

**Internal Audit Work to December 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 2 November to 31 December 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:
- Social Care Income Charging, Billing and Collection
 - Commercial Rents
 - Environmental Health
 - Electronic Payment Systems
- 2.4 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

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 |
|--|---------------------|
| Procurement and Management of Contracts | Drafting the Report |
| Change and Transformation Programme | Drafting the Report |
| Business Planning, Budget Setting and Monitoring | Drafting the Report |
| ICT Operational Processes | Testing Underway |
| Community Empowerment | Planning underway |
| Leisure Management Booking System | 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) In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Planning and Asset Management Board, Learning Estate Strategy Board, Information Management Group, and Early Learning and Childcare Expansion Working Group.
- b) 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.
- c) Attended and provided support for the Serious and Organised Crime Group (Principal Internal Auditor).
- d) Attended the SLACIAG quarterly meeting (Chief Internal Auditor), 2-day CIIA Conference (Principal Internal Auditor), Cyber Security Conference (Internal Auditor) and SLACIAG Computer Audit Sub-Group quarterly meeting (Internal Auditor) for personal learning and development.

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 | 0 |
| Medium | 5 |
| Low | 13 |
| Sub-total reported this period | 18 |
| Previously reported | 15 |
| Total | 33 |
| Recommendations agreed with action plan | 33 |
| Not agreed; risk accepted | 0 |
| Total | 33 |

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 on 15 January 2020 (as part of BTB) to outline the key messages of assurance and areas of improvement. Executive Directors, Chief Officers/Heads of Service and Service Managers relevant to the area audited 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 2 November to 31 December 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: 09 January 2020
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| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|---|---|-----------------|---|---|--|
| | | H | M | L | |
| <p>Subject: Social Care Income Charging, Billing and Collection</p> <p>Category: Assurance - Cyclical</p> <p>Date issued: 18 November 2019 Draft; 12 December 2019 Final</p> <p>Level of Assurance: Substantial</p> | <p>The purpose of this assurance audit was to assess the mechanisms in place to raise charges for Social Care clients in a timely manner and the process of collection and recovery of those charges, including the reliance upon various elements, namely: Care Plan, Funding, Contract and Financial Assessment.</p> <p>The integration of health and social care services is required, under statute, to provide care and support services to those who are assessed as being in need. When a referral for support is received, a Social Worker from the Council undertakes an assessment to determine the level of care and support required and submits an application to the Resource Panel to agree the care package.</p> <p>A charging policy is in place based on the ability of the service user to pay, as determined by a financial assessment of their income, capital and specified outgoings.</p> <p>The Operational Support team within Finance and Integrated Service Support are responsible for undertaking the financial assessments for service users and has a close working relationship with staff within Adult Services. When requested, they also submit financial information to the Resource Panel. The Operational Support team are also responsible for making payments to external providers and billing service users for services provided by Midlothian Council. A social work case management and finance system (Mosaic) is used within the service to record details of all service users. There is an automated interface enabling authorised payments from Mosaic to be downloaded into Integra (the Council's finance system). All payments to external care home and care at home suppliers are made through the Purchase Ledger of the Integra system. Integra is also used to collect income from service users.</p> <p>Internal Audit testing was performed on a judgemental sample basis and focused on 5 residential cases (older people) and 5 non-residential cases (all ages) assessed in the financial year 2019/20. The Corporate Fraud team also undertook additional checks against the Open Revenues system and other data sources.</p> | 0 | 0 | 3 | <p>Management have agreed the factual accuracy of the report, accepted the report findings and agreed the implementation of the Internal Audit recommendations by June 2020.</p> |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|---|--|-----------------|---|---|--------|
| | | H | M | L | |
| Subject: Social Care Income Charging, Billing and Collection (cont'd) | <p>Internal Audit considers that the level of assurance we are able to give is Substantial Assurance. Largely satisfactory risk, control, and governance systems are in place to undertake financial assessments, arrange billing, make payments to suppliers; and update service charges and benefit rates each year. There is a segregation of duty between the staff processing and authorising the financial assessment information on Mosaic system. The financial assessment forms that were tested were fully completed and comprehensive procedures are available for staff undertaking financial assessments.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • Financial assessment forms and the Health and Social Care Charging Policy and Guidance should be updated so they are compliant with the relevant legislative changes, and these should be published on the Council's website. (Low) • As part of improving the financial assessment process, the Operational Support Team Leader should make use of the Council's Open Revenue System and should inform any concerns of fraudulent activities to the Corporate Fraud team who can undertake additional checks. (Low) • The Individual service and financial (Care Home) contract should be signed by the Head of Service or alternatively, the Head of Service should consider updating the authorisation required for this process on the authorised signatory database and delegate this to the appropriate officers. (Low) | | | | |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|--|--|-----------------|---|---|--|
| | | H | M | L | |
| <p>Subject: Commercial Rents</p> <p>Category: Assurance – Brought Forward 2018/19</p> <p>Date issued: 21 November 2019 Draft; 5 December 2019 Final</p> <p>Level of Assurance: Substantial (tenant billing, arrears collection, and performance reporting); and Limited (tenant vetting, property rental database, rent reviews, inspections, control of service charge accounts, void timescales, and the long term plan.</p> | <p>The purpose of this assurance audit was to review the controls and governance arrangements surrounding the renting of Council owned commercial property.</p> <p>Midlothian Council currently controls 155 properties and ground leases which are managed through the Property Investment Account (PIA). The properties are rented out to generate income for the Council and to help encourage economic growth in Midlothian. For 2018/19, £764,895 of income was generated in respect of the PIA properties through the renting of these properties. The budgeted income for 2019/20 is £765,715.</p> <p>Our audit identified that a high level procedure is in place for the PIA account, there is satisfactory performance reporting, and appropriate arrangements are in place for tenant billing and pursuit of rent arrears.</p> <p>The most significant improvement that is required is to have an asset management plan and associated investment plan for the PIA assets. Internal Audit will review other classes of assets in the forthcoming audit of Capital Investment.</p> <p>Internal Audit considers that the levels of assurance we are able to give is: Substantial Assurance in terms of tenant vetting, tenant billing, arrears collection, and performance reporting; and Limited Assurance in terms of the property rental database, rent reviews (as it relies on an accurate property database), inspections, control of service charge accounts, void timescales and the long term plan for improving property condition in response to the external surveyor's report.</p> | 0 | 2 | 6 | Management have agreed the factual accuracy of the report, accepted the report findings and agreed the implementation of the Internal Audit recommendations. |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|---------------------------------------|---|-----------------|---|---|--------|
| | | H | M | L | |
| Subject: Commercial Rents (cont'd) | <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • A formal Property Asset Management Plan for the PIA assets needs to be developed, which should include property repairs required on the units and the criticality of these. (Medium) • A suitable system / database should be in place for the Council's PIA properties and this should be complete and regularly updated. Management need to ensure sufficient staff are trained to use key property asset systems. The audit trail of rent reviews should be improved. (Medium) • Tenancy identity verification records should be retained as per the Council's retention policy and tenants' ID should be re-confirmed on lease renewal. A formal record of the review of vetting information should be documented. (Low) • A formal programme of periodic property inspections should be carried out and evidence of these should be recorded. (Low) • The one instance of non-compliance with the lease terms should be addressed. (Low) • Property Assets should liaise with the Voids team to explore ways to reduce the length of time taken to undertake repairs to void properties. (Low) • Monitoring and review of the PIA control accounts should be carried out to ensure accuracy with the support from Financial Services, and the two large credit and one large debit balances should be addressed. (Low) • The local PIA procedures should be reviewed and updated. (Low) | | | | |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|--|---|-----------------|---|---|--|
| | | H | M | L | |
| <p>Subject: Electronic Payments</p> <p>Category: Assurance – Brought Forward from 2018/19</p> <p>Date issued: 13 December 2019 Draft; 09 January 2020 Final</p> <p>Level of Assurance: Substantial</p> | <p>The purpose of this assurance audit was to review the security and authorisation controls, including segregation of duties, over the Council's electronic payment systems. The audit included a review of the Council's response to the Audit Scotland Report: Report on a Significant Fraud- Dundee City Council (Audit Scotland, March 2018).</p> <p>BACS payments are generated by a number of different Services within the Council. The payments file is generated by an application held by the Service and is passed to Treasury within Financial Services to release the file for payment via the BACS payment system. Bankline payments are made using the Council's online banking system and separate system-enforced segregation of duties and authorisation processes have been established for this. The total processed via BACS in 2018/19 was £281.65m, and the total processed via Bankline was £435.54m.</p> <p>The high level process for payments is set out in Financial Regulations, supplemented by Payment Guidelines issued by Financial Services, to assist Services in ensuring that proper procedures are in place to ensure that all payments made by the Council are valid and the risk of fraud has been mitigated as far as possible.</p> <p>The audit identified that a number of processes and procedures have been developed to ensure the integrity of payments made by the Council. Some areas could be further improved in relation to documenting business continuity procedures, procedure mapping the flow of all transactions (document still in development), access permissions and security of the BACS file for 2 applications.</p> <p>Internal Audit considers that the level of assurance we are able to give is Substantial. Largely satisfactory controls are in place including policies and procedures, reconciliation and exception reporting, segregation of duties applied, access permissions, and the security of relevant files to ensure the integrity of payments made by the Council. There is, however, some scope for continued improvement such as documenting the business continuity plan, procedure mapping the flow of all transactions (document still in development), more regularly reviewing access permissions, and an updated assessment of the security of the BACS file for 2 applications. There are either Management actions underway or we have made some recommendations.</p> | 0 | 2 | 4 | Management have agreed the factual accuracy of the report, accepted the report findings and agreed the implementation of the Internal Audit recommendations. |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|--|--|-----------------|---|---|--------|
| | | H | M | L | |
| Subject: Electronic Payment Systems (cont'd) | <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • A Business Continuity Plan for the payment systems should be developed and should be subject to periodic testing (e.g. annual review). (Low) • All actions raised in the DCC report submitted to Audit Committee in June 2018 should be input to the Pentana system for tracking their implementation. (Low) • The signatory authorities detailed in the Authorised Signatories Database relating to electronic payments should be reviewed to make sure all the signatories are appropriate. (Low) • For the two systems identified in the audit review, there should be exception reporting and segregation of duties in place to review any changes to bank details made before payment. (Low) • File access for folders in relation to access to BACS files should be further reviewed. (Medium) • For the two applications where it was identified that the user generating the BACS file could choose the save file location, management should review with the supplier if this ability could be removed, or if automation could be developed in-house that could resolve this issue. (Medium) | | | | |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|---|--|-----------------|---|---|--|
| | | H | M | L | |
| <p>Subject: Environmental Health Category: Assurance – Cyclical Date issued: 13 December 2019 Draft; 09 January 2020 Final Level of Assurance: Substantial for guidelines, training, maintaining records and monitoring; and Limited for fulfilling all statutory duties.</p> | <p>The purpose of this assurance audit was to review the business practices and ways of working within Environmental Health to ensure that regulatory obligations are met and risks are appropriately managed.</p> <p>The Environmental Health service has a wide range of responsibilities for enforcing legislation which has the purpose of protecting the community from harm. The main risk is that the Service will be unable to fulfil its statutory duties (Food and Safety, and Public Health) resulting in reputational damage. At a time of reducing budgets, reliance on specialist staff, increasing regulation and statutory functions, workload is being managed on a risk-based (reactive) approach. The Service Risk Register is regularly reviewed and updated but is not yet on the Pentana system.</p> <p>The following good practices were found:</p> <ul style="list-style-type: none"> • Procedures are held within Environmental Health service and guidance has been updated to reflect current legislation; • Information is recorded on the Uniform system or in the Environmental Health directory which is visible to all relevant staff to ensure accurate and up to date records are maintained on visits and actions taken; • All training records are kept up to date, maintained and regular training is attended by EHOs to ensure they are aware of current legislation; • Regular performance reports are presented to Committees which ensures Elected Members and Senior Management are sighted on the challenges and success of Environmental Health Service including the impact of implementing new legislation. <p>Internal Audit considers that the level of assurance we are able to give is Substantial for guidelines, training, maintaining records and monitoring and Limited for fulfilling all statutory duties. Our opinion is not a reflection of Management in this area as the challenges faced are mirrored nationally.</p> <p>In addition to the actions being progressed by Management, we made the following recommendation:</p> <ul style="list-style-type: none"> • The level of all statutory duties of Environmental Health services (Food and Safety, and Public Health) being fulfilled should be reported on a regular basis to CMT. (Medium) | 0 | 1 | 0 | <p>Management have agreed the factual accuracy of the report, accepted the report findings, and taken steps to implement the Internal Audit recommendation through an Environmental Health Service review report which detailed the current service delivery position. This was considered by the Corporate Management Team in December 2019 and will be submitted to the Business Transformation Steering Group for consideration in January 2020. However, it should be noted that even with the proposed actions the risk of not fulfilling all EHS statutory duties will not be fully mitigated.</p> |