

Follow-Up Review of Completed Internal Audit Recommendations

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Note the results of the spot check on Internal Audit recommendations that have been marked as completed by Management in the period April 2020 to March 2021 to improve internal controls and governance, and mitigate risks; and
- b) Considers whether it is satisfied with the outcomes or whether any further action is required.

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 2020 to March 2021.

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 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 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 marked as complete by Management and reviews the adequacy of the actions taken and improvements made (the subject of this report). The second reports on the progress Management have made in implementing the recommendations by the expected date (scheduled for 7 December 2021 Audit Committee).
- 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 Update Report

- 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 2020 and 31 March 2021 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. The initial follow-up audit work was carried out in the first quarter 2021/22.
- 4.2 A sample of 36 Internal Audit recommendations were selected, which were shown at the 'completed' status on the Pentana system relating to the following Internal Audit reports, and evidence was obtained to support the satisfactory completion of each recommendation sampled. Summary is shown below:

Financial Year	Internal Audit Report	No.	High Rated	Medium Rated	Low Rated
2016/17	Monitoring of External Care Homes	1		1	
2016/17	Stores	1		1	
2016/17	Sundry Debt	2		2	
2017/18	Climate Change Reporting	1		1	
2017/18	Complaints	2		2	
2018/19	Follow-up of Audit Actions	1		1	
2018/19	Following the Public Pound	1		1	
2018/19	Payroll Starters and Leavers	1		1	
2018/19	Workforce Strategy and Planning	2	1	1	
2019/20	Asset Registers	2		1	1
2019/20	Attendance Management	1	1		
2019/20	Business Planning, Budget Setting and Monitoring	2		2	
2019/20	Change and transformation	5	4	1	
2019/20	Commercial Rents	2		1	1
2019/20	Electronic Payment Systems	3		2	1
2019/20	ICT Operational Processes	1		1	
2019/20	Information Governance (Records Management)	3			3
2019/20	Leisure Management System	2		2	
2019/20	Procurement and Management of Contracts	2	2		
2019/20	Social Care, Charging and Billing	1			1
	Total	36	8	21	7

- 4.3 From the 36 Audit recommendations tested, 31 (86%) were found to have been completed satisfactorily, and 5 (14%) were identified as partially satisfactory requiring further work.
- 4.4 For the 31 Audit recommendations that were found to have been completed satisfactorily (8 High-rated; 17 Medium-rated; and 6 Low-rated) the evidence that was provided by Management indicated that they have been implemented satisfactorily and the action taken had the desired effect on improving internal control and governance. This is a positive outcome during an extremely challenging period.
- 4.5 Of the 5 Audit recommendations identified as partially satisfactory requiring further work: 4 were Medium-rated and related to Business Planning, Budget Setting and Monitoring (2), and Leisure Management System (2); and 1 was Low-rated and related to Electronic Payment Systems (1). In all instances, action had been taken by Management to progress the recommendations though these had not been completed in their entirety to provide the improvements required and as initially agreed.
- 4.6 There has been positive engagement between Internal Audit and the Audit Action Owners to confirm what is required to ensure the remaining elements of the Audit Actions are fully completed or a sustained control is established to improve internal controls and governance, and reduce risk. These Audit Actions have been re-opened on the Pentana system as 'in progress' to enable the remaining elements to be completed by the agreed timescales.

4.7 The 5 Audit recommendations identified as partially satisfactory requiring further work are shown below:

Audit	Recommendation	Rating
2019/20 - Business Planning, Budget Setting and Monitoring	The Financial Services team should review budget monitoring reporting at other local authorities of a similar size to Midlothian. Opportunities exist to present reports in more detail and with greater clarity for users than are currently produced; a fuller explanation of the reasons and implications of revisions to budgets during the year would be helpful to aid all stakeholders in their understanding of the budget position.	Medium
2019/20 - Business Planning, Budget Setting and Monitoring	As the position with savings will be assessed as part of the quarterly budget monitoring reporting, progress with the achievement of savings targets should be integrated into the budget monitoring reports and then reused for reporting to BTB and BTSg.	Medium
Leisure Management System	The Project Board for the Legend system should be resumed. It should review progress with the project objectives, any issues identified, any outstanding project actions and the project plan should be updated accordingly.	Medium
Leisure Management System	The outstanding debt recorded on the Legend system should be reviewed and updated to ensure it accurately reflects any invoices paid via Integra. The refund policy for block bookings should be reviewed taking account of VAT regulations.	Medium
Electronic Payment Systems	A Business Continuity Plan for the payment systems should be developed and should be subject to periodic testing (e.g. annual review).	Low

4.8 Internal Audit will continue to work with Executive Business Managers and Audit Action Owners as a critical friend to ensure the Audit Actions are fully completed with provision of evidence to support this, to demonstrate continuous improvement. Audit Actions Owners have been reminded that requests can be made to extend due dates if progress on their implementation is not as originally expected.

4.9 The Corporate Management Team routinely consider audit matters as part of their Senior Management oversight of progress with and outcomes from implementing Internal Audit recommendations. CMT considered this report on 8 September 2021.

4.10 Internal Audit will carry out the second Internal Audit Recommendation Follow-up Review within the Internal Audit Annual Plan 2021/22 in due course. The objective of the second review will be to assess Management's reported performance in closing actions raised by Internal Audit by the agreed due date. The outcomes and any matters of concern will be reported to CMT and the Audit Committee in December 2021.

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 Chief Executive and Directors 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 Corporate Management Team 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.