Internal Audit Work to August 2019
Report by Chief Internal Auditor

1.   Purpose of the Report

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.

2.   Progress Report

2.1   The Internal Audit Annual Plan 2019/20 was approved by the Audit Committee on 12 March 2019. Internal Audit has carried out the following work in the period from 1 April to 30 August 2019 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.

2.2   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.

2.3   Internal Audit issued final assurance reports on the following subjects:
   •   Attendance Management
   •   Asset Registers

2.4   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 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

2.5   Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2019/20 consists of the following:

Audit Area	Audit Stage
Change and Transformation Programme	Testing underway
Business Planning, Budget Setting and Monitoring	Testing underway
Social Care Income Charging, Billing and Collection	Testing underway
EU Funded Programme Tyne Esk LEADER	Testing underway
Procurement and Management of Contracts	Planning underway

Internal Audit Consultancy and Other Work

2.6   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) Provide guidance and advice to Managers on internal controls.
b) In its critical friend role provide an independent view and challenge at various forums including Business Transformation Board, Capital Planning and Asset Management Board, and Learning Estate Strategy Board.
c) Follow up review of previous audit recommendations – sample check on the adequacy of new internal controls for Audit Actions flagged as closed.
d) Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.
e) Attend and provide support for the Risk Management Group and the Serious and Organised Crime Group.
f) Undertake Data Analytics training with Scottish Borders Council as part of shared services.
g) Attend the SLACIAG Computer Audit Sub-Group.

Recommendations

2.6   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.

2.7 The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	1
Medium	4
Low	5
Sub-total reported this period	**10**
Previously reported	0
Total	**10**

Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	**10**

3. Report Implications

3.1 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.

3.2 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.

3.3 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

3.4 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

3.5 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.

3.6 Adopting a Preventative Approach

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

3.7 Involving Communities and Other Stakeholders

This report 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. Relevant Heads of Service and Service Managers have agreed the final Internal Audit reports as set out in the relevant Executive Summary within Appendix 1.

3.8 Ensuring Equalities

There are no equalities issues with regard to this report.

3.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

3.10 IT Issues

There are no IT issues with regard to this report.

4. Recommendations

The Audit Committee is asked to:

a) Note the final assurance reports issued in the period from 1 April to 30 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and

b) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

Date: **12 September 2019**
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