## **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 2019/20 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 2019/20.

## **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 2019/20 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 in February 2020. 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, providing a high level of assurance on internal audit's compliance with PSIAS.

### **Delivery of the Internal Audit Service**

- 3.5 In February 2019, the Audit and Governance Committee approved the Internal Audit Plan for 2019/20. The plan was scoped to address the Council's key risks and strategic objectives.
- 3.6 Resources within the Internal Audit team have been constrained during the year as a result of the Service Manager – Internal Audit retiring from their post in January 2019 and a new Service Manager – Internal Audit not being appointed until late October 2019. In addition due to a change in weekly hours worked by one member of audit staff there has been a reduction of 10 weeks of audit resource available for the 2019/20 Audit Plan.
- 3.7 As reported to the February 2020 Audit & Governance Committee, the intention was to complete all planned audit reviews, apart from the Fleet Management review, that formed part of the 2020/21 Audit Plan, for the scheduled June 2020 Audit & Governance Committee. However, due to the significant changes in the operating situation in March 2020 caused by the COVID-19 pandemic, completion of all the planned audit reviews has not been possible.
- 3.8 Reviews of Non Domestic Rates, Council Tax, Online Payments (School Pay) and Following the Public Pound (Partnership Funding) have been halted as service areas have faced unprecedented speed of change and

substantially increased volume of queries and transactions, limiting capability to engage in non-critical activity. The General Data Protection Regulation (GDPR) audit was halted as rapid changes in the use of data required for the support of communities have been required to support critical activity. The audit of Property Maintenance Stores was also halted as the working environment required to complete the audit would not be achievable with appropriate social distancing and could have impacted on the service's ability to complete critical activities.

3.9 There is an intention to recommence audits in all the areas above when it is appropriate to do so, however developed terms of reference and scopes of the reviews will require to be amended to be relevant to any change in circumstances. Further revisions to the 2020/21 Audit Plan are anticipated and will be presented to the September 2020 Audit & Governance Committee.

3.10 In 2019/20, Internal Audit completed 16 audit reviews and one further review, Transformation Programme, is in final draft awaiting full agreement of recommendations. Table A (see section 3.12 below) outlines the audit work undertaken in 2019/20. For each audit, Internal Audit has provided Management with an assessment of the adequacy and effectiveness of their systems of internal control. Of the 16 audit reviews undertaken in 2019/20:

- In 5 cases, Internal Audit provided Reasonable assurance.
- In 10 cases, Internal Audit provided Moderate assurance.
- In 1 case, Internal Audit provided Limited assurance.

3.11 For the 16 audit assignments finalised, a total of 172 recommendations were made – 12 recommendations were graded as high (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action); 154 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) and 6 recommendations were 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/or their operational effectiveness.

3.12 We have completed the following reviews in 2019/20:

**Table A**

<b>Audit Assignment</b>	<b>Level of Assurance</b>
Area Partnerships	Moderate
Creditors	Moderate
Purchase Cards	Moderate
Fixed Assets	Limited
IR35 (Off Payroll Workers in the Public Sector)	Moderate
Payroll Deductions	Reasonable

Risk Management	Reasonable
Procurement	Moderate
Homecare Services	Moderate
Records Management	Moderate
Performance Indicators	Moderate
Roads Contracts	Reasonable
Direct Payments	Moderate
Musselburgh Grammar School	Moderate
Fostering and Kinship Care Payments	Reasonable
Treasury Management	Reasonable

3.13 In addition to the reviews listed in Table A, Internal Audit has undertaken 5 Whistleblowing/Fraud and Irregularity reports in 2019/20.

3.14 Internal Audit has also 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**

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

#### **Performance Indicators**

3.16 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 2019/20 covers:

- Completion of the annual Audit Plan – 70%
- % of recommendations accepted by Management – 100%
- % 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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