Internal Audit Work to August 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 results of the reviews.

Date   17 September 2021

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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 April to 31 August 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 results of the reviews.

3.3   Internal Audit issued final assurance reports on the following subjects:
   •   Homelessness
   •   Invoice Approval and Optical Character Recognition

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
Risk Management	Draft Report issued
Roads Maintenance Service	Report being drafted
EU Funded Programme Tyne Esk LEADER	Report being drafted
Income Collection	Testing underway
Performance Management (LGBF)	Testing underway
Digital Learning Strategy	Testing underway
Performance Management (Framework)	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 Business Transformation Board, Capital Plan and Asset Management 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.

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.

d) Carried out background research and analysis associated with the Financial Policy and Governance Framework assurance audit. This has been preparation in advance of working with Financial Services in a critical friend role in alignment with the timescales of their work programme of financial policy review.

e) Undertaken some initial Internal Audit work on the Destination Hillend capital project associated with the Capital Investment assurance audit.

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	5
Sub-total reported this period	**7**
Previously reported	0
Total	**7**

Recommendations agreed with action plan	7
Not agreed; risk accepted	0
Total	**7**

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

4.1 Resource

Internal Audit staff resources have been adversely affected during the first quarter of the year due the continued part-time deployment of the two Internal Auditors to assist with the administration of support grant payments, as part of the Council's ongoing emergency response associated with the Covid-19 pandemic.

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	
Subject: Homelessness Category: Assurance – Cyclical b/f 2020/21 Date issued: 02 July 2021 Draft; 26 August 2021 Final Level of Assurance: Substantial (the advice and assistance provided, application and assessment processes, linkages with other services, and budget monitoring) and Limited (case management and quality assurance).	The purpose of this assurance audit was to review the controls in place to ensure the achievement of statutory obligations for the Homelessness Service, including the prevention and support arrangements in place for the Council's customers. The Council has a legal duty to assist all applicants presenting as homeless or at risk of homelessness as set out in the Housing (Scotland) Act 1987. As at April 2021 Midlothian Council had 785 open homelessness cases and 393 service users in temporary accommodation. The number of open homelessness cases has reduced by 26% since April 2017 (1068). The number of presentations has remained similar in the past few years. In 2020/21 the average case length for a homelessness applicant was 110 weeks as at April 2021, up from 107 weeks in April 2017. As reported in the Local Housing Strategy 2021-2026, the length of time taken for homeless households to wait for permanent housing in Midlothian is the longest in Scotland, and the waiting time is not expected to decrease for several years due to the backlog of homeless applications. Midlothian Council has a low stock turnover of social housing. In addition, the pressure of having the fastest growing population in Scotland in percentage terms has contributed significantly to the demand for social housing. These factors put Midlothian Council in a challenging position with regard to homelessness. The Homelessness Service ceased using B&B Accommodation as emergency accommodation from the end of November 2020. This was achieved by introducing shared tenancies with two people sharing a property each with their own lockable bedroom, through providing additional supported accommodation spaces managed by the Council's external provider, and the Housing Allocations Policy (updated in April 2020) increased the proportion of all lets to Homeless applicants from 45% to 60%. The Council has implemented the Housing First scheme to help permanently re-house service users with repeat instances of homelessness, increased partnership working with Children's Services to develop prevention pathways, and is developing a Prevention Fund to intervene and prevent cases of homelessness arising in the future. These activities are documented in the Council's revised Rapid Rehousing Transition Plan, submitted to the Scottish Government in June 2020.	0	1	4	Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations, two of which have now been completed.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Homelessness (cont'd)	Internal Audit considers the level of assurance we are able to give is Substantial in relation to the advice and assistance provided, application and assessment processes, linkages with other services, and budget monitoring, and Limited in relation to case management and quality assurance. Internal Audit made the following recommendations: • Homelessness service's webpage should be updated to cover the full range of services offered and service information leaflets updated and distributed as required. (Low) • Suitable audit trails should be established for the assessment of cases (ensuring the basis of the conclusions of the three tests of homelessness are consistently recorded in a standard format) and all documentation / evidence relating to applications retained on file. The audit trail of the shortlisting process for temporary accommodation and for the declaration of conflicts of interest for the Housing First scheme should be improved. (Low) • Management should develop a risk register for the Housing Services and Homelessness Services and periodic risk reporting, given the statutory nature of the services. (Low) • Management should review the routine review and lost contact processes to prioritise the cases with the oldest planned review date and improve monthly performance in the number of outstanding reviews. Processes should be developed to improve the audit trail of management case reviews and report on these. (Medium) • Management should liaise with Financial Services to ensure that the service budgets for third party payments and service charge income are brought into line with the current level of activity and contractual arrangements in place. (Low)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Invoice Approval & OCR (Optical Character Recognition) Category: Assurance – Risk b/f 2019/20 & 2020/21 Date issued: 7 September 2021 Draft; 14 September 2021 Final Level of Assurance: Substantial	The purpose of this assurance audit was to assess the authorisation controls, including segregation of duties and security controls, over the invoice approval and optical character recognition process. The finance system used by the Council is Integra 2 provided by Capita. In 2017 the Council purchased the Invoice Approval System module (IAS module) of the Integra finance system and commenced a project to implement this module across the Council with some services first trialling it in late 2017. The module allows for the electronic authorisation of invoices registered with Integra, and complements the existing purchase order authorisation module within the system. The system has replaced the paper authorisation processes for a large number of Council services. There are five distinct processes for the payment of invoices in the Integra system: Invoice Approval, E-invoicing, Mosaic Interface, manual (paper) authorised invoices and bankline payments. For the financial year 2020/21, £374m (volume 96k) of payments were processed through Integra and £73.5m (volume 21k) of these were authorised through the IAS module. A small number of duplicate payments were identified from a data match exercise carried out on all types of payments processed through Integra (12 duplicates totalling £13,852; 8 from IAS totalling £5,288). £11,126 has already been recovered to date. Given the volume and financial value of invoices paid through Integra, this provides good assurance that duplicate invoice payments are minimised. Internal Audit will carry out an annual data match to assist with detection and recovery of any duplicate payments. It was found that segregation of duties and a robust audit trail is embedded within the system. Internal Audit considers that the level of assurance is Substantial for the invoice approval and optical character recognition process. Internal Audit made the following recommendations: • Authorisation levels in Integra should be reviewed and the Authorised Signatories Database should be updated. (Medium) • Monitoring should be enhanced to ensure invoices waiting for authorisation and allocated to known leavers are promptly identified and reallocated. (Low)	0	1	1	Recommendations accepted in full by Management and action underway to implement these to secure comprehensive assurance.