Internal Audit Follow-Up of Completed 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 2019 to March 2020 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 Recommendation Follow-up Review which included a sample check on the adequacy of new internal controls for Audit Actions flagged as closed.

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 9 September 2020

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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 reported as complete 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 8 December 2020 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 2019 and 31 March 2020 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.

4.2   A sample of 36 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. Details are as below:

Audit Report	No. Recs in Sample	High Rated	Medium Rated	Low Rated
Asset Registers	1		1	
Attendance Management	3			3
Commercial Rents	3			3
Developer Contributions	5		5	
Following the Public Pound	6		5	1
ICT Security Controls	6		4	2
Performance Management	3		1	2
Pupil Equity Funding	5	1	3	1
Sales to Cash	2		2	
Social Care Income Charging and Billing	2			2
Total	**36**	**1**	**21**	**14**

4.3 From the 36 recommendations tested, 1 (3%) was not completed, 28 (78%) were found to have been completed satisfactorily and 7 (19%) were identified as partially satisfactory requiring further work.

4.4 The audit recommendation that was not completed was Medium-rated and was the revised Supplementary Planning Guidance which is still in draft and has not yet been approved by the Planning Committee (Developer Contributions). This audit action has been re-opened on the Pentana system to enable the action to be completed by the end of 2020 with evidence of the improvement action undertaken.

4.5 Of the 7 audit actions identified as partially satisfactory requiring further work: 1 was High-rated and related to the procurement of contracts using Pupil Equity Funding - this was implemented at the time but has not been sustained; 6 were Medium-rated and related to Asset Registers (1), Developer Contributions (2), Following the Public Pound (1), Pupil Equity Funding (1), and Sales to Cash (1). Discussions have been held between Internal Audit and the action owners to highlight what is required to ensure the remaining elements of the audit actions are fully completed or a sustained control is established.

4.6 A key factor for Management to enable and evidence sustained controls is having documented processes, workflows or checklists that are up-to-date and published where they are accessible to ensure there is awareness of the expected control (first line); supplemented by Management oversight and monitoring that arrangements and controls are operating effectively (second line). This is of particular importance for Midlothian Council at a time of rapid change in personnel, roles and structures within the organisation.

4.7 The Corporate Management Team considered the Internal Audit follow-up findings on 9 September 2020. It was agreed that Internal Audit would work with Directors as a critical friend to ensure the remaining elements of the audit actions are fully completed or a sustained control is established, to assist with continuous improvement. Progress has already been made on these; one action is now fully complete.

4.8 Internal Audit will carry out the second Internal Audit Recommendation Follow-up Review within the Internal Audit Annual Plan 2020/21 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 2020.

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.

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.