

## **Internal Audit Mid-Term Performance Report 2020/21**

### **Report by Chief Internal Auditor**

### **Report for Decision**

## **1 Recommendations**

The Audit Committee is asked to:

- a) Note the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2020/21 by the mid-year point;
- b) Acknowledge the audit planning work undertaken to reassess potential changes in light of the Council response to the Covid-19 pandemic to reflect the changing risks arising from Covid-19; and
- c) Approve the revisions to the Internal Audit Annual Plan 2020/21.

## **2 Purpose of Report/Executive Summary**

The purpose of this report is to inform the Audit Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2020, towards completing the Internal Audit Annual Plan 2020/21. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.

The Internal Audit Annual Plan 2020/21 that was approved by the Audit Committee on 10 March 2020 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

The report provides details of the half yearly progress by Internal Audit with its programme of work and highlights changes that require approval to reflect the changing risks arising from Covid-19.

**Date 11 November 2020**

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### **3 Background**

- 3.1** As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- In support of the Council's vision, values and priorities.
  - As a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
  - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
  - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
  - As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.
- 3.2** Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.
- 3.3** The Internal Audit Annual Plan 2020/21 that was approved by the Audit Committee on 10 March 2020 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 3.4** Internal Audit assurance services are also provided during the year to the Midlothian Health and Social Care Integration Joint Board, and a statutory annual Internal Audit opinion is provided to its respective Management and Board/Audit and Risk Committee to meet its obligations.
- 3.5** Due to the effects of the Covid-19 emergency response, the Internal Audit Annual Plan 2020/21 has been re-assessed in terms of potential changes i.e. add audit to cover new risks, reschedule audit to later in the current year, and defer audits to a future year, in alignment with available Internal Audit resources and Management capacity. This re-assessment has been carried out in consultation with the Corporate Management Team and has resulted in significant changes that require approved by the Audit Committee. The proposed revised Internal Audit Annual Plan 2020/21 is presented at Appendix 1.

### **4 Half Year Results Against Internal Audit Plan 2020/21**

- 4.1** The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of auditor resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.

- 4.2** In the first half of the year: Additional audits were added to the Plan to carry out assurance work on new risks associated with the Covid-19 emergency response; Two of the Internal Auditors were deployed part-time to assist with the administration of support grant payments (equivalent to approx. 63 days); and three Internal Audit assurance reports associated with the delivery of the approved Internal Audit Annual Plan 2019/20 that had been pending during the Covid-19 emergency response were finalised. As a result some planned 2020/21 audits have been delayed or will be deferred to 2021/22.
- 4.3** The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with its programme of work to deliver the approved Internal Audit Annual Plan 2020/21. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, those scheduled for the second half of the year are not shaded, and those audits that have not been delivered as planned are marked \* or deferred to 2021/22 are marked \*\*.
- 4.3** The continuous audit approach, in accordance with the Internal Audit Strategy approved by Audit Committee on 10 March 2020, enables Internal Audit to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery. For example, Business Transformation Board, Capital Planning and Asset Management Board, and Information Management Group. The continuous audit approach is applied to non-MLC Internal Audit work for the Midlothian Health and Social Care Integration Joint Board.

## **5 Completing the Revised Internal Audit Plan for 2020/21**

- 5.1** The proposed audits to be deferred to 2021/22 are as follows:
- Income Collection (Assurance - Cyclical);
  - Roads Maintenance Service (Assurance - Cyclical);
  - Homelessness (Assurance -Cyclical);
  - Learning and Physical Disabilities Services (Assurance – Risk)
  - School Excursions (Assurance – Risk)
- 5.2** The Internal Audit programme of work for the six months from October 2020 to March 2021, to complete the delayed work and incorporate the remaining revised planned audit work, based on maintaining current staffing levels within this period, presently indicates that the proposed revised Internal Audit Annual Plan 2020/21 can be delivered in full. The proposed revised Internal Audit Annual Plan 2020/21 is presented in Appendix 1 for approval by the Audit Committee.
- 5.3** The Internal Audit work will continue to be reported to the Corporate Management Team and to the Audit Committee. The Internal Audit Work reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.

- 5.4** Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report which will also provide the statutory annual Internal Audit opinion on the levels of assurance based on audit findings over the year.

## **6 The Local Authority Accounts (Scotland) Regulations 2014**

- 6.1** The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the authority.
- 6.2** The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

## **7 Public Sector Internal Audit Standards (PSIAS) and Quality Assurance & Improvement Plan (QAIP)**

- 7.1** The MLC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
  - Code of Ethics;
  - Attribute Standards (responsibility, independence, proficiency, quality);
  - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 7.2** The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Internal Auditor, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 7.3** An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2020/21. The results and any associated improvement actions will continue to be reported to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

- 7.4** The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Highland Council in March 2018 and the results were outlined in the Internal Audit Annual Assurance Report 2017/18 reported to the Audit Committee in June 2018. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, indicates that Midlothian Council will be reviewed by East Renfrewshire Council in 2022 and will review East Lothian Council in 2022.

## **8 Report Implications (Resource, Digital, Risk and Equalities)**

### **8.1 Resource**

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). There is currently a staff resource of 4.64 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 0.42 FTE Other Audit Resources), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), Other Internal Audit resources (1.0 FTE) with a mix of qualifications, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to perform the plan.

Budget monitoring of the Service is discussed by the Chief Internal Auditor and the Principal Internal Auditor with the Financial Services Manager on a quarterly basis to address any budgetary pressures.

There is a commitment to provide resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) as part of the Council's commitment to partnership working. Separate plans and reports are presented to MIJB Audit and Risk Committee to fulfil this role.

### **8.2 Digital**

There are no digital implications arising from this report.

### **8.3 Risk**

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process.

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2020/21, at the start of each audit engagement, and during the re-assessment of the Plan, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered, to ensure the Plan is formulated on a risk-based approach. This is illustrated by way of the amendments that have been proposed to the Plan.

If Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the revised Annual Plan

2020/21 will not be delivered in full. That in turn increases the risk of reduced assurance and not providing the statutory Internal Audit opinion to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council. This will be mitigated by way of workforce planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

#### **8.4 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.

#### **8.5 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), by providing an independent and objective annual assessment of the adequacy of the entire control environment, Internal Audit supports the Council to achieve 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

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**

Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives for the benefit of Midlothian's 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 plans.

#### **A.6 Impact on Performance and Outcomes**

The Findings and Recommendations from Internal Audit work during the year, which are designed to maintain and / or enhance internal controls, governance arrangements and risk management, assists the Council in improving its performance and outcomes.

#### **A.7 Adopting a Preventative Approach**

Having robust internal controls, governance arrangements and risk management in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Internal Audit assurance and consultancy activity is designed to improve operations and assist the Council in accomplishing its objectives.

#### **A.8 Supporting Sustainable Development**

This report does not relate directly to supporting sustainable development. Good governance, including the provision of an Internal Audit service, is important to enable Midlothian Council to achieve its objectives.