

Follow-Up Review of Completed Internal Audit Recommendations and Progress Update

Duncan Stainbank, Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Note the results from the sample check of Internal Audit recommendations that have been marked as completed by Management in the period April 2023 to March 2024 to improve internal controls and governance, and mitigate risks;
- b) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, to mitigate risks, and consider whether it is satisfied with the progress made by Management;
- c) Considers whether it is satisfied with the outcomes or whether any further action is required;
- d) Endorse the proposal to extend the due dates for the overdue recommendations; and
- e) Note that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.

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 Follow-up review which included a sample check on the adequacy of new internal controls for Internal Audit recommendations marked as completed by Management in the period April 2023 to March 2024.

This report also provides an update to members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports.

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.

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Appendix 1: Overdue Actions

Appendix 2: ‘In Progress’ Actions

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 Ideagen Risk Management (formerly known as Pentana Risk), 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 second reports on the progress Management have made in implementing the recommendations by the expected date.
- 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 Review of Completion of Internal Audit Recommendations

- 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 2023 to 31 March 2024 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 33 audit recommendations (including 1 sub-action) which were at the 'completed' status on the Ideagen Risk Management system were selected and evidence was obtained to support the satisfactory completion of each recommendation. Recommendations from the following Internal Audit reports were selected:

Financial Year	Internal Audit Report	No.	High Rated	Medium Rated	Low Rated
2021/22	Learning Disabilities and Physical Disabilities including 1 sub-action	2			2
2022/23	Care at Home	6		1	5
2022/23	Construction Projects	8		5	3
2022/23	Justice Services	4		1	3
2022/23	Mental Health	3		2	1
2022/23	Purchasing Cards	3			3
2022/23	Utilities	3			3
2023/24	Licensing	3			3
2023/24	Council Tax Discounts and Exemptions	1			1
	Total	33	0	9	24

- 4.3 From the 33 recommendations tested, 22 (67%) plus the sub-action, were found to have been completed satisfactorily, 7 (21%) were identified as partially satisfactory requiring further work, and 4 (12%) were not satisfactory.
- 4.4 For the audit recommendations that had been completed satisfactorily, the evidence that was provided by Management indicated that the action taken had the desired effect on improving internal control and governance and reducing risk.
- 4.5 For the 7 audit recommendations identified as partially satisfactory requiring further work: 5 were Low-rated and 2 were Medium-rated. Further work required for the 7 recommendations is detailed in the table below.

	Audit	Recommendation	Rating	Further Work Required
1	2022/23 - Care at Home	Written procedures should be implemented including how performance is measured (e.g. reports required to measure performance and rota efficiency).	Low	There are still some procedures that needs to be written up.
2	2022/23 - Care at Home	Data quality issues with provider monitoring information should be addressed. QA monitoring should be in place for all providers including SDS Option 2. Audits undertaken should include an assurance risk rating and priority of the actions identified.	Low	SDS Option 2 audits have been undertaken but there are still some providers that have not been reviewed; and need more assurance around how hours delivered by SDS Options 2 providers are monitored. Monthly reports submitted by providers but lack of narrative around the statistics.
3	2022/23 - Mental Health	The Strategic Improvement Plan for Children and Young People (CYP) Mental Health and Wellbeing needs to be formally agreed and implemented. Improvements are required over performance information relating to	Medium	CAMHS data to be presented to the next GIRFEC Board meeting.

		providing wellbeing support service to CYP and obtaining more data from partners.		
4	2022/23 Mental Health	- Service Level Agreements (SLAs) and contracts should be signed by an authorised signatory. As part of the procurement evaluation, an audit trail should be maintained for the individual evaluation scores.	Low	SLAs need to be signed off by an authorised signatory or the authorised signatory system needs to be updated to allow managers to sign off SLAs.
5	2022/23 Mental Health	- Monitoring of performance should be undertaken for all providers ensuring that all relevant performance templates are completed. The frequency of monitoring should be increased for higher value contracts. Contracts where providers are not meeting targets should be investigated and payments recovered for services not provided.	Medium	Performance templates need to be utilised within Children Services to ensure consistency across the performance information received from Providers. Within Health and Social Care, further clarification is required on one of the providers targets and the contract needs to be updated.
6	2022/23 Utilities, Energy and Water Consumption	- The contract rates for the providers should be uploaded to Systems Link to provide assurance that the providers are adhering to the rates. In the interim, all relevant rates should be obtained from providers and evidence retained of sample checking.	Low	Advised that rates were uploaded onto systems link for 2024/25, but evidence of this upload couldn't be provided. Will need to do sample and validation checks to ensure the rates are uploaded correctly.
7	2022/23 Utilities, Energy and Water Consumption	- The rates applicable for electricity generated by the Council's solar panels should be obtained annually from the provider. Additionally, the low electricity generation noted from a sample of panels should be reviewed and rectified as required.	Low	Rates obtained from the supplier but need to investigate the low electricity generated of some panels; and clarify the basis of the rates provided from the supplier.

4.6 Of the 4 audit actions identified as not satisfied: 2 were Low-rated and 2 were Medium-related which are summarised in the table below:

	Audit	Recommendation	Rating
1	2022/23 – Care at Home	A review of route efficiency and travel time should be undertaken. Every time the ratio actual time to planned is less than 70% or travel time is greater than 20% the circumstances should be reviewed to establish if more hours of care could be provided.	Medium
2	2022/23 – Justice Services	Petty cash controls require to be strengthened to ensure alignment with Council requirements. For example, management should ensure: <ul style="list-style-type: none"> • The use of disbursement logs, • The frequency of reconciliation is in line with the Council's risk appetite; and • Line manager responsibilities for checks on balances and reconciliation and top-up checks are completed and documented. <p>The risks to staff health and safety when transporting cash between the Midlothian Council's bank and the HSCP building require to be assessed. This can be made on monetary value. Good practice would see two officers transporting cash when it is of larger value.</p>	Medium

3	2022/23 – Justice Services	A process should be developed to update the public contract register on a regular basis (at least quarterly). Contract renewal details for Cyrenians should also be updated on the public contract register.	Low
4	2022/23 – Purchasing Cards	The Procurement team should periodically carry out an analysis of the Council’s purchase card spend to identify opportunities for cost savings and to confirm ongoing compliance with Procurement Procedures.	Low

4.7 Discussions have been held with 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. 11 audit actions have been re-opened on the Ideagen Risk Management system to enable the recommendation to be completed by the new agreed action date with evidence of the improvement action undertaken.

5 Progress Update

5.1 The objective of the second review is to assess Management’s reported performance in closing actions raised by Internal Audit by the agreed due date. It is Management’s responsibility to design and maintain adequate risk management, governance and internal control processes and checking that the arrangements and controls are operating effectively which are also known as the first and second lines. The quarterly performance monitoring process provides an opportunity for Management to have a discussion on all of the open audit actions, including those that are overdue, the reasons why they were not completed by the original due date, risk mitigations in place in the interim and requests to Internal Audit for extensions to due dates.

5.2 An Internal Audit action report was generated from the Ideagen Risk Management system on 28 October 2024 which reflected the Quarter 2 updates 2024/25. 10 actions were overdue and 148 actions (including sub-actions) were in progress which are summarised as follows:

Financial Year	Action Status	High	Medium	Low	Total
2018/19	In Progress	2	1	1	4
2019/20	In Progress	1	1	5	7
2020/21	In Progress	2	5	3	10
	Overdue	0	2	0	2
2021/22	In Progress	3	12	8	23
	Overdue	0	0	3	3
2022/23	In Progress	0	16	20	36
	Overdue	0	2	1	3
2023/24	In Progress	1	26	32	59
	Overdue	0	2	0	2
	Consultancy	Not rated			9
Total		9	67	73	158

5.3 The 10 overdue actions are summarised in Appendix 1. The due dates for these are now to be extended to 31 March 2025 in the Ideagen Risk

Management system, which will allow management to take further action to complete the recommendations within a reasonable time. CMT are in support of this proposal and the Audit Committee are asked to endorse this proposal.

- 5.4 The 148 audit actions in progress are summarised in Appendix 2 which highlights the number of audit actions in progress within each Directorate.
- 5.5 This report was prepared for presentation to the Audit Committee on 25 November 2024. The progress on implementation of Internal Audit recommendations has been discussed with the Corporate Management Team on 6 November 2024.
- 5.6 A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2024/25 for Midlothian Council which is scheduled for presentation to the Audit Committee in June 2025.

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

6.1 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.

6.2 Digital

There are no digital implications arising from this report.

6.3 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.

6.4 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.

6.5 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 Ideagen Risk Management system.

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.