

## **Follow-Up Reviews of Completed Internal Audit Recommendations & Progress Update**

**Elaine Greaves, Principal Internal Auditor**

### **Report for Decision**

#### **1 Recommendations**

The Audit Committee is asked to:

- a) Note the results from the sample check of Internal Audit recommendations that have been marked as completed by Management in the period April 2021 to March 2022 to improve internal controls and governance, and mitigate risks;
- b) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, to mitigate risks, and consider whether it is satisfied with the progress made by Management;
- c) Considers whether it is satisfied with the outcomes or whether any further action is required; and
- d) Note that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.

#### **2 Purpose of Report/Executive Summary**

The purpose of this report is to provide an update to members of the Audit Committee on the results of the Internal Audit Follow-up Review which included a sample check on the adequacy of new internal controls for Internal Audit Recommendations marked as completed by Management in the period April 2021 to March 2022.

This report also provides an update to members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports.

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.

The remit of the Audit Committee includes “To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions”, as part of its high level oversight of the Council’s governance, risk management and control framework.

**Date 9 November 2022**

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### **3 Background**

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to improve internal controls, risk management and governance. At Internal Audit final report stage, the audit recommendations are input to the Pentana Performance system, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.
- 3.4 Each year, Internal Audit undertakes two follow up reviews on the recommendations it has raised. The first checks a sample of Internal Audit recommendations which have been reported as complete and reviews the adequacy of the actions taken and improvements made. The second reports on the progress Management have made in implementing the recommendations by the expected date. This year we have combined the two follow up reviews into one report.
- 3.5 The remit of the Audit Committee includes "To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

### **4 Review of Completion of Internal Audit Recommendations**

- 4.1 The objective of this follow-up audit was to review a sample of Internal Audit recommendations that have been signed off by Management as complete during the period 1 April 2021 to 31 March 2022 to assess the evidence that recommendations have been implemented satisfactorily and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk.
- 4.2 A sample of 40 audit recommendations were selected, which were shown at the 'completed' status on the Pentana Performance system, relating to the following Internal Audit reports and evidence was obtained to support the satisfactory completion of each recommendation sampled. Details are as below:

Financial Year	Internal Audit Report	No.	High Rated	Medium Rated	Low Rated
2016/17	Sundry Debt	1		1	
2017/18	Climate Change Reporting 17/18	1		1	
2018/19	Follow-up of Audit Actions	1		1	
2018/19	Revenue Financial Budget Monitoring	1		1	
2018/19	Sales to Cash	1			1
2019/20	Asset Registers	2		2	
2019/20	Business Planning, Budget Setting and Monitoring	2		2	
2019/20	Change and Transformation	1	1		
2019/20	Commercial Rents	2		1	1
2019/20	Electronic Payments	1			1
2019/20	Leisure Management system	2		2	
2019/20	Procurement and Management of Contracts	2		2	
2020/21	Council Tax	2			2
2020/21	Devolved School Management (DSM)	3		3	
2020/21	Fleet Management	2		2	
2020/21	Property Maintenance	2	1	1	
2020/21	School Expenditure	1		1	
2020/21	Social House Rents	1			1
2021/22	Business Continuity Framework	1	1		
2021/22	Homelessness	5		2	3
2021/22	ICT and Cyber Security	1	1		
2021/22	Income Collection	1			1
2021/22	Invoice Approval	2		1	1
2021/22	Roads Maintenance	1		1	
2021/22	Scottish Welfare Fund (SWF)	1			1
	<b>Total</b>	<b>40</b>	<b>4</b>	<b>24</b>	<b>12</b>

- 4.3 From the 40 recommendations tested, 36 (90%) were found to have been completed satisfactorily, 3 (7.5%) were identified as partially satisfactory requiring further work, and 1 (2.5%) was not satisfactory.
- 4.4 For the 36 Audit recommendations that were found to have been completed satisfactorily the evidence that was provided by Management indicated that they have been implemented satisfactorily and the action taken had the desired effect on improving internal control and governance and reducing risk.
- 4.5 Of the 3 audit actions identified as partially satisfactory requiring further work: 1 was Low-rated and related to addressing Property Investment Accounts (PIA) with high credit balances; and 2 were Medium-rated and related to fully updating the DSM scheme once the Early Years and ASN reviews are complete; and reviewing and updating asset registers in terms of IT locations. The 3 Audit recommendations identified as partially satisfactory requiring further work are shown below:

Audit	Recommendation	Rating
2019/20 – Asset Registers	Digital Services asset registers needs to be reviewed and updated.	Medium
2019/20 - Commercial Rents	Monitoring and review of the PIA control accounts should be carried out to ensure accuracy with the support from Financial Services, and the two large credit and one large debit balances should be addressed.	Low
2020/21- Devolved School Management (DSM)	The new DSM scheme currently being developed should redress inequalities inherent in the application of the current DSM scheme and ensure that allocations consistently and reliably reflect school contexts and the growth across Midlothian.	Medium

- 4.6 1 audit action was identified as not satisfactory which was Low-rated and related to undertaking a sample check on the VAT treatment for income collected via the ICON receipting system as detailed below:

Audit	Recommendation	Rating
2018/19 – Sales to Cash	A sample check should be undertaken on the VAT treatment for the income collected via the ICON receipting system.	Low

- 4.7 Discussions have been held between Internal Audit and the action owners to highlight what is required to ensure the remaining elements of the audit actions are fully completed or a sustained control is established. The 4 audit actions have been re-opened on the Pentana Performance system to enable the action to be completed by the new agreed action date with evidence of the improvement action undertaken.

## 5 Progress Update

- 5.1 The objective of the second review is to assess Management's reported performance in closing actions raised by Internal Audit by the agreed due date. It is Management's responsibility to design and maintain adequate risk management, governance and internal control processes and checking that the arrangements and controls are operating effectively which are also known as the first and second lines. The quarterly performance monitoring process provides an opportunity for Management to have a discussion on all of the open audit actions, including those that are overdue, the reasons why they were not completed by the original due date, risk mitigations in place in the interim and requests to Internal Audit for extensions to due dates.
- 5.2 An Internal Audit action report was generated from the Pentana Performance system on 7 November 2022 which reflected the Quarter 2 updates 2022/23. The 76 audit actions (including sub actions) that are in progress can be summarised as follows:

Financial Year	High	Medium	Low	Total
2018/19	2	1	1	4
2019/20	1	2	5	8
2020/21	2	8	5	15
2021/22	5	22	22	49
<b>Total</b>	<b>10</b>	<b>33</b>	<b>33</b>	<b>76</b>

- 5.3 The table demonstrates that there are 10 High-rated, 33 Medium-rated and 33 Low-rated audit actions in progress. There have been occasions when it is necessary to grant extra time to complete audit actions or update the wording of audit actions to reflect current practice. Managers have requested extensions to due dates for some audit actions which have been agreed with Internal Audit, based on further work required to implement these audit actions in full.
- 5.4 The progress on implementation of Internal Audit recommendations has been discussed with the Corporate Management Team on 23 November 2022.
- 5.5 A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2022/23 for Midlothian Council which is scheduled for presentation to the Audit Committee in May 2023.

## **6 Report Implications (Resource, Digital, Risk and Equalities)**

### **6.1 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.

### **6.2 Digital**

There are no digital implications arising from this report.

### **6.3 Risk**

The recommendations made by Internal Audit are designed to reduce the level of risk to which the Council is exposed through the strengthening of the control environment and management of risks.

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.

#### **6.4 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.

#### **6.5 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

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 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 is presented to the Audit Committee to fulfil its remit "monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. The implementation of Audit recommendations will continue to be tracked by Management using the Pentana Performance system and followed-up by Internal Audit. Any further matters of concern will be raised to CMT and the Audit Committee as appropriate.

#### **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.