Internal Audit Follow-Up of Recommendations Progress

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

a) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks, and consider whether it is satisfied with the progress made by Management;

b) Endorse the proposal to extend the due dates for the overdue recommendations; and

c) 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 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.

Date 15 February 2021

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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 Pentana, 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   A new Protocol for agreeing extensions to due dates for Internal Audit recommendations made was implemented in August 2019 to ensure that Internal Audit has oversight of this and to provide a visible audit trail within the Pentana Risk system.

3.5   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 (reported to the 12 October 2020 Audit Committee). The second reports on the progress Management have made in implementing the recommendations by the expected date (the subject of this report).

3.6   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.   Progress Update

4.1   An Internal Audit action performance report was generated from Pentana Performance on 17 December 2020 which reflected Quarter 2 updates from the current financial year. As at 17 December 2020, 10 actions were overdue and 47 actions were in progress.

Financial Year	Action Status	High	Medium	Low	Total
2016/17	Overdue	0	0	0	**0**
	In Progress	0	3	0	**3**
2017/18	Overdue	0	0	0	**0**
	In Progress	0	3	0	**3**
2018/19	Overdue	0	2	0	**2**
	In Progress	4	9	2	**15**
2019/20	Overdue	0	6	2	**8**
	In Progress	10	6	8	**24**
2020/21	Overdue	0	0	0	**0**
	In Progress	0	1	1	**2**
	Total	**14**	**30**	**13**	**57**

4.2   The table above demonstrates that 14 audit actions that were rated as High are in progress. From the 30 audit actions which are rated as Medium, 8 of these are overdue and 22 are in progress. From the 13 audit actions which are rated as Low, 2 of these are overdue and 11 are in progress.

4.3   The Overdue actions are summarised in Appendix 1. The proposal for the 10 actions which are overdue (8 medium rated and 2 low rated) is that their due dates in the Pentana system will be extended to 30 June 2021. This will ensure these are completed within a reasonable time in light of the ongoing Covid-19 pandemic. CMT are in support of this proposal and the Audit Committee are asked to endorse this proposal. In Progress actions are summarised in Appendix 2.

4.4   There has been a significant impact of Covid-19 response on Management's progress with the implementation of some of the Audit Recommendations due to capacity and delays in activity.

4.5   This report was prepared for presentation to the Audit Committee on 26 January 2021 which was subsequently cancelled. Since this report was produced from the Pentana system as at 17 December 2020, it should be noted that some actions have been Completed (marked *) and some actions have moved from In Progress to Overdue as they've gone beyond their due date.

4.6   The progress on implementation of Internal Audit recommendations has been discussed with Corporate Management Team on 24 February 2021 as part of their responsibility to design and maintain adequate risk management, governance and internal control processes and checking that the arrangements and controls are operating effectively. These are known as the first and second lines. Internal Audit is the third line.

4.7 The quarterly performance monitoring process provides an opportunity for Management to have a discussion on all 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. Internal Audit will continue to monitor for completion the outstanding recommendations.

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

5.1 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.

5.2 Digital

There are no digital implications arising from this report.

5.3 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.

5.4 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.

5.5 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 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. The report identifies the performance of the Council in closing Internal Audit recommendations by the agreed implementation date.

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.