Internal Audit Work to October 2022

Report by Principal 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 2022/23 was approved by the Audit Committee on 14 March 2022. 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 Principal 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 with the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Date 1 November 2022

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3   Progress Report

3.1   The Internal Audit Annual Plan 2022/23 was approved by the Audit Committee on 14 March 2022. Internal Audit has carried out the following work in the period from 1 April to 31 October 2022 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 with the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

3.3   Internal Audit issued final assurance reports on the following subjects:
   •   Freedom of Information and Environmental Information Regulation Requests;
   •   Street Lighting; and
   •   PPP Schools Contract Management and Payment Mechanism.

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 Principal 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 2022/23 consists of the following:

Audit Area	Audit Stage
Accounts Receivable - Sundry Debt	Drafting the report
Utilities: Energy and Water Consumption	Drafting the report
Employability Funded Programmes	Testing underway
Care at Home	Testing underway
Performance Management and Performance Indicators	Testing underway

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:

a) In its critical friend role provided an independent view and challenge at various forums including Capital Plan and Asset Management Board, Capital Plan Programme Board - Children Young People & Estates, Capital Plan Management Group, UKSPF Oversight Board and Information Management Group;

b) 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; and

c) Monitored publication of Audit Scotland reports and co-ordinated submission by management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.

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 2022/23:

Recs Rating	2022/23 Number of Recs
High	0
Medium	7
Low	8
Sub-total reported this period	**15**
Previously reported	0
Total	**15**

Recommendations agreed with action plan	15
Not agreed; risk accepted	0
Total	**15**

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 the Council to deliver its key priorities in support of achieving the its 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

The 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 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	
Subject: PPP Schools Contract Management and Payment Mechanism Category: Assurance – Cyclical Date issued: 8 September 2022 Draft 27 September 2022 Final Level of Assurance: Substantial for monitoring, helpdesk systems and payment mechanisms. Limited for lifecycle reporting, variations, site visits and recording of helpdesk tasks for 1 provider.	The purpose of the audit was to review the contract management arrangements over the Council's schools PPP (public-private partnership) contracts and the Not for Profit Distributing Model (NPDM) contract including review of the monthly payment mechanisms. The Council has two Public Private Partnership contracts: PPP1: Dalkeith Schools Community Campus; PPP2: 7 Primary School sites; and one Not for Profit Distributing Model (NPDM) contract (Newbattle Community Campus – NCC). Midlothian's PPP Services team are responsible for the management of Midlothian's school PPP contracts. For PPP1, the net cost after funding for 2021/22 was £2.320m and performance deductions of £2,126 were applied. For PPP2 the net cost after funding was £2.151m and no performance deductions were applied. For NCC the net cost after funding was £0.670m and performance deductions of £8,428 were applied. Internal Audit considers that the level of assurance is substantial in terms of the monitoring undertaken, the adequacy of the helpdesk systems, the application of the payment mechanism, and the monthly monitoring over the wider aspects of the Facilities Management. Assurance over monitoring of lifecycle reporting is Limited. Improvements are required over the contract change and variation process including clarifying the authorisation processes and retaining the audit trail of the budget holder's request, formalising the site visit process including the annual planning of this, the recording of completed helpdesk tasks for PPP2 schools, and creating a PPP Services risk register in line with the Council's Risk Management Policy. Internal Audit made the following recommendations: • The process for site visits should be formalised and an annual plan developed to ensure sufficient site locations are covered over a multi-year period. An appropriate pro-forma should be developed to document the completion of any site visits carried out. (Low) • Helpdesk guidance issued to school staff should be reviewed and issued for each contract. Management should review if remote access could be granted to the PPP1 helpdesk. Timescales for completion of tasks detailed in the helpdesk system should be reviewed with the PPP2 FM provider. (Low)	0	2	3	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

	• The audit trail and evidencing of segregation of duties for PPP Contract Changes and Variations should be improved. Clarification on authorisation thresholds should be sought and these should be documented in a relevant procedure. Appropriate evidence of competition/tendering should be sought, if relevant, for all change request. Additionally, PPP2 malicious damage forms should be provided to the Council. A financial reconciliation of the lifecycle element of all change requests should be undertaken. (Medium) • All relevant contractually required lifecycle information should be obtained and reviewed by PPP Services. (Medium) • A risk register, in line with the Council's Risk Management Policy, should be created for PPP Services. (Low)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Street Lighting Category: Assurance – Cyclical Date issued: 01 September 2022 Draft 29 September 2022 Final Level of Assurance: Limited	The purpose of this assurance audit was to review the controls over the installation of new street lighting and the maintenance of existing street lighting. Street lighting assets include columns, billboards, signs and cabinets and these are recorded on a database (Lighting+) which was developed in-house. The Lighting Service is responsible for carrying out repairs, undertaking inspections, and day-to-day operations including overseeing the maintenance of traffic signals which is externally contracted. The Capital Investment Strategy 2018 highlighted the continued replacement of old galvanised steel with aluminium columns and upgrades to LED at the same time. The contracts for delivering the capital works programme for street lighting (£3.5m) and for traffic signal term maintenance and installation of new equipment (£2m) have both recently been re-tendered as they expired in July 2022 and March 2021 respectively. Internal Audit considers that the level of assurance is Limited. The Lighting+ database is inaccurate, incomplete and no longer fit for purpose, inspections of street lighting are not undertaken on a timely basis and there is a 3 year backlog of scheduled maintenance. Calculation of the Performance Indicators were found to be inaccurate and incomplete and checks on work undertaken by contractors are not documented before invoices are approved for payment. Internal Audit made the following recommendations: • An effective lighting inspection programme should be developed and maintained. This should include night time inspections. (Medium) • An effective system for recording and maintaining street lighting assets should be implemented. (Medium) • When calculating Performance Indicators the following should be implemented: 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 council's to identify areas of improvements. (Medium) • Policies and procedures require to be reviewed and updated to reflect current practice and standards for street lighting. In addition, all policies and procedures should have adequate version controls. (Low)	0	3	3	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations. Management are currently reviewing the market for an IT application to maintain assets.

	- Documentation of checks undertaken during site visits should be recorded to confirm the value of work undertaken by the contractor before payment is made. All issues reported to the contractor should be recorded and details of how the issue was rectified should also be noted. (Low) - The service risk register requires to be reviewed and updated. (Low)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Freedom of Information and Environmental Information Regulation Requests Category: Assurance – Cyclical Date issued: 7 September 2022 Draft 27 September 2022 Final Level of Assurance: Substantial for governance, system, procedures and training Limited for response times, authorisation and appeals	The purpose of the audit was to review the controls in place to ensure Freedom of Information (FOI) and Environmental Information Regulation (EIR) requests are dealt with adequately and in a timely manner. This included a review of the implementation of the new customer services platform for the FOI and EIR module. The Freedom of Information (Scotland) Act (FOISA) 2002 gives everyone the right to ask for information held by Scottish Public Authorities. The FOISA is enforced by the Scottish Information Commissioner (SIC) and responses must be provided within 20 working days of receipt of the request. The Environmental Information (Scotland) Regulations (EISA) 2004 give everyone the right to ask for environmental information held by a Scottish Public Authority (and some other bodies due to the definition being more broadly defined within the EIRs). EIRs should be responded to within 20 working days. The Council replaced its FOI and EIR system with an off-the-shelf solution in March 2022. The implementation of the new system is part of the Council's wider Customer Services e-Platform project. Information requests are made online via a self-service portal. A disclosure log has been introduced to enable the public to search online for previously made information requests and check if their query has already been answered before making a request. An audit trail of the FOI/EIR response is recorded and an authorisation hierarchy is in place within the system to ensure there is quality control over all FOIs/EIRs before they are published. Management have advised that the new system will have improved reporting functionality, however at the time of reporting this is not yet in place due to delays from the provider. It has been advised that this will be introduced within the next month. The Council is currently under Stage 1 Monitoring by the SIC due to the number of FOIs and EIRs responded to late or not responded to exceeding 20% over the past two years. The percentage of FOI and EIRs responded to late or not responded to in the required timescale was 26.7% for Q1 2022/23 (it was noted that Health and Social Care did not have any late responses). The changes introduced by management and the replacement FOI/EIR system will provide improved visibility over areas where there are bottlenecks once the reporting tool is in place.	0	2	2	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

	Internal Audit considers that the level of assurance is Substantial over: the governance framework established to respond to FOI and EIR requests; the systems and procedures in place to receive, allocate and respond to requests; and the training provided to staff. Assurance over responding to FOI and EIR requests in the required timescales is Limited. Not all FOIs/EIRs were being submitted for authorisation within the system as per the new FOI/EIR procedures, processes for FOI/EIR internal reviews require strengthening to ensure there is sufficient independence over reviews, user guidance over the use of the disclosure log requires expansion, and some procedures require update. Management have advised that they intend to introduce periodic quality assurance processes but this will require implementation of the reporting functionality. Internal Audit made the following recommendations: • Management should continue to review the reasons for late response times and reporting should be developed and provided to service managers to allow services to identify bottlenecks in order to improve the response times. (Medium) • The authorisation process for FOIs and EIRs should be reiterated to users to ensure they are aware of the new requirements. Monitoring should be undertaken to ensure requests are appropriately authorised and feedback provided when requests are not correctly authorised. (Medium) • The FOISA and EIR guidance should be updated to take into account changes introduced by the new system, any additional guidance from the SIC, changes in the Council structure and the membership of the FOI officer advisory group. (Low) • Appeal procedures and processes should be enhanced to ensure independence and fairness over reviews. The use of the disclosure log should be reviewed to ensure officers follow best practice on whether to disclose the response. The possibility of introducing system enforced processes for reviews should be explored. (Low)				