

Internal Audit Work to December 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;
- 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 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 MLC Internal Audit function conforms with 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 25 January 2023

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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 November to 31 December 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 with 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:
- Accounts Receivable – Sundry Debt; and
 - Utilities: Energy and Water Consumption
- 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 2022/23 consists of the following:

Audit Area	Audit Stage
Employability Funded Programmes	Drafting the report
Care at Home	Drafting the report
Performance Management and Performance Indicators	Drafting the report
Mental Health Services	Planning underway
Construction projects / social housing programme	Planning 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 Capital Plan and Asset Management Board, Capital Plan Management Group, Capital Plan Prioritisation Review Group, Chief Officers Risk & Resilience Group, Integrity Group, UKSPF Oversight 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 (Computer Audit Sub-group) and meetings; and
 - 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.

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 2022/23:

Recs Rating	2022/23 Number of Recs
High	0
Medium	6
Low	13
Sub-total reported this period	19
Previously reported	15
Total	34

Recommendations agreed with action plan	34
Not agreed; risk accepted	0
Total	34

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 the Council to deliver its key priorities in support of achieving the its objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☒ Holistic Working
- ☒ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☒ Transformational
- ☒ Preventative
- ☒ Asset-based
- ☒ Continuous Improvement
- ☒ One size fits one
- ☐ None of the above

The 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 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.

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Accounts Receivable - Sundry Debt</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 17 November 2022 Draft 7 December 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the audit was to review the controls in place to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable with appropriate VAT treatment.</p> <p>The Council uses Capita's Integra 2 finance system for sales ledger and arrears management processes. Invoices are raised via the sales ledger for a wide range of chargeable services. For 2021/22 14,641 invoices were raised (£24,876,891), 1,135 credit notes were raised (£1,673,554), and 28,453 payments were received (£25,810,735). The Council's sundry debt over 30 days old as at 31 March 2019 was £1,489,433 and this increased to £1,959,244 by 31 March 2022.</p> <p>The Council had weaker collection performance during 2020 at the height of the Coronavirus pandemic, but from 2021 the collection performance improved and was similar to normal levels prior to the outbreak of the virus. The Council's aged debt position has deteriorated when compared to pre-pandemic levels, but collection performance on invoices raised from the latter part of 2021 onwards is more in line with pre-pandemic performance.</p> <p>Most invoices are raised on behalf of services by either the Sundry Debt Team or Business Support Services. Schools raise their own invoices for room and facility hires. Payments in respect of invoices raised are receipted onto the Civica ICON system. A daily upload from this system updates all of the customer accounts with the payments received. Responsibility for collection of sundry debt rests with the Sundry Debt Team. The Council contracts an external debt collector (Walker Love) who provide debt collection services for debts that need a specialist service.</p> <p>Internal Audit considers that the level of assurance is substantial for the accounts receivable system. Accounts receivable processes have improved in terms of consistency, audit trail, and internal control over the years, and a significant part of the improvement is due to the Sundry Debt Team and the internal procedures developed by them.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> Management should review if the timescale for raising rechargeable repairs invoices could be reduced. (Low) 	0	1	5	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

	<ul style="list-style-type: none"> • The Fees and Charges Schedule should be published on the Council website annually to allow the public to view it and it should include all relevant fees and charges. (Low) • The service should finalise the implementation of a credit note E-form which would require all credit notes to undergo appropriate authorisation. (Medium) • Record retention requirements for invoice request slips should be clarified and the procedure should be applied consistently by all officers raising invoices. (Low) • Income Collection guidance on VAT should be more detailed. (Low) • For executory debt, comprehensive diary notes which reflect the complexity of the case, relevant action taken, evidence reviewed and the basis for the decision to no longer pursue the debt should be documented. (Low) 				
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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Utilities: Energy and Water Consumption</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 15 December 2022 Draft 18 January 2023 Final</p> <p>Level of Assurance: Substantial for the procurement arrangements, invoicing and third party usage. Limited for usage monitoring and the medium to long-term plans to reduce usage.</p>	<p>The purpose of the audit was to review the controls over the consumption of utilities (energy and water) ensuring utilisation is adequately controlled and represents value for money.</p> <p>Utilities are procured through the national framework managed by Scottish Procurement - rates are agreed annually and it is predicted that prices will increase next year. The management of utilities is primarily the responsibility of the Energy Team within the Place Directorate. There is 1 FTE Energy Assistant Development Officer with responsibility for payment of utilities invoices, arranging for the installation or removal of meters, monitoring utilities usage, liaising with the supplier to address issues or errors in the Council's utilities billing, assisting in the preparation of utilities budgets, monitoring and identifying utilities anomalies, managing Salix funding, providing information relevant for Carbon Management reporting, and undertaking projects / campaigns to reduce energy usage. The 2022/23 budget for utilities (gas, water and electricity) is £4.686m and was increased by £1.058m at August Council due to the significant increase in gas prices since the budget was approved at the start of the year.</p> <p>Electronic invoices are uploaded to the SystemsLink application for monitoring purposes and are paid following authorisation within the Council's Finance system, Integra 2. Utility costs are charged to the relevant Council sites by Financial Services using a report produced by the SystemsLink application. Baseline consumption levels have been set for all Council buildings and the budget forecast is based on these and utility price guidance received from Scottish Procurement and these are monitored throughout the year. Baseline consumption is based on average consumption for the property over a set number of years and is updated following changes to properties such as extensions or energy improvements.</p> <p>The Council approved a Heating Policy in May 2019 which set target building temperatures for the different types of building (e.g. office space, school offices and classrooms, gymnasiums, sports centres, care homes, sports centre changing rooms, pool halls, gym halls, stores, etc.) and the Engineering Technician has advised that building temperatures have been set in line with the target temperatures in the policy.</p> <p>Internal Audit considers that the level of assurance is Substantial for the procurement arrangements, invoicing and third party usage. Assurance is Limited for usage monitoring and the medium to long-term plans to reduce usage.</p>	0	5	8	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

	<p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • Written procedures outlining the invoicing process for utilities should be updated and complete PDF version of utilities invoices should be appropriately filed and retained in line with the Council's Records Management Policy. Procedures for the usage monitoring process should be developed and a formalised process with an appropriate audit trail should be developed for requesting or removing an energy meter. (Low) • The energy team should review if more of the smaller sites, such as the door entry and stair lighting sites and smaller buildings could have AMRs installed and whether AMRs for water consumption could be installed for additional sites. (Low) • The contract rates for the utilities providers should be uploaded to SystemsLink each year to provide assurance for each invoice and every site that the utility providers are adhering to the agreed contract rates. In the interim, conformation of all relevant rates should be obtained from providers at the start of the year and evidence retained of sample checking of rates. (Low) • Invoice verification services should be undertaken with increased frequency to ensure the Council is receiving best value for its utilities usage. (Low) • The rates applicable for electricity generated by the Council's solar panels should be obtained annually from the provider. Additionally, the low electricity generation noted from a sample of panels should be reviewed to understand what caused this and if action is required to fix the issue. (Low) • The property sharing arrangement with the NHS for the Recovery Hub including any rental contribution should be reviewed to ensure it reflects current usage and this should be documented in a written agreement between the Council and NHS Lothian. (Medium) • As stipulated in the Heating Policy, a Buildings Register detailing the heating arrangements for each building should be developed and this should document any variations from the heating policy. The target temperatures for each building should be reviewed taking into account the rising costs of energy along with the ability to monitor non-compliance with the Heating Policy. (Medium) • Management should review the scope for expanding the number of Council properties included on the Cylon Building Management System. Additionally, the system's reporting functionality should be reviewed. (Low) • The service should review the resource allocated to the Energy Team to improve the Council's ability to monitor energy usage, reduce the key person dependency risk, and provide more segregation of duties / review controls over information input into the SystemsLink application. (Medium) 				
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	<ul style="list-style-type: none"> • The Energy Team should work more closely with the Council's Engineering team and usage monitoring should consider information from the Building Management System. An inventory detailing boilers in all Council buildings should be collated and this should include the age of each boiler. (Low) • Management should review the scope for upgrading to the cloud based version of SystemsLink. This should be done in consultation with Digital Services and Business Applications (Low) • A review of future plans and management of the Bonnyrigg District Heating Scheme is required. (Medium) • Following the pilot exercise being undertaken for Fairfield House and Midlothian House, a longer term plan for improving building efficiency and reducing utilities usage across the Council estate should be developed. (Medium) 				
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