

Follow-Up Review of Completed Internal Audit Recommendations

Duncan Stainbank, Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Note the results from the sample check of Internal Audit recommendations that have been marked as completed by Management in the period April 2022 to March 2023 to improve internal controls and governance, and mitigate risks;
- b) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, to mitigate risks, and consider whether it is satisfied with the progress made by Management;
- c) Considers whether it is satisfied with the outcomes or whether any further action is required;
- d) Endorse the proposal to extend the due dates for the overdue recommendations; and
- e) Note that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide an update to members of the Audit Committee on the results of the Internal Audit Follow-up review which included a sample check on the adequacy of new internal controls for Internal Audit recommendations marked as completed by Management in the period April 2022 to March 2023.

This report also provides an update to members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports.

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.

The remit of the Audit Committee includes “To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions”, as part of its high-level oversight of the Council’s governance, risk management and control framework.

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3 Background

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to improve internal controls, risk management and governance. At Internal Audit final report stage, the audit recommendations are input to the Pentana Performance system, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.
- 3.4 Each year, Internal Audit undertakes two follow up reviews on the recommendations it has raised. The first checks a sample of Internal Audit recommendations which have been reported as complete and reviews the adequacy of the actions taken and improvements made. The second reports on the progress Management have made in implementing the recommendations by the expected date. This year we have combined the two follow up reviews into one report.
- 3.5 The remit of the Audit Committee includes "To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions", as part of its high-level oversight of the Council's governance, risk management and control framework.

4 Review of Completion of Internal Audit Recommendations

- 4.1 The objective of this follow-up audit was to review a sample of Internal Audit recommendations that have been signed off by Management as complete during the period 1 April 2022 to 31 March 2023 to assess the evidence that recommendations have been implemented satisfactorily and to ensure that the new controls had the desired effect on improving internal control and governance and reducing risk.
- 4.2 A sample of 41 audit recommendations (plus 1 sub-action) which were at the 'completed' status on the Pentana Performance system were selected and evidence was obtained to support the satisfactory completion of each recommendation. Recommendations from the following Internal Audit reports were selected:

Financial Year	Internal Audit Report	No.	High Rated	Medium Rated	Low Rated
2018/19	Sales to Cash	1		1	
2019/20	Electronic Payment Systems	2			2
2019/20	Information Governance - Records Management	1		1	
2019/20	Leisure Management System	1		1	
2020/21	Social Housing Rents	1		1	
2021/22	Digital Learning Strategy and Equipped for Learning Project	2		2	
2021/22	Early Years Childcare (ELC) Expansion	5	1	3	1
2021/22	Housing Allocations	4	1	1	2
2021/22	ICT and Cyber Security	1		1	
2021/22	Learning Disabilities and Physical Disabilities (sub-action)	Sub action			Sub action
2021/22	Risk Management	4		4	
2021/22	Roads Maintenance Service	1			1
2021/22	Sustainable Environment	1		1	
2021/21	Waste Management and Recycling	1		1	
2022/22	Accounts Receivable	3		1	2
2022/23	Care at Home	1		1	
2022/23	Freedom of Information and Environmental Information Regulations	4		2	2
2022/23	PPP Schools Contract Management and Payment Mechanism	5		2	3
2022/23	Street Lighting	3		2	1
	Total	41	2	25	14

- 4.3 From the 41 recommendations tested, 27 (66%) plus the sub-action, were found to have been completed satisfactorily, 8 (20%) were identified as partially satisfactory requiring further work, and 6 (14%) were not satisfactory.
- 4.4 For the audit recommendations that had been completed satisfactorily the evidence that was provided by Management indicated that the action taken had the desired effect on improving internal control and governance and reducing risk.
- 4.5 For the 8 audit recommendations identified as partially satisfactory requiring further work: 2 were Low-rated and 6 were Medium-rated. Further work required for the 8 recommendations is detailed in the table below:

	Audit	Further Work required	Rating
1	2019/20 – Electronic Payments	There should be up to date documentation mapping out the flow of transactions for all relevant payment systems.	Low
2	2019/20 – Electronic Payments	Authorisation types in the Payment Guidelines need to be clarified.	Low
3	2019/20 – Leisure Management System	The outstanding debt recorded on the Legend system should be reviewed and updated.	Medium
4	2021/22 Digital Learning Strategy and Equipped for Learning Project	The Digital Learning Strategy should be updated to reflect the impact of the Equipped for Learning Project and provide a framework for future developments.	Medium
5	2021/22 – Early Years Children (ELC) Expansion	Undertake early years child roll projections.	Medium
6	2021/22 – Early Years Children (ELC) Expansion	Undertake appropriate lessons learned processes for ELC expansion projects when completed.	Medium
7	2021/22 – Risk Management	Risk management processes needs to be consistently applied across Council Services, and then maintain standards at this level.	Medium
8	2022/23 - PPP Schools Contract Management and Payment Mechanism	PPP2 MD forms should be provided. A reconciliation of the lifecycle element of all variations should be undertaken.	Medium

4.6 Of the 6 audit actions identified as not satisfied: 2 were Low-rated and 4 were medium related which are summarised in the table below:

	Audit	Recommendation	Rating
1	2021/22 – Risk Management	<p>Arrangements for monitoring and reporting of risks requires improvement in some areas:</p> <ul style="list-style-type: none"> • The CMT and Audit Committee should receive, on an annual basis, assurances of compliance with the Risk Management Policy. • Operational risk level information in respect of high or critical risks should be considered at DMTs for potential escalation to CMT. • Quality assurance checks on the application of risk management process should be undertaken and reported to DMTs as required in the Risk Management Policy. 	Medium
2	2021/22 - Waste Management and Recycling	The benefits of having performance data on various aspects of the waste collection process should be considered and if judged to be beneficial, performance targets should be set and monitored through the use of appropriate performance indicators.	Medium

3	2022/22 - PPP Schools Contract Management and Payment Mechanism	A risk register, in line with the Council's Risk Management Policy, should be created for PPP Services.	Low
4	2022/23 – Street Lighting	An effective lighting inspection programme should be developed and maintained.	Medium
5	2022/23 – Street Lighting	When calculating Performance Indicators, the following should be implemented: <ul style="list-style-type: none"> • retain an audit trail of source documentation for reported PIs; • create procedure notes to enable indicators to be produced in the absence of key individuals; • undertake quality assurance checks; and • consider benchmarking information with other councils to identify areas of improvements. 	Medium
6	2022/23 – Street Lighting	The service risk register requires to be reviewed and updated	Low

- 4.7 Discussions have been held with the action owners to highlight what is required to ensure the remaining elements of the audit actions are fully completed or a sustained control is established. A number of recommendations have not been completed as they are dependent on new systems being implemented. 14 audit actions have been re-opened on the Pentana Performance system to enable the recommendation to be completed by the new agreed action date with evidence of the improvement action undertaken.

5 Progress Update

- 5.1 The objective of the second review is to assess Management's reported performance in closing actions raised by Internal Audit by the agreed due date. It is Management's responsibility to design and maintain adequate risk management, governance and internal control processes and checking that the arrangements and controls are operating effectively which are also known as the first and second lines. The quarterly performance monitoring process provides an opportunity for Management to have a discussion on all of the open audit actions, including those that are overdue, the reasons why they were not completed by the original due date, risk mitigations in place in the interim and requests to Internal Audit for extensions to due dates.
- 5.2 An Internal Audit action report was generated from the Pentana Performance system on 18 December 2023 which reflected the Quarter 2 updates 2022/23. 3 actions were overdue and 129 actions (including sub-actions) were in progress which are summarised as follows:

Financial Year	Action Status	High	Medium	Low	Total
2018/19	In Progress	2	1	1	4
2019/20	In Progress	1	2	5	8
2020/21	In Progress	2	7	4	13
2021/22	In Progress	3	20	18	41
2022/23	In Progress	0	20	25	45
	Overdue	0	0	1	1
2023/24	In Progress	1	3	14	18
	Overdue	0	0	2	2
Total		9	53	70	132

- 5.3 The 3 overdue actions are summarised in Appendix B. The due dates for these are now to be extended to 31 January 2024 in the Pentana system, following further updates from management, which will ensure the actions are completed within a reasonable time (1 of the actions will be superseded by an action raised in the Risk Management internal audit report). CMT are in support of this proposal and the Audit Committee are asked to endorse this proposal.
- 5.4 In addition to our normal review a requested follow up review of all of the outstanding recommendations that an update is provided on the progress of the audit recommendations from the Construction Projects audit completed in May 2023. 7 of the 9 recommendations made have been marked as fully complete by management the one overdue recommendation in relation to risk management will be superseded by recommendations to be made in the Risk Management Audit that will be completed by March 2024, and the final recommendation will be fully implemented when draft procedures are finalised in the first quarter of 2024. Further work will now be completed by internal audit that will confirm the impact of the implementation of these recommendations and will be confirmed by June 2024 if there is complete evidence of implementation.
- 5.5 This report was prepared for presentation to the Audit Committee on 29 January 2024. As this report was produced from the Pentana system as of 18 December 2023, it should be noted that some actions will have been updated as completed during the Quarter 3 updates and some actions will have moved from 'In Progress' to 'Overdue' as they've gone beyond their due date. The progress on implementation of Internal Audit recommendations has been discussed with the Corporate Management Team on 17 January 2024.
- 5.6 A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2023/24 for Midlothian Council which is scheduled for presentation to the Audit Committee in May 2024.

6 Report Implications (Resource, Digital, Risk and Equalities)

6.1 Resource

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

6.2 Digital

There are no digital implications arising from this report.

6.3 Risk

The recommendations made by Internal Audit are designed to reduce the level of risk to which the Council is exposed through the strengthening of the control environment and management of risks.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

6.4 Ensuring Equalities

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

6.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☒ Holistic Working
- ☒ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☒ Transformational
- ☒ Preventative
- ☒ Asset-based
- ☒ Continuous Improvement
- ☒ One size fits one
- ☐ None of the above

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders. This report is presented to the Audit Committee to fulfil its remit "monitor the implementation of agreed actions", as part of its high-level oversight of the Council's governance, risk management and control framework.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. The implementation of Audit recommendations will continue to be tracked by Management using the Pentana Performance system and followed-up by Internal Audit. Any further matters of concern will be raised to CMT and the Audit Committee as appropriate.

A.6 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year are designed to assist the Council in improving its performance and outcomes.

A.7 Adopting a Preventative Approach

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Good governance is important to enable Midlothian Council to achieve its objectives.