

**Internal Audit Work to March 2020  
 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 21 February to 31 March 2020 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 subject:
  - Community Empowerment
- 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.

## Other Internal Audit Assurance Work in Progress

2.5 Internal Audit issued a draft assurance report on the following subject and were awaiting Management Responses at the time that the Covid-19 emergency response put extraordinary pressures on Management to deliver business critical services:

- ICT Operational Processes

Internal Audit also completed the audit fieldwork for the following and drafted the reports though these were not issued for the same reason above:

- Leisure Management Booking System
- Information Governance – Records Management

These three audits will be pending until there is Management capacity post-Covid-19 emergency response to conclude to final report stage.

2.6 On request by Chief Executive and Strategic Covid-19 Locality Support Manager an agile Internal Audit was carried out on the arrangements in place to administer food grants and localised partnership grants to community groups on behalf of Scottish Government. Reasonable assurance can be provided on the adequacy of the internal controls and governance arrangements in place. Some suggestions were made for Management consideration in further phases.

## Recommendations

2.7 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:

<b>High:</b> 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.
<b>Medium:</b> 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.
<b>Low:</b> 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.

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

	2019/20 Number of Recs
High	0
Medium	0
Low	0
<b>Sub-total reported this period</b>	<b>0</b>
Previously reported	48
<b>Total</b>	<b>48</b>
Recommendations agreed with action plan	48
Not agreed; risk accepted	0
<b>Total</b>	<b>48</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**

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 (SRG 3 June 2020) to outline the key messages of assurance and areas of improvement. Executive Directors, Chief Officers 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 21 February to 31 March 2020 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.

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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Community Empowerment</p> <p>Category: Assurance</p> <p>Date issued: 5 March 2020 Draft; 17 March 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to review the implementation of the requirements of the Community Empowerment (Scotland) Act 2015.</p> <p>The requirements of the Act broadly fall into 3 parts:</p> <ul style="list-style-type: none"> <li>• powers of Scottish Ministers to make future regulations,</li> <li>• the duty of the Community Planning Partnership (CPP) to prepare and publish a local outcomes improvement plan (LOIP) which sets out the local outcomes which will prioritise for improvement as well as produce locality plans at a more local level for areas experiencing particular disadvantage; and</li> <li>• the grant of various specified opportunities and rights to the citizens of Midlothian.</li> </ul> <p>Success in implementing the requirements of the Act and for the community to obtain the Act’s intended benefits depends upon: partners encouraging and facilitating community participation and building the capacity of the community; and the ambitions of the community. This will take time given the small numbers of community volunteers and the Council’s limited resources, the latter being only one of the CPP partners.</p> <p>The Community Planning Partnership (CPP) has prepared and published a local outcomes improvement plan (LOIP) - ‘The Single Midlothian Plan’ and locality plans following consultation with the community.</p> <p>Good progress has been made with implementing the other requirements of the Act.</p> <p>Reporting requirements are set out in the Community Empowerment Act (Parts 2, 3 and 5) which stipulates the frequency, content and publication of reports. Reports have been produced and published in accordance with the legislation.</p> <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. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives). Management are working on actions to address two issues. We made no recommendations.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted the report findings.