



## **Internal Audit Follow-Up of Completed Recommendations Report by Chief Internal Auditor**

### **1. Purpose of the Report**

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 in previous years to improve internal controls and governance.

### **2. Background**

- 2.1 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.
- 2.2 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. 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.
- 2.3 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.
- 2.4 The Internal Audit Annual Plan 2019/20 includes Recommendation Follow-up Reviews being activity for two follow-up reviews.

### **3. Progress Report**

- 3.1 The objective of this follow-up audit was to review a sample of recommendations that have been signed off as complete during the period 1 April 2018 and 31 March 2019 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.
- 3.2 A sample of 60 audit recommendations were selected from the Pentana system which were shown at the 'completed' status and evidence obtained to support the satisfactory completion of each recommendation sampled. This included 5 high priority recommendations, 41 medium priority recommendations, and 14 low priority recommendations.

- 3.3 The recommendations from the following Internal Audit reports were selected as a sample for this review:

<b>Audit Report</b>	<b>No. Recs in Sample</b>	<b>High Rated</b>	<b>Medium Rated</b>	<b>Low Rated</b>
Accounts Payable	10	1	5	4
Complaints	18	4	11	3
Payroll – Review of Starters and Leavers	2	0	2	0
Purchase Cards	9	0	7	2
Social Housing Programme Phase 2	7	0	3	4
Trade Waste	12	0	11	1
Treasury Management	2	0	2	0
<b>Total</b>	<b>60</b>	<b>5</b>	<b>41</b>	<b>14</b>

- 3.4 We have identified that the majority of audit actions have been completed satisfactorily. However, we have identified that some actions have not been adequately completed. From the 60 recommendations tested, 51 (85%) were found to have been completed satisfactorily, and 9 (15%) were identified as requiring further work. All the High-rated audit actions have been implemented. Of the 9 audit actions requiring further work: 6 were Medium-rated and 3 were Low-rated; and 3 related to Accounts Payable (2017/18), 2 related to the Social Housing Programme Phase 2 (2018/19) and 4 related to Trade Waste (2017/18).
- 3.5 The Internal Audit Report on Follow-Up of Completed Audit Recommendations was reported to Corporate Management Team on 14 August 2019. CMT had a discussion on the actions which were showing as not complete and some of the reasons why they were not completed. It was highlighted that it was unacceptable to mark an audit action as complete without the relevant evidence to support this. It was agreed that the 9 actions showing incomplete should be completed and it was agreed that these would be completed by 30 August 2019 with robust evidence to show that these were actually complete.
- 3.6 Further Internal Audit follow-up of the 9 actions shown as incomplete on 14 August 2019 indicates that all now are completed with robust evidence to show that these were actually implemented and that the resulting controls were operating effectively.
- 3.7 The further Internal Audit follow-up activity also indicated that: One recommendation (Medium-rated; Accounts Payable) was updated in good faith at the time of original completion though a flaw in a report from the Integra system, used to identify and deactivate the accounts of inactive users, was identified during the Internal Audit follow-up process. An additional control has now been established until such time that the supplier's system change can be fulfilled; good progress was made by the new incumbent Waste Risk and Resilience Manager to complete the necessary actions to address previously identified control issues for Four recommendations (Three Medium-rated and one Low-rated: Trade Waste).

- 3.8 Internal Audit will carry out the second recommendation follow-up review within the Internal Audit Annual Plan 2019/20 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 2019.

#### **4. Report Implications**

##### **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 Risk**

Internal Audit provides assurance to Management and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, highlights good practice and makes recommendations.

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.

##### **4.3 Single Midlothian Plan**

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

##### **4.4 Key Priorities within the Single Midlothian Plan**

Midlothian Council and its Community Planning Partners include the following areas as key priorities under the Single Midlothian Plan:

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

##### **4.5 Impact on Performance and Outcomes**

The Findings and Recommendations from Internal Audit work during the year assists the Council in improving its performance and outcomes.

#### 4.6 **Adopting a Preventative Approach**

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

#### 4.7 **Involving Communities and Other Stakeholders**

The Internal Audit Report on Follow-Up of Completed Audit Recommendations has been presented to the Corporate Management Team (comprising Chief Executive, Directors, and Heads of Service) to outline the key messages of assurance and areas of improvement. 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. 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.

#### 4.8 **Ensuring Equalities**

There are no equalities issues with regard to this report.

#### 4.9 **Supporting Sustainable Development**

There are no sustainability issues with regard to this report.

#### 4.10 **IT Issues**

There are no IT issues with regard to this report.

### 5. **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
- b) Considers whether it is satisfied with the progress or whether any further action is required.

**Date:** 12 September 2019  
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