

Internal Audit Work to February 2023

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the Executive Summaries of the final Internal Audit assurance reports issued;
- b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

2 Purpose of Report/Executive Summary

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.

The Internal Audit Annual Plan 2022/23 was approved by the Audit Committee on 14 March 2022. Internal Audit has carried out work 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.

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 MLC Internal Audit function conforms with 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.

Date 22 February 2023

Report Contact:

Duncan Stainbank

duncan.stainbank@midlothian.gov.uk

3 Progress Report

- 3.1** The Internal Audit Annual Plan 2022/23 was approved by the Audit Committee on 14 March 2022. Internal Audit has carried out the following work in the period from 1 January to 28 February 2023 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.
- 3.2** The MLC Internal Audit function conforms with 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.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Employability Funded Programmes; and
 - Performance Management and Performance Indicators.
- 3.4** 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

- 3.5** Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2022/23 consists of the following:

Audit Area	Audit Stage
Care at Home	Draft Report Issued
Mental Health Services	Testing underway
Construction projects / social housing programme	Testing underway

Internal Audit Consultancy and Other Work

- 3.6** 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:
- In its critical friend role provided an independent view and challenge at various forums including Capital Plan and Asset Management Board, Capital Plan Management Group, Capital Plan Prioritisation Review Group, Chief Officers Risk & Resilience Group, Integrity Group, UKSPF Oversight Board and Information Management Group;
 - Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums (Computer Audit Sub-group) and meetings; and
 - 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.

Recommendations

- 3.7** 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.

- 3.8** The table below summarises the number of Internal Audit recommendations made during 2022/23:

Recs Rating	2022/23 Number of Recs
High	0
Medium	1
Low	5
Sub-total reported this period	6
Previously reported	34
Total	40
Recommendations agreed with action plan	40
Not agreed; risk accepted	0
Total	34

4 Report Implications (Resource, Digital, Risk and Equalities)

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 Digital

There are no digital implications arising from this report.

4.3 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.

4.4 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.

4.5 Additional Report Implications (See Appendix A)

Appendices

APPENDIX A – Additional Report Implications

APPENDIX 1

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 the Council to deliver its key priorities in support of achieving the its 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

The 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 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 has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior management relevant to the areas audited have agreed the final Internal Audit assurance reports as set out in the relevant Executive Summary within Appendix 1.

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.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Employability Funded Programmes</p> <p>Category: Assurance – Risk</p> <p>Date issued: 13 January 2023 Draft 02 February 2023 Final</p> <p>Level of Assurance: Substantial for providing support to the community; working in partnership with other sectors; and meeting priorities and outcomes of the Single Midlothian Plan.</p> <p>Limited for the recording of information, maintenance of audit trails, compliance with the NOLB grant criteria, the Data Protection Act 2018 and the Council’s FTTP.</p>	<p>The purpose of this audit was to review employability funded programmes under the terms of the associated agreements to assess compliance with the requirements and delivery of outcomes.</p> <p>Midlothian Council funds Arms Length and External Organisations (ALEOs) for a range of purposes related to council services and its broader corporate objectives set out in partnership with the community planning partners under the “Single Midlothian Plan”, the local outcomes improvement plan for Midlothian required by the Community Empowerment Act 2015. The Council has a Following the Public Pound (FTPP) policy and guidance which was last reviewed and updated in March 2022.</p> <p>The Communities Lifelong Learning Employability (CLLE) team works with young people, adults, families and community organisations to improve skills for learning, life and work. The No One Left Behind (NOLB) Employability Funding stream has been set up by the Scottish Government to deliver a flexible and user-based model of employability support for people from school leaving age up to 67 years (pensionable age). It is a partnership programme between the Scottish Government and Local Authorities. During 2022/23, the Scottish Government allocated funding of £845,679 to Midlothian Council to support local residents who meet the relevant eligibility criteria included in the No One Left Behind Employability funding streams.</p> <p>The United Kingdom Shared Prosperity Fund (UKSPF) was launched in April 2022 and is one strand of a suite of funding which superseded the EU structural funds and is nationally funded by the UK Government. Midlothian Council will receive £3,558,662 of funding over a 3 year period. This money will be distributed locally and invested in the following priorities set by the UK Government: Communities and Place, Support for Local Businesses, People and Skills; and Multiply (improving adult numeracy for those aged 19 plus).</p> <p>Internal Audit considers that the level of assurance is: substantial for providing support to the community; working in partnership with other sectors; and meeting priorities and outcomes of the Single Midlothian Plan. Quarterly financial and narrative delivery reports were submitted to the Scottish Government on time. Assurance is limited for the recording of information, maintenance of audit trails, compliance with the NOLB grant criteria, the Data Protection Act 2018 and the Council’s FTTP. Internal Audit made the following recommendations:</p>	0	1	5	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

	<ul style="list-style-type: none"> • To comply with the NOLB grant criteria and as good practice: further evidence should be obtained; an adequate audit trail maintained; more detailed information should be submitted in the narrative reports; action plans, SLA templates and the privacy statement should be updated; and the Council's website should be updated to include more information on the NOLB programme and the EQIA. Management should also ensure that the CLLE team are using Egress where applicable. (Medium) • Management should ensure that all Service Level agreements (SLAs) are signed by the Council; and risk assessments should be completed for large grants. Management should document the governance arrangements for reporting different types of grants and demonstrate which Committees they will be reported to. (Low) • Roles and responsibilities for the grant panel should be documented; conflicts of interest forms completed and evidence maintained showing that factors stipulated in the FPHP for large grants were considered by the panel. Future grant application forms should state what happens to applications submitted after the deadline. Training on what should be treated as a procurement or a grant should be provided to the CLLE team. (Low) • An audit trail should be maintained of annual checks undertaken on providers' insurance documents; monitoring information received from the provider should be recorded on the system; and officers should undertake sample checks. (Low) • Updated service level agreements should be issued on a timely basis and an audit trail of the decision making process should be maintained. The FPHP policy should be updated to document the governance required for the authorisation of variations. (Low) 				
--	---	--	--	--	--

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Performance Management and Performance Indicators</p> <p>Category: Assurance – Risk</p> <p>Date issued: 30 January 2023 Draft 13 February 2023 Final</p> <p>Level of Assurance: Substantial for the reporting of PIs. Limited for the implementation of the recommendations from the audit of Performance Management (LGBF) undertaken in 2021.</p>	<p>The purpose of this audit was to test a sample of performance indicators to ensure that they are complete, accurate, based on current data and conform to the stipulated criteria. It included a follow up of the implementation of the recommendations from the audit of Performance Management (LGBF) – Improvement Service Return undertaken in 2021.</p> <p>Performance data is required for a number of purposes including internal monitoring, statutory requirements and for benchmarking. Key performance information is recorded in the Pentana performance management system and there are currently 2,541 PIs recorded. A range of statutory and non-statutory PIs are reported and these are principally driven by the Single Midlothian Plan and Service Plans. Service Plans as well as defining service specific priorities provide a link to the outcomes contained within the Single Midlothian Plan.</p> <p>Performance reports are submitted to Cabinet and the Performance Review and Scrutiny Committee (PRSC) and are published on the Council’s website. Service Plans 2021-22 were reported to Council in June 2021 and have been carried forward for one year. A draft 5 year Strategic Plan is currently under development which will look at making targeted improvements to performance reporting. The draft 5 year strategic plan was reported to Council in October 2022. The Council agreed to a continuation of the Draft Midlothian Council Strategic Plan 2023 - 2026 until the Medium Term Financial Strategy is agreed.</p> <p>Internal Audit considers that the level of assurance is: substantial in relation to the reporting of PIs but is limited for the implementation of the recommendations from the audit of Performance Management (LGBF) undertaken in 2021. 2 recommendations were made during this review and they have only been partially completed. Testing highlighted that, from the 12 performance indicators tested, 8 PIs were correct, 3 PIs had to be recalculated as no audit trail had been retained for the reported figures, and 1 error was noted for housing repairs. As detailed in the previous audit, Internal Audit made the following recommendation:</p> <ul style="list-style-type: none"> Services should be reminded of the performance measure controls they should have in place when calculating statutory and non-statutory performance indicators such as: retain an audit trail of source documentation; create procedure notes to enable indicators to be produced in the absence of key individuals; and undertake quality assurance checks for the calculation of PIs. <p>(Low)</p>	0	0	1	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendation.