

## **Internal Audit Work to May 2022**

### **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 associated with the delivery of the approved Internal Audit Annual Plan 2021/22;
- b) Note the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; 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 2021/22 was approved by the Audit Committee on 9 March 2021. 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 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.

**Date 21 June 2022**

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### 3 Progress Report

- 3.1** The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out the following work in the period from 26 February to 31 May 2022 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 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.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Learning Disabilities and Physical Disabilities Services
  - Capital Investment
  - Adult Social Care Contract Monitoring
  - Information Governance
- 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.

#### 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:
- a) In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, Information Management Group, and Cyber Defence Group.
  - b) Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums and meetings. This has included the Chief Internal Auditor joining CIIA Local Authority Forum and webinars on the topics of Culture and Data Analytics to share good practice and to keep knowledge of new Internal Audit developments up to date.

## 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:

<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.

**3.8** The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	0
Medium	6
Low	7
<b>Sub-total reported this period</b>	<b>13</b>
Previously reported	57
<b>Total</b>	<b>70</b>
Recommendations agreed with action plan	70
Not agreed; risk accepted	0
<b>Total</b>	<b>70</b>

## 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 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 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: Learning Disabilities and Physical Disabilities Services</p> <p>Category: Assurance – Risk (brought forward from 2020/21)</p> <p>Date issued: 28 April 2022 Draft; 11 May 2022 Final</p> <p>Level of Assurance: Substantial (overall governance, the decision making process for packages of care, budget monitoring arrangements and payments to providers); and Limited (commissioning arrangements within Adult Health and Social Care, and contract monitoring arrangements within Children Services and Adult Health and Social Care).</p>	<p>The purpose of this assurance audit was at a high level to review the decision-making process for packages of care, the provision and cost of the service provided, funding and transition to ensure obligations are met to deliver services.</p> <p>The Council provides a range of Community Care support services to individuals with varying levels of support needs. Access to this support is determined by agreed eligibility criteria, with funding being made available where an individual has been assessed as requiring support. Information on Adult Services and Children’s Services’ clients is recorded on the case management system, Mosaic. There are 3 different Resource Panels within Children Services that review assessments for children with complex needs; and 1 Resource Panel within Adult Health and Social Care which reviews assessments for adults with learning disabilities and physical disabilities.</p> <p>Internal Audit considers that the level of assurance is Substantial for overall governance, the decision making process for packages of care, budget monitoring arrangements and payments to providers, and Limited for commissioning arrangements within Adult Health and Social Care, and contract monitoring arrangements within Children Services and parts of Adult Health and Social Care.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Policies and Procedures relating to Learning Disabilities and Physical Disabilities should be reviewed and updated and should be available on the Intranet. (Low)</li> <li>• Resource Panels should have a Terms of Reference describing the roles and responsibilities of panel members. (Low)</li> <li>• Management within Children Services need to provide more breakdown on the types of spend. In addition, a breakdown of the cost of services should be recorded on the Assessment Form. (Low)</li> <li>• As part of the decision making process for packages of care, reasons for selecting a provider should be noted on the Assessment Form. (Low)</li> <li>• Within Children Services, provider’s performance reports and meetings should be reinstated and adequate resource should be provided to support the quality assurance process. (Medium)</li> </ul>	0	1	4	Management have agreed the factual accuracy and findings of the report, and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Capital Investment</p> <p>Category: Assurance – Risk</p> <p>Date issued: 22 April 2022 Draft; 21 June 2022 Final</p> <p>Level of Assurance: Limited (principally because of the lack of adequate asset management planning and the need for adequate project prioritisation in later years. There is evidence of improvement in the strategic governance provided by the CPAMB and defined processes during the year, although it is recognised that these are still evolving).</p>	<p>The purpose of this assurance audit was to assess compliance with good practice established by the Accounts Commission including: scrutiny and challenge of the capital plan and its delivery; capital financial budget monitoring; management, monitoring and reporting of high value capital projects and their delivery.</p> <p>A Capital Investment Strategy and Capital Plan that cover appropriate time horizons are in place. The Capital Investment Strategy acknowledges that in its current form it is unaffordable and undeliverable, principally due to inadequate project prioritisation in later years. The Capital Plan outlines the expected programme and project costs; however there is a risk to delivery of this due to inflationary pressures. There are processes in place to prioritise projects, but the findings from our sample projects indicate that they are not consistently followed in practice, although Management did not consider that this one project reviewed was representative of the operation of the CPAMB. Asset Management Plans, that ensure a proper balance between investment in new assets and maintenance of existing assets, are not in place and the overall condition and suitability of the Council's properties is not fully understood. Capital investment cannot be effectively prioritised until Asset Management Plans are in place for all asset classes. A board has been created which is tasked with developing new plans. Condition surveys will take place over the next few years due to resource constraints.</p> <p>Governance arrangements are in place to develop, oversee and deliver the capital programme. The Capital Plan and Asset Management Plan Board (CPAMB) is established with a comprehensive Terms of Reference supplemented by detailed guidance. Capital investment is commissioned through the CPAMB with final approval of projects by Council. The functioning of the CPAMB continues to improve, particularly in terms of strategic focus with the introduction of the Capital Plan Monitoring Group, although there is more to do. Management have advised that the Strategic Infrastructure Investment Framework developed will integrate key principles to be applied to all capital projects. The refresh of the Learning Estate Strategy that is underway will be a key element of this although a funding gap exists that needs to be overcome. It was also advised that there has been a significant improvement during 2021/22 over financial monitoring and project evaluation across all capital projects.</p>	0	2	0	<p>Management have accepted the recommendations.</p> <p>The audit on 'Construction projects / social housing programme' within the Internal Audit Annual Plan 2022/23 will present a further opportunity to assess the improvements made and review the level of assurance.</p>



Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Capital Investment (Cont'd)	<p>Capital financial budget monitoring, management and monitoring of high value capital projects and their delivery outside of the projects themselves is inconsistent and as a consequence there is insufficient evidence that all projects are subjected to appropriate levels of scrutiny. Financial reporting has been enhanced latterly by the modification of themed programme dashboards.</p> <p>Quarterly capital project and programme reporting is provided to the CPAMB and elected Members to enable them to make decisions on the Council's capital investment activity.</p> <p>Internal Audit considers that the level of assurance is Limited principally because of the lack of adequate asset management planning and the need for adequate project prioritisation in later years. There is evidence of improvement in the strategic governance provided by the CPAMB and defined processes during the year, although it is recognised that these are still evolving.</p> <p>Internal Audit have made the following recommendations which are designed to improve the fundamentals of capital investment planning and implementation and ensure consistency of the Council's approach to capital investment across all capital projects:</p> <ul style="list-style-type: none"> <li>• Asset Management Plans, based on up-to-date condition surveys, should be developed and used to ensure effective prioritisation of projects. (Medium)</li> <li>• Current projects should be adequately prioritised and effective scrutiny should be undertaken to ensure all projects have the appropriate governance controls in place. (Medium)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Adult Social Care Contract Monitoring</p> <p>Category: Risk</p> <p>Date issued: 10 May 2022 Draft; 26 May 2022 Final</p> <p>Level of Assurance: Substantial (some aspects of the Adult Social Care Contract Monitoring arrangements including the regular oversight processes established by the C&amp;CG and the monitoring arrangements established for the Council's most significant Self-Directed Support Option 3 providers; and Limited (the monitoring of Self-Directed Support Option 2 and Out-of-Area providers; the formal risk-assessment framework for provider monitoring and central guidance to contract owners; the Learning and Physical Disabilities commissioning arrangements; and the completeness of contract register information reported to the C&amp;CG).</p>	<p>The purpose of this assurance audit was to review at a high level the governance of the contract monitoring arrangements in place with suppliers for the provision of services for adult social care. This included the application of any relevant national adult social care frameworks.</p> <p>The procurement of care services is overseen by the Commissioning and Contracts Group (C&amp;CG). The purpose of the group is to coordinate and provide oversight of all Health and Social Care procurement in Midlothian including provider monitoring arrangements. The group is attended by relevant Health and Social Care senior management along with representatives from Financial Services and Procurement.</p> <p>Quality Assurance Officers undertake provider monitoring for Care Homes, Care at Home, and Learning and Physical Disabilities. Additionally, for other Health and Social Care contracts, Planning Officers or other relevant managers are assigned to undertake monitoring for providers relevant to their areas of work. Quality assurance sub-groups have been established for officers to report to management the findings of any monitoring activities. The Council's Procurement Service undertake provider monitoring; providers are monitored using a credit rating agency and monitoring information including financial accounts, insurance and relevant procedures are requested as part of a periodic 'provider fitness check' process.</p> <p>Internal Audit considers that the level of assurance is Substantial over some aspects of the Adult Social Care Contract Monitoring arrangements including the regular oversight processes established by the C&amp;CG and the monitoring arrangements established for the Council's most significant Self-Directed Support Option 3 providers. However, assurance is limited over: the monitoring of Self-Directed Support Option 2 and Out-of-Area providers; the formal risk-assessment framework for provider monitoring and central guidance to contract owners; the Learning and Physical Disabilities commissioning arrangements; and the completeness of contract register information reported to the C&amp;CG.</p>	0	3	3	Management have confirmed the factual accuracy and findings of the report and agreed to the implementation of the recommendations within realistic timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Adult Social Care Contract Monitoring	<p>Internal Audit made the following recommendations to support improvements that are designed to ensure risk-based, consistent and comprehensive application of contract monitoring in Adult Social Care services:</p> <ul style="list-style-type: none"> <li>• A Terms of Reference should be established for the HSCP Quality Assurance sub-groups and it should be established how frequently the groups should meet and what they should report to the C&amp;CG. (Low)</li> <li>• An appropriate risk assessment framework should be developed to determine the level of monitoring that should be in place for all providers in line with best practice issued by the Scottish Government. (Medium)</li> <li>• Management should ensure that all providers are subject to appropriate monitoring arrangements based on a risk assessment regardless of whether the provider is Option 2, Option 3, or out-of-area. As part of the provider risk assessment analysis, management should ensure that there is a named person for the contract who is responsible for the quality assurance of the provider supported by guidance / expectations on frequency of monitoring information for contract owners. (Medium)</li> <li>• Management should review how the Mosaic system could be used to aid in provider performance monitoring. (Low)</li> <li>• Following update of the contracts register, Procurement should ensure that all providers on the contracts register are being monitored by the credit reference agency and Procurement should review if the Provider Fitness Check could still be delivered by focussing on the most financially significant suppliers. (Low)</li> <li>• The purchase ledger should be reviewed to ensure that all relevant ASC providers above the regulated level of spend (£50,000) are included on the Health and Social Care contracts register and guidance prepared to support the practice of spot purchases. (Medium)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Information Governance Progress Update</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 24 May 2022 Draft; 13 June 2022 Final</p> <p>Level of Assurance: N/A – Progress updates are not formally rated</p>	<p>The Council must comply with a range of information governance legislation including the Data Protection Act 2018 (GDPR), the Public Records (Scotland) Act 2011, the Freedom of Information Act 2000, and the Environmental Information Regulations (Scotland) 2004. As part of Internal Audit's continuous auditing arrangements and in line with Internal Audit's strategy as a 'critical friend', an Auditor attends the Council's monthly Information Management Group (IMG).</p> <p>The IMG has recently refreshed the format of its data breach reporting with senior management now receiving quarterly updates at CMT. Email continues to be the primary source of data breaches. The IMG plan to carry out presentations to staff groups who deal with large quantities of correspondence to help raise awareness of data protection risks. Technical measures have been applied to reduce the risk of emails being sent to the incorrect recipient including the removal of autocomplete from MS Outlook in 2019 and the Implementation of Egress Prevent in 2022, an application that helps identify potential risks when sending a new email.</p> <p>Data Breaches are reported to the Council's Information Compliance Officer for assessment and consideration of whether the breach requires reporting to the Information Commissioner's Office. The final decision to report is made by the Council's Data Protection Officer (acting) in consultation with the Information Governance / Security Services Lead and Senior Information Risk Owner. Additionally, support is provided on the completion of Data Protection Impact Assessments and development of Information Sharing Agreements although these remain the responsibility of the Services to complete.</p> <p>Training is available within the LearnPro system on Records Management and Data Protection, but uptake of the training requires improvement as completion rates are currently 38% and 62% respectively. Third tier managers have been tasked with improving uptake through the MPM process. Training is important as by increasing staff awareness of data protection risks, data breaches are reduced, and if there is a data breach the Council can demonstrate to the Information Commissioner measures have been taken to ensure staff have been trained.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Information Governance (cont'd)	<p>It was reported to the Audit Committee in May 2021 that the IMG had undertaken a self-assessment against their Information Governance Strategy, developed a risk register documenting the Council's exposure to information governance risks, and connected these to a detailed action plan to mitigate the identified risks. Progress against the action plan has been limited primarily due to the staffing resource required to take these actions forward. Actions include revised self-assessment processes for third tier managers, introduction of 'data protection audits', improvements to the Council's Information Asset Registers, updates to certain Information Governance policies, and actions from the Records Management Audit (2020) which were encompassed into the plan. Legal and Governance Services have advised that they intend to review the information governance resource within Legal Services to improve progress and reduce the Council's exposure to information governance related risks. This includes securing the appointment of a full-time Data Protection Officer (following the resignation of the previous post holder).</p> <p>The Council has been invited by the Keeper of Records of Scotland to update their Records Management Plan. The Public Records (Scotland) Act 2011 places an obligation on named public authorities to prepare and implement a Records Management Plan (RMP) which sets out proper arrangements for the management of their records. The Council does not currently have a full-time Records Management Officer, however an experienced officer has been employed on a temporary basis to complete this task. The Council's current Records Management Plan was approved by the Keeper in June 2014, and since then Midlothian has complied with the requirement to submit Progress Update Reviews.</p> <p>Internal Audit will continue to attend the Council's IMG meetings and monitor progress with information governance. Within the audit plan for 2022/23, Internal Audit will carry out a review of the Council's arrangements for Freedom Of Information and Environmental Information Regulation requests.</p>				