

Internal Audit Work to December 2021

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the Executive Summaries of the final Internal Audit assurance reports issued;
- b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017), including the production of this report to communicate the audit results.

Date 13 January 2022

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3 Progress Report

- 3.1** The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out the following work in the period from 1 November to 31 December 2021 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2** The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the audit results.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Income Collection
 - Digital Learning Strategy and Equipped for Learning Project
- 3.4** An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Internal Audit Assurance Work in Progress

- 3.5** Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2021/22 consists of the following:

Audit Area	Audit Stage
Early Learning and Childcare Expansion	Draft report issued
Scottish Welfare Fund	Draft report issued
Sustainable Environment	Testing underway
Information Governance	Testing underway
ICT and Cyber Security	Testing underway
Waste and Recycling Services	Testing underway
Housing Allocations	Testing underway
Capital Investment	Testing underway
Business Continuity	Testing underway
Learning and Physical Disabilities Services	Planning & research
Adult Social Care Contract Monitoring	Planning & research
Schools (cyclical assurance audit)	Defer to 2022/23

Internal Audit Consultancy and Other Work

- 3.6** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, and Information Management Group.
 - Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums and meetings.
 - Carried out background research and engagement associated with the ongoing review and enhancement of the Council's Performance Management Framework (PMF). Internal Audit will continue to have oversight on any changes to the PMF and will include an assurance audit in its Annual Plan 2022/23 to critically evaluate the revised PMF and test a sample of performance indicators in Service Plans 2022/23 to validate their relevance, completeness and accuracy.

Recommendations

- 3.7** Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

High: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Medium: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.8** The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	0
Medium	2
Low	3
Sub-total reported this period	5
Previously reported	23
Total	28
Recommendations agreed with action plan	28
Not agreed; risk accepted	0
Total	28

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

4.1 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.

4.2 Digital

There are no digital implications arising from this report.

4.3 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. At the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. During each audit engagement the management of risk has been tested.

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.

4.4 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.

4.5 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 has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management relevant to the areas audited have agreed the final Internal Audit assurance reports as set out in the relevant Executive Summary within Appendix 1.

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.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Income Collection</p> <p>Category: Assurance – Cyclical b/f 2020/21</p> <p>Date issued: 01 December 2021 Draft; 20 December 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the collection of income and the Council's compliance with the Payment Card Industry Data Security Standard (PCI DSS) Standards. The audit included a review of the Parent-Pay system, and a follow up of the 4 recommendations made in the Sales to Cash audit issued in May 2019.</p> <p>Customers are encouraged to pay by direct debit or by debit / credit card online or by using the automated telephone system. A customer service platform project is underway to replace the CRM system and allow more online payments to be processed in line with the Digital Strategy.</p> <p>The Council is not yet fully PCI compliant. The risk of card data compromise has been reduced significantly through the outsourcing of the card payment processes to third party processors and by applying additional technical and organisational controls. A number of projects and discussions are ongoing with Civica and MasterCard to ensure online payments are processed more securely and meet the Strong Customer Authentication (SCA) requirements.</p> <p>Internal Audit considers that the level of assurance is Substantial; there are adequate and effective systems of control for the identification, recording and banking of income, and any payments which do not reconcile are investigated. Two of the four recommendations in the Sales to Cash audit issued in May 2019 have been actioned satisfactorily and the other two are in process and scheduled for completion by March 2022.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • The PCI DSS Compliance risk register should be reviewed and updated on the Pentana Performance system to reflect the risk score and control measures in place for employees processing payments while working remotely (Low) • The reporting facility within Parent-Pay should be utilised. Schools should ensure that all payments are recorded on the system and encourage parents to sign up to Parent-Pay. Further training to schools on the use of the system including reconciling online payments should be provided. (Low) • The procurement process should be undertaken to cover the current coin, cash and cheque collection requirements. (Low) 	0	0	3	Management have accepted the findings of the report and have agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Digital Learning Strategy and Equipped For Learning Project</p> <p>Category: Assurance – Risk</p> <p>Date issued: 07 December 2021 Draft; 13 January 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the roles and responsibilities and governance of the project to ensure that the digital learning rollout is aligned to Council priorities and business requirements.</p> <p>In May 2016 the Council published its strategy for digital learning: Learning in a Digital Age. The core principles underpinning the strategy are: digital innovation; digital literacy; together with learning and engagement. The Equipped for Learning Project initiated in May 2021, whilst the Education service review was underway and recruitment was taking place for the new Digital Learning and Inclusion team. The Council aims to provide every school age pupil living in Midlothian with a learning device such as an iPad or Google Chromebook as part of the Council's £10.5 million investment in digital learning.</p> <p>Internal Audit considers the level of assurance is Substantial - objectives, required outcomes, and roles and responsibilities for delivery of the Equipped for Learning Project are clearly set out, although criteria for success are yet to be agreed for some outcomes and IT professionals associated with the project consider delivery timescales to be very challenging. Project governance arrangements in place have yet to fully catch up with delivery of the first phase of the project but are now sufficiently advanced to be considered effective, particularly for future phases. The Council's established project governance arrangements for capital projects should be applied to all subsequent phases of the project.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • The Equipped for Learning project, once delivered, will have substantial implications for strategies in place including the Digital Learning Strategy and the Learning Estate Strategy. These strategies should be updated to reflect the impact of the project and provide a framework for future developments. (Medium) • The Council's established project governance arrangements for capital projects applicable to a project of this value should be applied to all subsequent phases of the project, including set out criteria for success for some outcomes on completion of the full business case, conduct gateway reviews at key milestones in the project plan, and ensure appropriate reporting to relevant Boards. (Medium) 	0	2	0	<p>Management Response: In general the findings are accurate and the recommendations are accepted with actions underway to implement the improvements; however, for context this is a complex project involving multiple teams to achieve business transformation and change with capital investment in technology to enable that transformation and change.</p>