



Audit Committee
Tuesday 12 December 2017
Item No: 5.7

Internal Audit Report

Follow-up Review of Audit Recommendations

Issued: November 2017

Final

Level of Assurance	N/A – Follow-up reviews are not rated.
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Executive Summary

1.0 Introduction

Internal Audit Reports include a section with management actions where recommendations are made to improve upon the existing internal controls and assist the Council achieve best value. These recommendations, following agreement with management, are endorsed by the Audit Committee and are then updated by Internal Audit to the Council's performance management system Pentana Performance (previously named Covalent) with a target completion date set.

Management are responsible for acting on the recommendations by the agreed due date and when complete, closing the issue on Pentana. The Internal Audit plan includes a budget for two follow up reviews in relation to recommendations made. The first reviews management's reported performance in closing issues raised by Internal Audit by the agreed due date (reported in December of each year) while the second looks at a sample of recommendations flagged as closed by management and reviews for the adequacy of the actions taken against each issue. This report addresses the second area.

A sample of **52** audit recommendations were judgmentally selected from the Pentana system which were shown at the 'completed' status and evidence obtained to support the satisfactory completion of each recommendation sampled. This included **16** high priority recommendations, **34** medium priority recommendations, and **2** low priority recommendations.

A sample of recommendations from the following Internal Audits were selected for this review:

Audit Report	Number of Recommendations Included in Review	High Priority	Medium Priority	Low Priority
Business Gateway Contractors	4	4	0	0
Tyne Esk LEADER	14	6	8	0
Review of Controls Operating Over Pre-School Provision Partnership Providers	6	0	6	0
Review of Controls Operating over Tendering of Contracts	11	2	8	1
Review of Controls Operating over Care at Home	10	4	5	1

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Audit Report	Number of Recommendations Included in Review	High Priority	Medium Priority	Low Priority
Follow-up Review of Petty Cash	7	0	7	0
Total	52	16	34	2

2.0 Objectives of the Audit

The objective of this follow-up audit was to review a sample of recommendations that have been signed off as complete in 2016/17 to determine whether they had been implemented satisfactorily and thus give assurance over the ongoing improvement of internal control.

3.0 Conclusion

We have identified that the majority of audit actions have been completed satisfactorily. However, we have identified that some actions have not been adequately completed.

From the **52** recommendations tested, **37** (71%) were found to have been completed satisfactorily, and 15 (29%) were identified as not being fully complete (full details of these can be found in **Appendix 1**).

As is standard Internal Audit practice, we have not rated this review since it is a follow-up of previously raised audit recommendations. We have however noted **15** recommendations where we have agreed with management that further improvements can be made.

Appendix 1 - This explains the **15** recommendations identified as not being fully completed.

Appendix 2 - This outlines the recommendations arising from this review with revised completion dates.

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Appendix 1 – Recommendations identified as not being fully completed

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
1	Review of Controls Operating Over Pre-School Provision Partnership Providers	The risk register should be reviewed from the perspective of nursery education and whether it requires to be updated.	Medium	<p>It was noted that the update to the Early Years risk register in Pentana was still in 'draft' and had not been fully completed.</p> <p>On discussion with the Directorate's Performance Group Leader, it is noted that all Education risks will be subject to a thorough review, and a review of Early Years risks will be included in this.</p>
2	Review of Controls Operating Over Pre-School Provision Partnership Providers	Consideration should be given to introducing a sample register check, eg to visit the nursery, obtain a copy of the physical register and to check to our own records. This would help minimise the risk of fraud or error.	Medium	<p>The follow-up audit identified that physical register checks had not yet been incorporated into the standard Quality Assurance (QA) procedures.</p> <p>In response to this, Management have now updated the Early Years written procedures to incorporate register checks. The next round of QA visits will now include this check.</p>
3	Review of Controls Operating over Tendering of Contracts	Sample checks should be undertaken on the level of adherence to Council policies and procedures in relation to the tendering process.	Medium	A checklist has been prepared for undertaking QA checks by the Procurement Manager. Internal Audit are satisfied with the pro-forma checklist produced, but note that there have been no QA checks undertaken yet.
4	Review of Controls Operating over Tendering of Contracts	Employees in the evaluation panel should be required by Council policy to complete a declaration of interest form.	Medium	<p>For 2 of the 14 Tenders included in the audit sample, conflict of interest forms were missing for employees in the evaluation panels.</p> <p>Management advised that for the 2 tenders reviewed with missing documentation: in one case the documentation had been completed by the employees but was missing; and in the other case the documentation was not completed by the employees on the evaluation panel.</p>

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No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
5	Review of Controls Operating over Tendering of Contracts	The contract register should be fully populated as soon as is possible (including Framework agreements).	High	The Contract Register on the Intranet was updated in May 2017. However there are a number of contracts listed on the register which have expired. Management reported that the staff member who would normally undertake this activity was on maternity leave resulting in this activity falling behind. This activity has however been transferred to another member of the procurement team with a view to addressing the backlog.
6	Review of Controls Operating over Tendering of Contracts	The authorised signatories system should be updated to include the authority to open tenders and authorisation should be given to appropriate employees and Elected Members.	Medium	The authorised signatory system has not yet been updated to detail this authority.
7	Review of Controls Operating over Tendering of Contracts	Procurement feedback should be obtained for lower valued procurements on a sample basis.	Medium	In 9 out of 10 Tenders included in the audit sample there was no procurement feedback form. The Procurement Manager noted that not enough feedback forms have been undertaken in the year and that this should be further rolled out.
8	Review of Controls Operating over Tendering of Contracts	The procurement approval form must be signed by two members of staff (budget holder and the project manager). If exceptions are made then this should be documented on the approval form with an explanation.	Medium	<p>Out of the 14 tenders included in the audit sample, only 10 had procurement approval forms.</p> <p>In 2 out of the 10 procurement approval forms, only 1 member of staff signed the procurement approval form instead of 2.</p> <p>Management reported that a new procurement approval form template will be implemented which will require more signatures including approval from the Procurement Manager.</p>

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9	Review of Controls Operating over Care at Home	The outcome of the monthly return reports should be completed and referenced to show an audit trail of how the Council evaluated the external care provider's performance.	Medium	Due to the significant time spent on other critical aspects of the externalised care at home contracts, the QA officer has not been able to meet on a regular basis with all providers and so the performance reports were not always fully evaluated.
10	Review of Controls Operating over Care at Home	The standard checklist of questions for undertaking spot checks should be reviewed and updated.	Medium	<p>The standard checklist of questions for undertaking spot checks has been reviewed and updated. The updated spot check form is now available on the Council's Social Care and Financial Case Management System, Mosaic.</p> <p>However, it was noted that spot checks have not been undertaken for a period of time reflecting the need to focus on other aspects of the contracts and service delivery.</p>
11	Review of Controls Operating over Care at Home	Strengthen controls with the Data Protection Act in relation to emails and communicating personal information with staff. The monthly reports should be sent through the Council's Egress and client names should not be listed on a display board.	High	The QA officer has been using the Egress system since June 2017. However, it was noted during the audit review that the Council's providers do not always use secure transmission methods when submitting personal information to the Council.

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12	Review of Controls Operating over Care at Home	Ensure management reports are produced on a regular basis to allow management to monitor the number of hours delivered by the external care providers.	Medium	<p>External care at home reports have stopped due to inconsistencies of the data collected and reported. This has been investigated.</p> <p>External care home reports will be produced using Mosaic, the Council's Social Work Financial and Case Management System. Internal care at home hours will be reported from the Council's new Care at Home internal monitoring system, (CM2000) which was introduced in August 2016. These reports were originally produced using Mosaic. The standard reports have not been set up on the new system. This requires training staff on the new system and setting appropriate access levels for relevant staff.</p>
13	Review of Controls Operating over Care at Home	A breakdown of the hours provided by all key suppliers should be recorded on the management reports.	Medium	The names of the key suppliers need to be updated on the management reports. Internal Audit identified that a current supplier was reported under the previous supplier's name. The Performance and Information Lead Officer for Health and Social Care is planning to have a meeting with the Care at Home manager to discuss the information needs and to confirm the key suppliers and make appropriate updates to the report.
14	Follow-up Review of Petty Cash	The petty cash top-up claims forms should only be approved by those listed on the Authorised Signatory Database. The Authorised Signatory Database needs to be updated to reflect which managers are authorised to approve petty cash disbursements	Medium	<p>The comparison between declaration form list and bank list is still progressing alongside other priority work which the team have responsibility for.</p> <p>The authorisation list will need to be updated on the back of this work.</p> <p>The Senior Accountant Projects and Treasury notes this work will be completed by the end of the financial year.</p>

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No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
15	Follow-up Review of Petty Cash	A further review of petty cash imprest levels should be undertaken to ensure that the level is appropriate for the usage of the service. Given the infrequency of petty cash claims by high schools, consideration should be given to reducing the imprest levels.	Medium	<p>Only one reduction to imprest levels has been made thus far as this was requested by the service.</p> <p>A further review still needs to be undertaken to confirm that the imprest levels are appropriate. Management have advised that this is not a key priority for the team at this point and will be scheduled for completion in due course.</p>

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Appendix 2 – Further recommendations arising from this review

No	Recommendation	Priority	Manager	Target Date
1	Early Years risks should be fully updated and input into the Pentana system.	Medium	Schools Group Manager - Early Years / Head of Education	31/03/2018
2	A sample register check, eg to visit the nursery, obtain a copy of the physical register and to check to our own records, should be incorporated into the Early Years QA procedures. This would help minimise the risk of fraud or error. Management should try to ensure that 25% of providers are included in a check per annum.	Medium	Schools Group Manager - Early Years	31/12/2017
3	Regular QA checks on the level of adherence to the Procurement policies and procedures should be carried out by Procurement.	Medium	Procurement Manager	31/03/2018
4	Procurement should ensure that in all appropriate tenders, conflict of interest forms are obtained from members of the evaluation panel and filed appropriately.	Medium	Procurement Manager	31/03/2018
5	Procurement should ensure that the contract register on the intranet is updated regularly and expired contracts removed from the register.	High	Procurement Manager	31/03/2018
6	The authorised signatories system should be updated to include the authority to open tenders and authorisation should be given to appropriate employees and Elected Members.	Medium	Procurement Manager	31/03/2018
7	Procurement feedback forms should be obtained for lower valued procurements on a sample basis.	Medium	Procurement Manager	31/03/2018
8	The procurement approval form must be signed by two members of staff (budget holder and the project manager). If exceptions are made, then this should be documented on the approval form with an explanation.	Medium	Procurement Manager	31/03/2018

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No	Recommendation	Priority	Manager	Target Date
9	<p>Providers should be met with on a regular basis to ensure that performance reports can be fully evaluated. The outcome of the monthly return reports should be completed and referenced to show an audit trail of how the Council evaluated the external care provider's performance.</p> <p><u>Management Comment:</u> Monthly meetings take place with the QA officer and there are also care at home provider forum meetings approximately every 8 weeks, chaired by the service manager, and supported by the QA officer.</p>	Medium	Service Manager Older People East	31/12/2017
10	<p>The targeted number of spot checks should be completed each month by the QA officer.</p> <p><u>Management Comment:</u> This checklist template has been reviewed and updated and the regular spot checks have been re-established now that there are no care at home providers under large scale investigation.</p>	Medium	Service Manager Older People East	Complete
11	<p>Strengthen controls with the Data Protection Act to ensure that Adult Services providers use Egress when submitting personal information to the Council.</p> <p><u>Management Comment:</u> All care at home providers are fully aware of their requirement to communicate client information through Egress and this is set up for them.</p>	High	Head of Adult Services	31/12/2017
12	<p>Standard management reports for reporting Care at Home hours need to be established and should be produced on a regular basis to allow management to monitor the number of hours delivered by the external care providers.</p> <p><u>Management Comment:</u> Meetings have been held between the Performance and Information Lead and the Service Manager to agree on the exact reporting information requirements and this is now being implemented.</p>	Medium	Performance and Information Lead Officer for Health and Social Care	31/12/2017

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No	Recommendation	Priority	Manager	Target Date
13	A breakdown of the hours provided by all key suppliers should be recorded on the management reports. Names need to be periodically updated to ensure reports are accurate.	Medium	Performance and Information Lead Officer for Health and Social Care	31/12/2017
14	<p>The petty cash top-up claims forms should only be approved by those listed on the Authorised Signatory Database. The Authorised Signatory Database needs to be updated to reflect which managers are authorised to approve petty cash disbursements.</p> <p><u>Management comment:</u> This work will be progressed alongside the other priorities of the service.</p>	Medium	Senior Accountant Projects and Treasury	31/03/2018
15	<p>A further review of petty cash imprest levels should be undertaken to ensure that the level is appropriate for the usage of the service. Given the infrequency of petty cash claims by high schools, consideration should be given to reducing the imprest levels.</p> <p><u>Management comment:</u> This work will be scheduled in due course subject to the other priorities of the service. A review is planned as part of the Purchase to Pay project.</p>	Medium	Senior Accountant Projects and Treasury / Business Applications Manager	30/06/2018

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Appendix 3 - Distribution List

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Allister Short, Joint Director, Health and Social Care
- Mary Smith, Director, Education, Communities and Economy
- Gary Fairley, Head of Finance and Integrated Service Support
- Alison White, Head of Adult Services
- Grace Vickers, Head of Education
- Julie Fox, Schools Group Manager – Early Years
- Robert Beal, Early Years Manager
- David Gladwin, Financial Services Manager
- Iain Johnston, Procurement Manager
- Jacqui Dougall, Business Services Manager
- Mike O'Rourke, Business Applications Manager
- Jamie Megaw, Midlothian Health and Social Care Partnership Strategic Programme Manager
- Gary Thomson, Senior Accountant, Projects and Treasury
- Anthea Fraser, Service Manager Older People East
- Zoe Graham, Performance and Information Lead Officer for Health and Social Care
- EY, External Audit

Audit Team

Author:	James Polanski	Auditor
Additional Fieldwork:	Amber Ahmed	Auditor
Reviewer:	Elaine Greaves	Audit Manager