

## **Internal Audit Work to October 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 31 August to 1 November 2019 associated with the delivery of the Plan (Internal Audit Activity) 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 has issued a Final Internal Audit Report on EU Funded Programme Tyne Esk LEADER (arising from the legislative and other compliance audit that was undertaken).
- 2.4 An Executive Summary of the Final Internal Audit Report on EU Funded Programme Tyne Esk LEADER (legislative and other compliance audit), including audit objective, findings, audit opinion on the compliance with the SLA, and recommendations, is shown in Appendix 1.

## 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
Business Planning, Budget Setting and Monitoring	Drafting the Report
Social Care Income Charging, Billing and Collection	Drafting the Report
Commercial Rents	Drafting the Report
Procurement and Management of Contracts	Testing Underway
Environmental Health	Testing Underway
Change and Transformation Programme	Testing Underway
Workforce Planning	Follow-Up
Electronic Payment Systems	Planning
ICT Operational Processes	Planning

## 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:
- On request by Chief Executive, Acting Director Resources (now Executive Director Place) and Director Education, Communities and Economy carried out Internal Audit Consultancy work to ascertain the key timelines and current status in relation to school estate and housing developments. This was in response to concerns raised by third parties.
  - In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Planning and Asset Management Board, Information Management Group, and Early Learning and Childcare Expansion meeting.
  - Completed follow-up review of previous audit recommendations – checked on the progress with implementation of Audit Actions and produced reports for Management and the Audit Committee.
  - 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.
  - Attended and provided support for the Risk Management Group.
  - Attended the SLACIAG quarterly meeting and ISACA Event.

## Recommendations

- 2.7 Recommendations in the Final Internal Audit Report on EU Funded Programme Tyne Esk LEADER (legislative and other compliance audit) are suggested changes to existing procedures or processes to improve practices for Midlothian Council as the Accountable Body for the Tyne Esk LEADER programme to mitigate the risk of non-compliance with the SLA.

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

	2019/20 Number of Recs
High	1
Medium	2
Low	2
<b>Sub-total reported this period</b>	<b>5</b>
Previously reported	10
<b>Total</b>	<b>15</b>
Recommendations agreed with action plan	15
Not agreed; risk accepted	0
<b>Total</b>	<b>15</b>

### 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

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 non-compliance with the SLA associated with the EU Funded Programme Tyne Esk LEADER.

#### 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. The Director of Education, Communities and Economy, and Economic Development Manager have agreed the Final Internal Audit Report 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 Internal Audit Report issued in the period from 1 September to 1 November 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20;
- b) Note the Internal Audit Assurance work in progress and Internal Audit Consultancy and Other Work carried out in accordance with the Internal Audit Charter, Strategy and Plan; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: EU Funded Programme Tyne Esk LEADER</p> <p>Category: Legislative and Other Compliance</p> <p>Date issued: 16 October 2019 Draft; 24 October 2019 Final</p> <p>Level of Assurance: Substantial Assurance</p>	<p>The purpose of this legislative and other compliance audit, required by the SLA, was to assess the adequacy of the internal controls in place for the administration of the Tyne Esk LEADER Programme to comply with the SLA.</p> <p>The LEADER programme is part of the Scotland Rural Development Programme 2014-2020 which aims to promote economic and community development within rural areas of Scotland. Grants are awarded by Local Action Groups (LAGs) to projects that support delivery of a Local Development Strategy. For each LAG there is an Accountable Body to support the administration of the programme. Midlothian Council (MLC) is the Accountable Body for the Tyne Esk LEADER programme.</p> <p>In the case of Tyne Esk LEADER, the SLA was signed on 30 December 2015. The funding allocation for the Tyne Esk Leader Programme was £3,490,768, with 25% of this for administration of the programme. Tyne Esk LEADER has now allocated £3,308,957, with £2,516,189 allocated to projects and the remainder allocated to administration.</p> <p>The programme is nearing its end and is closed to new Expressions of Interest from potential applicants. A LAG meeting will be held in December 2019 for the programme’s final applications to be reviewed for approval.</p> <p>Internal Audit are able to provide substantial assurance that MLC has complied with the SLA in terms of the governance of the programme, grant application management, and administration of grant claim processes.</p> <p>We made the following recommendations to ensure the programme’s continued success and compliance with requirements set out in the SLA:</p> <ul style="list-style-type: none"> <li>• A revised Memorandum of Understanding should be agreed by the LAG and Council aligned to Scottish Government’s principles. (Medium)</li> <li>• LEADER needs to be sufficiently staffed to deliver the programme and ensure adequate follow-up of claims submitted. (High)</li> <li>• The risks of the LEADER programme should be correctly reflected in the Pentana Performance system. (Low)</li> <li>• The performance monitoring aspects of the Communications Plan should be progressed. (Low)</li> <li>• Issues identified from the sample of 4 projects should be reviewed to determine if similar issues have occurred in any other projects. (Medium)</li> </ul>	1	2	2	<p>Management have agreed the factual accuracy of the report, accepted the report findings and agreed the implementation of the Internal Audit recommendations.</p> <p>Interim staff resources arrangements have already been put in place.</p> <p>This Internal Audit Report was submitted to the Scottish Government along with the Programme’s Annual Confirmation Certificate by the due date of 8 November 2019.</p>