Internal Audit Work to May 2023

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 2022/23;

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 2022/23 was approved by the Audit Committee on 14 March 2022. 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 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 8 June 2023

Report Contact:
Duncan Stainbank
duncan.stainbank@midlothian.gov.uk

3   Progress Report

3.1   The Internal Audit Annual Plan 2022/23 was approved by the Audit Committee on 14 March 2022. Internal Audit has carried out the following work in the period from 1 March to 31 May 2023 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 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:
   •   Care at Home
   •   Construction Projects
   •   Mental Health Services

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
3.5   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: Capital Plan Management Group, Chief Officers Risk & Resilience Group, Integrity Group, UKSPF Oversight Board and Information Management 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 (Computer Audit Sub-group) and meetings; and
   c) Monitored publication of Audit Scotland reports.

Recommendations

3.6 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.

3.7 The table below summarises the number of Internal Audit recommendations made during 2022/23:

Recs Rating	2022/23 Number of Recs
High	0
Medium	10
Low	12
Sub-total reported this period	**22**
Previously reported	40
Total	**62**

Recommendations agreed with action plan	62
Not agreed; risk accepted	0
Total	**62**

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.

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	
Subject: Care at Home Category: Assurance – Risk Based Date issued: 16 February 2023 Draft 10 March 2023 Final Level of Assurance: Substantial for the governance arrangements, procurement, external provider monitoring, and some of the business continuity planning undertaken by the service. Limited for the ability to meet service demand, performance monitoring of the in-house service, training uptake and written procedures.	The purpose of the audit was to review the controls over the Care at Home service to ensure the Council is receiving value for money and adequate care is delivered. Midlothian Council is required under statute to provide care at home services to those who are assessed as being in need. This is provided by the Council's in-house Care at Home service and by contracted external providers. Referrals are assessed by the Resource Panel, given a priority rating, added to the care at home waiting list, and provided a package of care when possible. Demand for the service continues to be high and there is insufficient capacity to meet this level of demand. As at December 2022, the median wait time for the community waiting list was around 13 weeks and there were 480 clients on the waiting list. The in-house service provides around 1,500 hours of care each week and is delivered by 128 carers. The external Care at Home provision was retendered in 2021 and contracts were awarded to 3 providers. The contracts commenced in September 2021 and expire in August 2025 with the option to extend annually for a further 4 years. The contracts are split by geographical area with the 3 providers contracted to deliver 740, 1,680 and 1,565 hours of care per week. Additionally, clients can elect to use an alternative provider under the Self-Directed Support provisions (known as Option 2 agreements). There are currently 4 providers delivering Care at Home Personal Care under Option 2 Agreements totalling around 300 hours of care per week (excluding Physical and Learning Disabilities providers). Recruitment has continued to be challenging for both the in-house service and for external providers. 2 of the external providers struggled to deliver the full contracted hours in 2022 resulting in 1 provider reducing their weekly contracted hours. The Council is in discussion with the other provider and it has been reported that they are putting significant resource into recruiting more care staff; their contracted hours have not been changed at the time of reporting. The Council continues to advertise for Care Support Workers each month for the in-house service. Management are exploring the use of Care at Home agency providers via a Scotland Excel Framework to provide more capacity. Rotas for the in-house service are recorded within the CM2000 care management software. There is a Quality Assurance Officer post for the in-house provision to assist with monitoring, analysing and reporting on performance and service quality, however the post has been vacant for most of 2022 and there has been no cover for this role. A Quality Assurance Officer is in place to monitor the external Care at Home providers. The Procurement Team provide contract compliance support and monitor suppliers using Experian to check their financial health.	0	2	6	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	
Subject: Care at Home (Cont'd)	Internal Audit considers that the level of assurance is substantial for the governance arrangements, procurement, and external provider monitoring, and for some of the business continuity planning undertaken by the service. Assurance is limited for ability to meet service demand, performance monitoring of the in-house service, training uptake and written procedures. Management have advised that they are improving performance monitoring arrangements through development of a performance matrix reported to Senior Management. Overpayments were made to 2 providers (£176,289 to the 1,565 hours per week provider and £64,532 to the 740 hours per week provider) due to them not providing the full contracted hours yet continuing to invoice for the full contract amount. The overpayment has been recovered from the 740 hours per week provider and £94,734 is still outstanding from the 1,565 hours per week provider (as at 12/02/23). The overpayments occurred due to inadequate monitoring of the number of hours delivered against the number of hours invoiced. Management, supported by Financial Services, are now regularly monitoring the hours delivered by providers and are liaising with the provider to recover the outstanding overpayment. There are concerns over the financial status of the 1,565 hours per week provider which is being monitored by management.				

Internal Audit made the following recommendations:

- Care at Home risks within the strategic risk register and the service risk register within the Pentana system should be regularly updated and consideration given to escalating the risk.(Low)
- The review of the in-house Care at Home service should consider how the quality assurance and performance monitoring tasks could be made more resilient. (Low)
- Written procedures should be implemented including how performance is measured. (Low)
- Option 2 providers' rates should reflect the rate approved at the Finance and Performance Committee in June 2022. Relevant providers should be informed of the revised rate and the uplift backdated as required. (Low)
- Data quality issues with provider monitoring information should be addressed. Quality assurance monitoring should be in place for all providers including SDS Option 2 providers. Audits undertaken by the service should include an assurance risk rating and priority of the action identified. (Low)

	• A review of route efficiency and travel time should be undertaken and these should be regularly monitored in the CM2000 System. A process of review should be undertaken every time the ratio actual time to planned time drops below 70% to establish if further hours care could be provided or if care provision is not being adequately provided. Average travel time of greater than 20% should also be reviewed as required to maintain this at or below 20%. The ratio of actual time to planned time for some carers being below 70% should be reviewed and aim towards achieving an average travel time of 20% each week. (Medium) • Mileage claim forms should be authorised by management prior to submission to Employment and Reward. The policy for Care at Home employees living outwith the Midlothian boundary claiming mileage for journeys outwith the boundary should be clarified by management and enforced as required. Working papers should be amended to include walkers in a separate tab so the total mileage for the period can be easily reconciled to the CM2000 report extract. (Low)			

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Construction Projects Category: Assurance – Cyclical Date issued: 3 April 2023 Draft 9 May 2023 Final Level of Assurance: Substantial Assurance	Midlothian Council has a significant Capital Programme and as reported to the February 2023 Council has agreed a prioritisation methodology and a prioritisation review is underway using this approved methodology. The capital plan prioritisation process has not been reviewed as part of this audit; this audit focussed on the internal procedures in place within the Development Team to manage recent and current Midlothian Council tendered construction projects. The management of Construction Capital Projects is undertaken by the Development Team within the Place Directorate. The service has recently been restructured in response to the expansion of Midlothian's capital programme as additional capacity was needed to deliver the scale and complexity of the emerging projects. In June 2021, a refreshed governance framework was agreed with five programme Boards (Asset Management; Children & Young People Estate; Housing, Regeneration and Development; and Transport, Energy and Infrastructure) and a Capital Plan Monitoring Group reporting to the CP&AMB. The project governance outlines the roles and responsibilities for project management, the project stages and the key documents that need to be completed as part of the project's gateway process. Project updates, issues and risks are reported to the programme boards along with budget information, current project spend and projected project spend. Individual construction projects are managed by Senior Project Managers and Project Managers. Senior Project Managers act as the principal lead for complex multi-million pound projects and are responsible for the day to day management and effective implementation of projects. They manage reporting on projects to the relevant Programme Managers and communicate progress of project delivery. They monitor on site works and manage performance and deliverables of multi-professional in house / external project teams and specialist consultancies. The Development Team has an in-house Clerk of Works team of 5 FTE. Previously many of the Clerk of Works' tasks were contracted out for construction projects and there were only 2 FTE Clerk of Works officers. Management have advised that having an in-house team has provided more control over the Clerk of Works activities and greater assurance over the quality and safety of the work on construction sites. Internal Audit considers that the level of assurance is substantial over the Council's control framework to allow successful delivery of construction projects. There is a robust framework in place for capital projects to be planned, procured, managed, monitored and reported on. This was evidenced through a review of 9 capital projects at different stages of development along with review of relevant documentation and discussion with Project Managers.	0	5	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	
Subject: Construction Projects (Cont'd)	Internal Audit made the following recommendations: • The overarching project management procedures need to be updated and finalised. Appropriate thresholds should be developed and followed as to when an overarching project governance control document (such as a PDD and Project Brief) are required. Similarly appropriate requirements should be developed which state when customer satisfaction reports, post project reviews, and project issues logs and risk registers are required. (Low) • Appropriate service risk registers should be established in the Pentana Performance System for the Development Team. (Low) • Management should ensure that project documentation is complete and an appropriate audit trail is in place for all projects. Consideration should be given to implementing an email management solution as this would allow the service to have more assurance on the completeness of project files and correspondence with contractors. The planned, extended use of BIM360 may also help in this regard. (Low) • A final cost report should be completed for all financially significant projects, the project issues section of the cost report completed, and all relevant projects above appropriate determined criteria receive a dashboard update up to completion of the final account. (Medium) • Management should review the procurement findings from the audit sample and revise internal procurement procedures within the Development Team to address the identified risks. (Medium) • Going forward, management should ensure Community Benefits are appropriately monitored using the Cenefits system wherever possible. Management should consider inclusion of Community Benefits for all relevant projects, including VEAT projects. (Medium) • Management should ensure that all projects use the appropriate change management methodology and retain a copy of the digital authorisation of the change form either by email or a PDF screen print. (Low) • Variations above a certain financial level, to be determined by the CP&AMB, should require board or second officer approval.(Medium) • A handover schedule should be completed for all significant construction projects to ensure all relevant steps have been completed. Additionally, confirmation should be saved in the directory of the snagging list and that all Clerks of Works issues have been addressed. (Medium)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Mental Health Services Category: Assurance – Risk Date issued: 01 May 2023 Draft 07 June 2023 Final Level of Assurance: Substantial for budget monitoring and partnership working Limited for contract monitoring; and compliance with procurement regulations and the Council's FTPP policy	Mental health services are provided by the Midlothian Health and Social Care Partnership (HSCP) and third party suppliers including the third sector. Midlothian's HSCP works with partners through the Midlothian Health and Social Care Strategic Planning Group which oversees mental health and wellbeing in Midlothian including hospital services, community health, social care and third sector services. The internal provision provided includes supporting adults who have a diagnosed mental health problem and who are in need of social support or referral to other services. The demand on mental health services is high - 886 referrals were received from April 2022 to February 2023. In August 2022, the Mental Health and Resilience Service (MHARS) was launched. This a collaborative approach between the Midlothian HSCP and a third party supplier to improve access to care and support for residents of Midlothian who are experiencing crisis and/or distress with their mental health and/or mental wellbeing. Since launching in August 2022, MHARS has successfully supported 510 residents of Midlothian (as of February 2023). Within the Children, Young People and Partnerships Directorate, most mental health services are delivered through a four-tiered model of care, from early intervention and prevention through to a more specialist support. A range of support and interventions are provided including pastoral care in schools, learning assistants, support and youth workers, teachers and specialist resources such as social workers. Children and young people (0-18 years) are referred to Child and Adolescent Mental Health Services (CAMHS) if there are significant concerns about their mental health or wellbeing and when difficulties are impacting upon their day to day functioning. Currently there are workforce and recruitment challenges which includes Mental Health Officers and Social Workers. Internal Audit considers that the level of assurance is substantial for budget monitoring and partnership working. Assurance is limited for contract monitoring; and compliance with procurement regulations and the Council's FTPP policy. A small number of providers were not meeting their targets and payments had been made for services not provided (one payment recovered and one payment outstanding).	0	3	2	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Mental Health Services (Cont'd)	The Commissioning and Contracts Group (C&CG) has an oversight of all Health and Social Care procurement in Midlothian however there is no C&CG within the Children, Young People and Partnership Directorate. Due to a lack of resource within Procurement, the current C&CG will include reviewing procurement within Children and Young People Partnership Directorate. Internal Audit made the following recommendations: • Management should ensure that they are compliant with Following the Public Pound (FTPP) guidance: Service Level agreements (SLAs) should be in place and updated if there is a variation in the agreement; SLAs should be signed by an authorised signatory; risk assessments should be completed for large grants, and financial checks for large grants should be undertaken. Grant application forms should be updated to ensure compliance with relevant legislation (eg the Data Protection Act 2018, Freedom of Information Act 2002 and Subsidy Control Act 2022.) (Medium). • The Strategic Improvement Plan for Children and Young People (CYP) Mental Health and Wellbeing needs to be formally agreed and implemented. Improvements are required over performance information relating to providing wellbeing support service to children and young people and obtaining more data from partners. (Medium) • Service Level Agreements (SLAs) and contracts should be signed by an authorised signatory (Low) • Risk Registers should be reviewed and updated. (Low) • Monitoring of performance should be undertaken for all providers ensuring that all relevant performance templates are completed. The frequency of monitoring should be increased for higher value contracts. Contracts where providers are not meeting targets should be investigated and payments recovered for services not provided. The IPS service letter of agreement should be in place and this should be signed by an authorised signatory. (Medium)				