

Internal Audit Work to October 2020

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;
- b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; 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 2020/21 was approved by the Audit Committee on 10 March 2020. 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 11 November 2020

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3 Progress Report

- 3.1** The Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 10 March 2020. Internal Audit has carried out the following work in the period to 31 October 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.
- 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 of the reviews.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Change and Transformation Programme
 - Business Planning, Budget Setting and Monitoring (including Workforce Planning)
 - EU Funded Programme Tyne Esk LEADER
- 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.

Current Internal Audit Assurance Work in Progress

- 3.5** Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2020/21 consists of the following:

Audit Area	Audit Stage
Property Maintenance	Drafting the Report
Fleet Management	Testing underway
Passenger Transport	Testing underway
Council Tax	Testing underway
Social Housing Rents	Testing underway

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:
- In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, and Information Management Group.
 - 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.
 - Monitored publication of Audit Scotland reports and co-ordinated submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.
 - Attended and provided support for the new Integrity Group.
 - Consultation on development of revised Audit Plan 2020/21.

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:

High: 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.
Medium: 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.
Low: 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 2020/21:

	2020/21 Number of Recs
High	0
Medium	1
Low	1
Sub-total reported this period	2
Previously reported	0
Total	2
Recommendations agreed with action plan	2
Not agreed; risk accepted	0
Total	2

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)

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. There is engagement between Internal Audit and the Council's External Auditors, EY.

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: Change and Transformation</p> <p>Category: Assurance – Risk</p> <p>Date issued: 13 October 2020 Draft; 11 November 2020 Final</p> <p>Level of Assurance: n/a Follow-up</p>	<p>The purpose of this assurance audit was to monitor through a continual audit approach the implementation of improvements to the governance and accountability arrangements for the change and transformation programme including processes for benefit (financial and other) identification, tracking and realisation.</p> <p>The Internal Audit report Change and Transformation Programme was issued on 12 February 2020. The Internal Audit recommendations apply to the foundations which underpin the Change and Transformation Programme. Without a sound foundation the programme is unlikely to successfully deliver the required outcomes.</p> <p>There is a clear impetus for change in order for the Council to deliver quality services on a financially sustainable basis. BTB and BTSG meetings in late 2019 and early 2020 enabled the latter to agree recommendations to be made to Council on 11 February 2020 in respect of final service budgets for 2020/21 and Council Tax.</p> <p>The impact of the coronavirus pandemic has had a very significant impact on the progress with the full implementation of the agreed recommendations. Key members of staff central to the programme were redeployed to the emergency response. Committee meetings were suspended. Neither the Business Transformation Board (BTB) nor Business Transformation Steering Group (BTSG) have formally met whilst the Council was in emergency response mode. Meetings have recently recommenced with BTB meeting on 26 August and 7 October and BTSG on 14 September 2020.</p> <p>Of the 6 recommendations made in the previous year's report: 3 have been implemented and 3 have been partially implemented for 2020/21. BTB and BTSG meetings are scheduled to enable the further opportunity to demonstrate the revised approach for future years, and full implementation of the recommendations.</p> <p>We completed the main audit fieldwork in late September 2020 and this report reflects our findings at that time. In this follow up report, Internal Audit has not given any assurance rating or made any further recommendations. Internal Audit will continue to follow-up on Management's progress with the implementation of these recommendations.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report.</p> <p>To fully implement the 3 remaining recommendations the following are expected to be presented to the next scheduled BTB meeting on 25 November 2020: A separate and up-to-date remit of BTB; A new template that has been agreed by BTB which each Service is required to complete to reflect transformation plans; and BTB scrutiny of the underlying plans to assess how robust / realistic those plans are in terms of delivery.</p> <p>The next scheduled BTSG meeting thereafter is 7 December 2020.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Business Planning, Budget Setting and Monitoring (including Workforce Planning)</p> <p>Category: Assurance – Risk</p> <p>Date issued: 13 October 2020 Draft; 11 November 2020 Final</p> <p>Level of Assurance: Substantial for the overall governance arrangements in place and Limited in respect of the implementation of previous audit recommendations.</p>	<p>The audit purpose was to evaluate the implementation of improvements to ensure that budgets set for 2020/21 are sustainable and based on realistic plans and that appropriate scrutiny and challenge is undertaken on revenue budget monitoring reports to enable service delivery within approved budget; and to review the Service business and workforce planning processes.</p> <p>Balanced budgets have been set for 2019/20 and 2020/21 which did not anticipate a call on General Reserves but also did not plan for any increase. The outturn for 2019/20 demonstrated overall that costs are being controlled within the totality of budget. There are Service areas which continue to overspend with that overspending being offset by underspending elsewhere. Budget setting and monitoring reports are subjected to appropriate scrutiny and challenge. The Medium Term Financial Strategy indicates the work that is required to set a sustainable in-year balanced budget for 2021/22 and for 2022/23; work is ongoing through the Council delegating to BTSG to bring forward proposals to deliver a balanced budget in future years.</p> <p>Service Plans have been developed for 2020/21 setting out the contribution that Services will make towards achievement of the Council's objectives which are set out in the Single Midlothian Plan. The expectation is that Services will be delivered within the approved budget – a necessary approach given the challenging financial environment in which the Council operates. Future opportunities exist to enhance the alignment of Service and Workforce Planning with the Medium Term Financial Strategy. A review of Service Plans is underway to take into account the Nesta report - lessons learned from the pandemic.</p> <p>Budget monitoring information is presented to CMT and Members using a format that has been in place for a number of years. Detailed reports are provided to budget holders and chief officers prior to consideration by CMT. In response to a prior year Internal Audit recommendation, alternative formats for budget monitoring reporting to CMT and Members have been considered by the Financial Services Manager but finalisation of the report format for consideration by CMT has been delayed due to changed priorities arising from Covid-19. The change in the Senior Leadership provides a further opportunity to assess financial management reporting needs.</p>	0	0	0	<p>Requests have been made by relevant Management to extend the due dates of the remaining Audit Actions in the Pentana system to enable their full implementation.</p> <p>Internal Audit will continue to follow-up on Management's progress with the implementation of these recommendations.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Business Planning, Budget Setting and Monitoring (including Workforce Planning)</p> <p>(Cont'd)</p>	<p>The Annual Governance Statement 2019/20 highlighted that in 2019/20 meeting dates were aligned in order that reports would go to CMT or Financial Monitoring prior to Audit Committee or Council where appropriate and that accurate and timeous reports being provided to allow full analysis and scrutiny of financial matters was an area of improvement.</p> <p>Of the 7 recommendations made in the Revenue Financial Budget Monitoring 2018/19 report: 5 have been implemented, 1 has been partially implemented (Fill vacant Senior Accountant post for Education service and consider full adoption of Finance Business Partner model) and 1 has not been implemented (Better recognise commitments in projected outturn figures and address issues with feeder systems). Of the 3 recommendations made in the Business Planning, Budget Setting and Monitoring 2019/20 report: 1 has been implemented and 2 have been partially implemented (Review and revise quarterly budget monitoring reporting format; and Integrate the progress with the achievement of savings targets into the budget monitoring reports).</p> <p>Of the 4 recommendations made in the Workforce Strategy and Plans 2018/19 report: all 4 have been partially implemented (Review and update the Workforce Strategy; Revise the Service Workforce Plans and Action Plans in alignment with Strategy; Introduce a formal review process for monitoring their delivery; and Align workforce planning processes with business and financial planning processes.</p> <p>Internal Audit considers that the level of assurance we are able to give is Substantial for the overall governance arrangements in place and Limited in respect of the implementation of previous audit recommendations.</p> <p>The audit fieldwork was completed in September 2020. We have not made any new recommendations in this report; areas where further improvement is required are set out in recommendations previously made.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: EU Funded Programme Tyne Esk LEADER</p> <p>Category: Legislative and Compliance</p> <p>Date issued: 21 October 2020 Draft; 04 November 2020 Final</p> <p>Level of Assurance: Substantial for governance and grant application management; Limited for grant claims processes.</p>	<p>The purpose of this legislative and compliance audit, required by the SLA, was to assess the adequacy of the internal controls in place for the administration of the Tyne Esk LEADER Programme to comply with the SLA.</p> <p>The LEADER programme is part of the Scotland Rural Development Programme 2014-2020 which aims to promote economic and community development within rural areas of Scotland. Grants are awarded by Local Action Groups (LAGs) to projects that support delivery of a Local Development Strategy. For each LAG there is an Accountable Body to support the administration of the programme. Midlothian Council (MLC) is the Accountable Body for the Tyne Esk LEADER programme.</p> <p>In the case of Tyne Esk LEADER, the SLA was signed on 30 December 2015 and the funding allocation was £3.5m, with 25% of this budget being for administration of the programme. This budget has since been reduced to £3.4m due to the programme now nearing completion and the budget being slightly underspent. Tyne Esk LEADER has now allocated £3.25m of its budget with £2.4m allocated to projects and the remainder allocated to administration. The programme was originally intended to conclude in December 2020; however, due to the impact of Covid-19, the programme was granted a 3 month extension by the Scottish Government to March 2021.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial in terms of governance of the programme and grant application management. Assurance is limited for the grant claims processes as there is a risk that the Council may have insufficient time to repay applicant claims or make the appropriate drawdowns from the Scottish Government by the programme closure date. There is currently a backlog in reclaiming administrative costs from the Scottish Government.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • Management should ensure there is sufficient staffing resource to bring the LEADER programme to its end, support the completion of project claims and associated tasks, and support the grant drawdown process from the Scottish Government. (Medium) • Management should undertake a quality check of the LEADER projects information on the web-portal system provided by the Scottish Government for completeness and accuracy. (Low) 	0	1	1	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations within acceptable timescales.</p> <p>Interim staff resources arrangements have been resolved.</p> <p>This Internal Audit Report has been submitted to the Scottish Government along with the Programme's Annual Confirmation Certificate by the due date of 13 November 2020.</p> <p>Internal Audit will follow-up on progress in February 2021.</p>