

Notice of Meeting and Agenda



Audit Committee

Venue: Virtual Meeting,

Date: Tuesday, 09 March 2021

Time: 11:00

Executive Director : Place

Contact:

Clerk Name:	Janet Ritchie
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Further Information:

This is a meeting which is open to members of the public.

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1	Welcome, Introductions and Apologies	
2	Order of Business	
	Including notice of new business submitted as urgent for consideration at the end of the meeting.	
3	Declaration of Interest	
	Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.	
4	Minute of Previous Meeting	
4.1	Minute of Meeting of 8 December 2020 - For Approval	5 - 12
4.2	Action Log	13 - 16
5	Public Reports	
5.1	Internal Audit Work to January 2021 - Report by Chief Internal Auditor.	17 - 30
5.2	Internal Audit Follow-Up of Recommendations Progress - Report by Chief Internal Auditor.	31 - 44
5.3	Counter Fraud Controls Assessment - Report by Executive Director Place.	45 - 52
5.4	Local Code of Corporate Governance - Report by Chief Executive.	53 - 74
5.5	Covid-19: What it means for public audit in Scotland – Update by Audit Scotland.	75 - 82
5.6	Provisional Annual Audit Plan Year ending 31 March 2021 – Report by External Auditors, EY.	83 - 116
5.7	Accounts Commission: Local Government in Scotland Financial Overview 2019/20 (January 2021) - Report by Chief Officer Corporate Solutions.	117 - 128
5.8	Internal Audit Charter - Report by Chief Internal Auditor.	129 - 138
5.9	Internal Audit Strategy and Annual Plan 2021/22 - Report by Chief Internal Auditor.	139 - 156
5.10	Counter Fraud Annual Plan 2021/22 - Report by Chief Internal Auditor.	157 - 162

6 Private Reports

No private reports to be discussed at this meeting.

7 Date of Next Meeting

The next meeting will be held on Tuesday 22 June 2021 at 11.00 am.

Minute of Meeting



Audit Committee

Date	Time	Venue
Tuesday 8 December 2020	2.00 pm	Virtual Meeting by MS Teams

Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Hardie
Councillor Milligan
Councillor Parry
Councillor Smaill
Mr Peter de Vink, Independent Member

In attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children, Young People and Partnerships
Gary Fairley	Chief Officer Corporate Solutions
Jill Stacey	Chief Internal Auditor
Stephen Reid	External Auditor, E.Y.
Chris Lawson	Service Manager, Waste, Risk and Resilience
Alan Turpie	Monitoring Officer
Myra Forsyth	Continuous Improvement Manager
Gordon Aitken	Democratic Services Officer

1. Welcome and Apology

The Chair, Mike Ramsay welcomed everyone to the meeting. An apology for absence was intimated on behalf of Councillor Muirhead.

2. Order of Business

It was noted the order of business was as per the agenda circulated.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

- 4.1 The Minute of the meeting of 12 October 2020 was submitted and approved as a correct record having been proposed by Councillor Cassidy, seconded by Councillor Hardie.

With reference to the foregoing Minutes, it was noted that Councillor Smail had raised the issue of digital signatures with regard to contract valuations and whilst appreciating that this matter would be covered within a report by the Chief Officer: Corporate Solutions later on within today's Agenda, requested that this point be recorded within the Minutes of the meeting held on 12 October 2020.

- 4.2 The Action log was submitted and having received updates on various action points detailed therein, the Committee agreed in line with Action Point 7 that future Council reports with a financial element relevant to Audit Committee matters would continue to be circulated to Independent Members of the Committee.

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Internal Audit Work to October 2020	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of the report was to provide members 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 had 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.</p> <p>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</p>		

the adequacy of the control environment and governance arrangements within each audit area, was shown in an Appendix to the report.

The Chief Internal Auditor was heard in amplification of the report after which there was a general discussion on the content of this report.

Decision

The Audit Committee agreed –

(a) To note the Executive Summaries of the final Internal Audit assurance reports issued;

(b) To note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work

(c) To acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

Action

Chief Internal Auditor

Report No.	Report Title	Presented by:
5.2	Internal Audit Mid-Term Performance Report 2020/21	Chief Internal Auditor

Outline of report and summary of discussion

The purpose of the report was to inform the Committee of the progress Internal Audit had made, in the first 6 months of the year to 30 September 2020, towards completing the Internal Audit Annual Plan 2020/21. It also summarised the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

The Internal Audit Annual Plan 2020/21 that was approved by the Audit Committee on 10 March 2020 set out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

The report provided details of the half yearly progress by Internal Audit with its programme of work and highlighted changes that required approval to reflect the changing risks arising from Covid-19.

The Chief Internal Auditor was heard in amplification of the report after which there was a general discussion on the content of this report.

Decision

The Committee agreed:

(a) To note the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2020/21 by the mid-year point;

(b) To acknowledge the audit planning work undertaken to reassess potential changes in light of the Council response to the Covid-19 pandemic to reflect the changing risks arising from Covid-19; and

(c) To approve the revisions to the Internal Audit Annual Plan 2020/21.

Action
Chief Internal Auditor

Report No.	Report Title	Presented by:
5.3	Risk Management Update, Quarter 2 2020/21	Service Manager – Waste, Risk and Resilience

Outline of report and summary of discussion

The purpose of the report was to provide Committee with an update on the risk responses Midlothian Council has had to implement during quarter 2 2020/21 to respond to the current risk climate. The Service Manager – Waste, Risk and Resilience was heard in amplification of the report after which there was a general discussion on this during which it was noted:

- That a more detailed assessment of the likely impact of Brexit would be included within a report to be submitted to Council in the new year and that this information also be provided independently to members of the Audit Committee
- That a Briefing Session for elected Members to be held in the new year on the likely impact of Brexit also be extended to members of the Audit Committee

Decision

The Committee agreed:-

(a) To note that further details on the likely impact of Brexit would be provided to Committee in the new year;

(b) That members of the Audit Committee be invited to any Briefing Session to be held on the likely impact of Brexit; and

(c) To note the current risk landscape and organisational responses to the most significant risks prevailing at this time as contained within the report.

Action

Executive Director: Place

Report No.	Report Title	Presented by:
5.4	Annual Audit Plan – Update on External Audit Fees	Chief Officer Corporate Solutions

Outline of report and summary of discussion

The purpose of the report was to update Committee of the final position regarding audit fees for the year 2019/20. The report noted that the expected fee for each body, set by Audit Scotland, assumed that it had sound governance arrangements in place and operating effectively throughout the year, prepared comprehensive and accurate draft financial statements and met the agreed timetable for the audit.

It also noted that the expected fee assumed there was no major change in respect of the scope of work in the year and that fees could be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues required additional work to be undertaken.

The report advised that EY had outlined areas of additional audit focus this year which were likely to have an impact on the expected fee, including around the Council's review of loans fund accounting, PPP accounting, accounting for IFRS 16 and their follow up of findings within the Best Value Assurance Report. The audit plan noted that any fee variation would also depend on the progress made by the Council in addressing the matters raised in the 2018/19 Annual Audit Report and Best value Assurance report and that where further additional work is required, fees will be agreed with management and reported to the Audit Committee in the 2019/20 Annual Audit Report.

As outlined by EY in their Annual Audit Report, given the circumstances and to be pragmatic and flexible this year EY delayed the planned Best Value Follow up to the next financial year, subject to the planning arrangements being agreed for the 2020/21 audit. Accordingly the indicative additional fees of £12,600 associated with this work, which would have brought the total fee to £244,590, had also been deferred. The Chief Officer: Corporate Solutions was heard in amplification of the report after which there was a general discussion on this matter.

Decision

The Committee agreed:-

- (a) To note the update on the position in respect of external audit fees for the year; and
- (b) To thank EY for their Annual Audit Report.

Action

Chief Officer: Corporate Solutions

Report No.	Report Title	Presented by:
5.5	Annual Governance Statement – Financial Improvement Update	Chief Officer Corporate Solutions
Outline of report and summary of discussion		
<p>The purpose of this report was to provide a first update on financial related improvement actions as set out in the 2019/20 Annual Governance Statement which in turn enhanced compliance with the Council's Local Code of Corporate Governance. The Chief Officer Corporate Solutions was heard in amplification of the report during which he highlighted that significant progress had been made in terms of the improvement actions agreed and in addition noted that other improvement actions were agreed during the year in order to enhance compliance with the Local Code of Corporate Governance.</p> <p>The report advised that compliant arrangements had now been put in place for 35 of the contracts which had expired. This included migrating the provision of services/commodities to national framework arrangements, through Scotland</p>		

Excel, Scottish Government or other organisations who had already secured arrangements through extensive procurement exercises

The report also highlighted that whilst progress on the engagement with Scotland Excel had been hampered by the pandemic the Council was now seeking to conclude an arrangement aimed at securing the capacity and skills to take forward a range of key actions and also learning from the approach developed with Fife Council. The priority areas for this included:-

- To provide a route map to fully develop contract and supplier monitoring across all Council services to ensure that the Council can consistently demonstrate delivery of value for money.
- To undertake a strategic evaluation of the current arrangements, including capacity and skills, for Procurement and provide advice on the requirements needed to meet the Council's expectation in an effective and efficient manner going forward.
- Review the latest Scotland Excel PCIP assessment and re-evaluate the actions identified and develop a plan to secure improvement in preparation for the next PCIP assessment.
- Develop a Quality Assurance arrangement to ensure the necessary improvement actions are being implemented and to continuously improve this service area.

The report also noted that the Quarter 2 performance report confirmed that 29 of 39 internal/external audit actions in respect of Corporate Solutions were on target (20) or complete (9).

There followed a general discussion on this matter during which the following points were noted:

- That the 3 contracts referred to by Councillor Smaill which were no longer required had actually expired and therefore should have been removed from the list
- Concerns raised by Councillor Cassidy on the need to ensure a process that allowed a "bottom up" review of procedures to allow staff to have the opportunity to highlight potential areas of waste or improvement. In response to this point, the Chief Executive confirmed that the Council was currently working with nesta to explore such areas which would include receiving independent feedback from members of staff. The importance of the MAD Ideas Group as well as the Whistleblowing procedure were also highlighted as useful mechanisms for identifying potential savings/ staff feedback.
- That consideration would be given to extending existing arrangements for staff consultation to involve the cross party portfolio holders.

Decision

The Committee agreed:

(a) To note the update on the financial related improvement actions as set out in the 2019/20 Annual Governance Statement which in turn enhanced compliance with the Council's Local Code of Corporate Governance; and

(b)To note that further discussion would take place on potential methods of including elected members in staff consultation exercises.

Action

Executive Director: Place/ Chief Officer Corporate Solutions

Report No.	Report Title	Presented by:
5.6	Treasury Management Mid-Year Review Report 2020/21	Chief Officer Corporate Solutions

Outline of report and summary of discussion

The purpose of the report was to provide audit committee with the opportunity to consider the report before it was then presented to Council. The report informed members of the Treasury Management activity undertaken during the first half of 2020/21, the forecast activity for the second half of 2020/21 and an update to the Treasury and Prudential Indicators for 2020/21. The main points arising from treasury activity in the year to 30 September 2020 were:-

- Taking advantage of the historically low PWLB rates and the HRA discounted rate in the first half of the year, a new £15.000 million long term loan was sourced from PWLB on 28 April 2020 with a 46.5 year tenor at a fixed interest rate of 1.17%;
- Long term borrowing of £0.552 million matured, this being £0.319 million of Market Loans, £0.183 million of Salix loans and £0.020 million PWLB Annuities;
- Three short term investments beyond a duration of 1 year were placed:-
 - £13.000 million fixed term deposit for 2.5 years, placed with London Borough of Croydon on 3 April 2020, earning an interest rate return of 1.85% per annum;
 - £2.000 million fixed term deposit for 3 years, placed with Stoke on Trent City Council on 6 April 2020, earning an interest rate return of 1.60% per annum;
 - £15.000 million fixed term deposit for 2 years, placed with London Borough of Waltham Forest on 30 April 2020, earning an interest rate return of 1.25% per annum;
- One short-term investment of £30.000 million with Bank of Scotland matured on 26 June 2020. This short-term investment was originally placed on 26 June 2019 for a period of 1 year at a fixed interest rate of 1.25%;
- The Scottish Government provided upfront funding to local authorities to support a range of grant schemes, in particular schemes to support local businesses. This, in addition to advanced Revenue Support Grant payments and Early Years Capital Grant payments in the spring/summer, has resulted in a large increase in investment balances and the level of temporary borrowing reduced to nil;
- The average interest rate earned on external investments was 1.05%, exceeding the benchmark rate of 0.41%.

The Chief Officer: Corporate Solutions was heard in amplification of the report after which there was a general discussion on this matter during which both Councillor Smaill and Peter de Vink raised concerns over the £13.000 million fixed term deposit for 2.5 years, placed with London Borough of Croydon on 3 April 2020 referencing that the Chief Financial Officer of the Council has issued a S114(3) Notice. It was the view of both Councillor Smaill and Peter de Vink that a suspension of further investments with approved counterparties as detailed in the permitted investment schedule be put in place until a review of this decision had been carried out.

The Chief Officer: Corporate Solutions advised that whilst London Borough of Croydon had issued two section 114(3) notices, there was no evidence to suggest that the deposit placed with Croydon was at risk. The Chief Officer, Corporate Solutions reiterated that counterparty risk is very low for deposits placed with other local authorities as this is considered UK Government debt and there was no risk to value.

In summing up the Chair stated that the Treasury Management report be amended to comment further on the Croydon situation and to remove the request for the changes to the authorised limit for borrowing before it goes to Council as the recommendations of the Committee

Decision

The Audit Committee agreed:

(a) To note the report and the treasury activity undertaken in the period to 30 September 2020, as outlined in Section 5, subject to additional information in respect of the fixed term deposit with Croydon being included before the report was presented to Council

(b) To note the forecast activity during the second-half of the year as outlined in Section 6; and

(c) That the changes to the authorised limit for borrowing as detailed within Section 7 of this report be removed before being presented to Council.

Action

Chief Officer: Corporate Solutions

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

The next meeting will be held on Tuesday 26 January 2021 at 11am

The meeting terminated at 1.15pm.

Actions Log

Audit Committee
Tuesday 9 March 2021
Item No 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	Internal Audit Recommendations	03/12/2019	Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.	Chief Internal Auditor	March 2021	Two follow-up reports per year to Audit Committee as per approved Internal Audit Annual Plan.
2	Internal Audit Work	10/03/2020	Noted that a detailed report would be provided to Members.	Chief Internal Auditor	March 2021	Update will be provided at the Meeting.
3	Minutes of Previous Meetings: Matters Arising re Internal Audit Strategy and Annual Plan 2020/21	22/06/2020	Jill Stacey, Chief Internal Auditor advised the committee that with regards to the Audit Plan they would be reassessing potential changes in light of Council response to the pandemic. After discussions were held with senior management and the significant changes would be made to the Audit Plan this would be presented to this committee in due course.	Chief Internal Auditor	March 2021	Proposed amendments to the Internal Audit Annual Plan 2020/21 submitted as part of the Internal Audit Mid-Term Performance Report 2020/21 on the Agenda.

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
4	Internal Audit Annual Assurance Report 2019/20 – Local Code of Corporate Governance	22/06/2020	Noted that a report would be presented to a future meeting of the Audit Committee on the updated Local Code of Corporate Governance prior to being presented to Council for approval.	Chief Internal Auditor	March 2021	Work ongoing with CMT August to December 2020 on 7 core principles to refresh Local Code of Corporate Governance. This will be presented to the Audit Committee in early 2021 prior to going to Council for approval.
5	Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy	22/06/2020	Agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy	Waste, Risk and Resilience Manager	March 2021	Linked to update of Local Code.
6	Annual Governance Statement 2019/20 – Financial Improvement Updates	22/06/2020	Agreed that regular financial improvement updates would be provided by the Chief Officer Corporate Solutions (Section 95 Officer) to the Audit Committee and that the first update would be provided at the December meeting.	Chief Officer Corporate Solutions (Section 95 Officer)	March 2021	Report on Agenda.
7	Financial Reports – Council Meeting - 25 August 2020	18/08/2020	Send reports to the Independent Member of the Audit Committee	Democratic Services	March 2021	Future Reports with a financial element relevant to Audit to be circulated to Independent Members of the Audit Committee.

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
8	Audit Scotland Counter Fraud Reports	12/10/2020	Requested the Integrity Group carry out an assessment of counter fraud controls associated with the Covid-19-emerging-fraud-risks and report back to the Committee on findings and necessary actions.	Chief Internal Auditor	March 2021	Assessment of counter fraud controls underway by Integrity Group chaired by Executive Director Place.

Internal Audit Work to January 2021**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 and revised Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 8 December 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 2 March 2021**Report Contact:**

Jill Stacey Tel No
jill.stacey@midlothian.gov.uk

3 Progress Report

- 3.1** The Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 10 March 2020 and revised Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 8 December 2020. Internal Audit has carried out the following work in the period from 1 November to 12 February 2021 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:
- Property Maintenance
 - Social Housing Rents
 - Fleet Management
 - Passenger Transport
 - Council Tax
 - Trading Standards
- 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
Schools	Testing underway
DSM Budgets	Testing underway
Procurement and Management of Contracts	Testing underway
Information Governance	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, Learning Estate Strategy 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. This period included a quarterly meeting of the SLACIAG Computer Audit Sub Group (Internal Auditor) and IIA forums for Local Authorities on the topics of HIA Annual Opinion and of Independence and Objectivity (Chief Internal Auditor).
 - 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 Risk Management Group (Principal Internal Auditor).
 - Development of Internal Audit Plans 2021/22 for Midlothian Council and for Midlothian Health and Social Care Integration Joint Board.

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	3
Medium	10
Low	8
Sub-total reported this period	21
Previously reported	2
Total	23
Recommendations agreed with action plan	22
Not agreed; risk accepted	1
Total	23

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	
<p>Subject: Property Maintenance</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 03 December 2020 Draft; 02 March 2021 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to review the in-house building maintenance team (BMS) undertaking repairs to the Council's housing and non-housing buildings. This included a review of jobs from creation through to billing, and of business planning, budget setting and monitoring.</p> <p>The Building Maintenance Service budget was £9.5m for 2019/20 and £9.6m for 2020/21 - the budget for BMS is set on the assumption that the service will make a small surplus through recharges to client services. This largely encompasses trade employee costs, vehicle and material costs and is funded by internal income received. There were 73 full time tradesmen and 21 vacancies (period 7, 2020) and the service is currently using 5 agency staff. The Head of Service and Works Manager who had responsibility for BMS left the Council in 2019 with no transition opportunity to the current Management. All works orders (jobs) are recorded and managed in the Total system, a management information system that has been used by the Council for many years. Reactive repairs are managed via Mobile Working and planned repairs are managed via paper based job tickets that are updated on the Total system once completed.</p> <p>A service plan has been developed for 2020/21 and budget monitoring reports are produced on a monthly basis with meetings taking place regularly between service management and the finance team. Adequate separation of duties are in place to ensure that only valid jobs are undertaken, authorised and recorded in the Total system.</p> <p>Internal Audit considers that the level of assurance is Limited. BMS has had a history of overspends over the past 4 years with a recent overspend of £263k for 2019/20. This overspend was not reported until quarter 4 due to the unreliability of monitoring information at any given point in the year. Forecasting of activity and a lack of commitment accounting has made it difficult to fix the financial position of BMS with accuracy at any point in time other than for the outturn. The overspend occurred due to: the base budget not being aligned with business requirements; a shortfall in income (largely on capital projects); poor management of outstanding jobs; and the impact of Covid-19 in the last month of 2019/20. Operative productivity and quality of work are not being adequately monitored. Full advantage is not being taken of the Total system reporting capabilities. Benchmarking is not undertaken to ensure that the service provides value for money.</p>	3	4	0	<p>Management have agreed to the findings and improvement actions.</p> <p>Progress has been made on the first recommendation as part of the financial planning process 2021/22. The remaining recommendations from this Internal Audit review will be incorporated into the wider review of the service delivery model for this area. It is recognised that the necessary change in this area will take various other intervention actions and significant time to achieve the intended outcomes.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Property Maintenance (cont'd)	<p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • The BMS base budget needs to be realigned with the requirements of the business. Improved collaboration should be undertaken between BMS and Finance to set budgets, forecast future activity and calculate the recharge rate based on up to date work-plans. (High) • Team Leaders should be encouraged to authorise completed jobs within shorter timescales. The time taken to authorise completed jobs should be monitored by the Reactive and Planned Repairs Managers and reasons sought for undue delays. (Medium) • Completed jobs should not be invoiced until authorised by a Team Leader. (Medium) • Better management of outstanding jobs is required - moving all jobs onto the Total Mobile Working system will improve efficiency and effectiveness of processes and use of resources and enable the monitoring of jobs and performance of operatives to be more easily managed. (Medium) • Modification should be made to access to and understanding of the reports available in the Total system to improve the monitoring of day to day activity by Management. Improvements are required as a minimum in the following areas: Income generated / productivity; Late completions; Outstanding jobs; Variances against expected values; Cancelled jobs with costs. Some training and support of Service Management would be beneficial in order to improve monitoring of the business and make better use of the Total system. (High) • Monitoring of key aspects of performance such as the productivity of operatives and the quality of work undertaken should be immediately reinstated. (High) • BMS should undertake benchmarking with appropriate comparators in order to identify areas of good performance, areas where improvement is required, and ultimately demonstrate whether the service is efficient and delivers value for money. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Social Housing Rents</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 11 December 2020 Draft; 18 February 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the management arrangements and adequacy of controls over the billing and collection of Council Housing and Garage rents.</p> <p>As at 31 March 2020, the Council owned 6,919 houses and 858 garages. The rental income received through the Council's Housing Revenue Account was £28.631m for dwelling rents for the year ended 2019/20 (£29.865m including non-dwelling rents and service charges).</p> <p>The Council has continued to invest in building new social housing. Phase 1 of the Council's Housing Programme provided 864 additional houses within Midlothian over a 7 year period. The total of Phase 2, 3 and 4 homes is currently estimated at 1233, comprising 488 from Phase 2 budget and 745 from the Phase 3 and 4 budgets. There continues to be high demand for the Council's social housing.</p> <p>Current tenant rent arrears were approximately £1.62m as at 6 April 2020 and have increased to £2.07m as at 7 December 2020. The Coronavirus pandemic has been the principal factor for the moderate increase in current tenant arrears this year. The suspension of court and evictions action has also substantially contributed to the non-payment of rent during this period. Formal recovery action and escalation by arrears officers was paused over the lockdown period but recommenced from July 2020 for secure tenancies. However, soft reminder letters were issued to secure tenants during lockdown along with provision of advice and support to tenants in arrears. Former tenant arrears were £0.83m as at 7 December 2020 and have remained stable over the last year.</p> <p>Capita Housing is the primary system used to manage the Council's social housing billing and arrears processes. Management are planning to upgrade to a newer version of Capita Housing - Capita One. The upgraded Capita system may provide more options for the issue of rent statements, including the potential for tenants to access their rent statements online. The Comino document management system is used to store relevant records and Civica Pay is the cash receipting system used to collect rent.</p>	0	1	4	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations within acceptable timescales.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Social Housing Rents (cont'd)	<p>Internal Audit considers that the level of assurance is Substantial over the management arrangements and adequacy of controls over the billing and collection of Council Housing and Garage rents. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • The service charge applied to temporary accommodation should be reviewed and updated to ensure that the Council has an appropriate basis for the charge. (Low) • As part of the system upgrade to Capita One, Management should review if Garage Sites could be added to the new system. (Low) • Management should formally review alternative strategies for the Council's stock of unused garages and garage sites. (Low) • The arrears arrangements report should be reviewed and consideration given to include additional fields such as original arrangement balance, current arrangement balance, number of cycle arrangement failures, and number of cycles in debt. Management should develop an improved procedure to periodically report on credits and test whether the tenant should be due a refund. This could be run annually or bi-annually to minimise the administrative burden of this. (Low) • Management should ensure that temporary accommodation tenants are regularly informed of their arrears, correct rent statements are issued, and clarity established on the escalation processes for temporary accommodation tenants (warning letters to notice to quit). Appropriate resource should be in place to pursue temporary accommodation arrears. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Fleet Management</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 18 December 2020</p> <p>Draft; 17 February 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the asset management planning and maintenance of the Council's fleet ensuring that fleet repairs and replacement decisions represent value for money. In addition review the controls over fuel management.</p> <p>There is no formal Fleet asset management plan in place although a vehicle and plant replacements spreadsheet is maintained and updated at least annually. This enables the production of a costed replacement plan over a period of 8 to 10 years for vehicles and plant respectively. Fleet vehicles are subject to a clearly defined and monitored inspection and service regime based upon both statutory and manufacturer service requirements. Fleet operations are not managed using commercially available software which draws together all aspects of inspection, maintenance and associated costs. Fuel management control procedures are in place with proportionate security controls in order to minimise theft and good administrative procedures relating to the delivery and drawing of fuel. Vehicles and plant are insured on separate fleet policies. All incidents are logged and details passed onto the insurance officer to deal with the Council's insurers as appropriate. A new Statutory Transport Officer (STO) has been appointed following the retirement of the previous STO.</p> <p>Internal Audit considers that the level of assurance is Substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • The time to replace an asset or, if more efficient, classes of assets, should be determined through whole of life cost calculations and informed judgement, rather than through judgement alone, in order to demonstrate value for money in fleet replacement decisions. (Medium) • Fleet operations should be managed using commercially available software which draws together all aspects of inspection, maintenance and associated costs. (Medium) • The benefits of performing average mpg for each vehicle in order to identify excessive fuel usage should be considered. Assessment should weigh the likely benefits of performing the calculations against the resource cost of doing so. (Medium) 	0	3	0	Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations within acceptable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Passenger Transport</p> <p>Category: Assurance – Risk</p> <p>Date issued: 18 December 2020 Draft; 17 February 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the governance, controls, costs and management of passenger transport services across the Council including end to end processes for client and provider.</p> <p>There are no performance indicators in place and benchmarking arrangements are not in place in Scotland. Monitoring of the performance of external passenger transport suppliers is informal but appears to work well in practice. It is difficult to confirm that the internal fleet presents value for money although we have not identified any factors that suggest this is not the case. Specialised transport undertaken by the internal fleet is considered to be cost effective.</p> <p>Our sample testing indicated that payments made to contracted operators were in accordance with contracts and are charged to the correct cost centres. Transport contracts for disrupted home to school travel and adult care services were honoured as the Council was committed to ensuring that transport contractors, and their sub-contractors, were left in a “no worse position” due to the pandemic although our sample testing indicates that all contracted operators within the sample were paid in full.</p> <p>Charges to Education and Adult Social Care for transport are agreed in emails with the service area in advance of the service commencing but are not subject to an internal contract or service level agreement.</p> <p>Discrete budget monitoring arrangements are not in place for Passenger Transport. Costs and income are recognised and monitored within Education, Adult Social Care and Fleet Management budget monitoring. However, projecting costs for home to school transport is difficult and time consuming in the absence of sound arrangements for commitment accounting.</p> <p>Following the retirement of the service manager and ongoing service review, an interim manager is in place for the service.</p> <p>Internal Audit considers that the level of assurance is Substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement some of which are notified within this report.</p> <p>Internal Audit made no recommendations.</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	
<p>Subject: Council Tax</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 07 January 2021 Draft; 18 February 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the adequacy of controls over the Council Tax System with coverage limited to liability, billing and collection of Council Tax.</p> <p>Council Tax is a property based tax which contributes towards Council services. Every property is banded (A-H) and each band is calculated as a proportion of band D. The charge is based on two adult residents. Discounts and exemptions can be applied for single person households, disabled persons and students as well as some other groups. The Council collects water and waste charges on behalf of Scottish Water and these charges are incorporated into the bills that are issued to customers.</p> <p>Council Tax is administered through the Open Revenues system. As at 1 January 2021 there were 41,903 properties in Midlothian. The annual charge for Council Tax for 2020/21 was £66.703m (£50.493m Council Tax and £16.210m Water and Sewerage) and £46.257m had been collected as at December 2020.</p> <p>Internal Audit considers that the level of assurance is substantial for the adequacy of controls over the Council Tax system. The Council maintains an accurate database of taxable properties and liable persons. Bills and demand notices are calculated and issued correctly, in a timely manner and apply legitimate discounts, exemptions and reductions. Council Tax income is correctly allocated to individual accounts. Arrears are promptly and effectively pursued. Refunds and write-offs are legitimate, correctly processed and authorised. There is some scope for improvements.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • It should be formally documented who has the delegated authority to modify different classes of dwellings exempt from the additional Long Term Unoccupied Premium charge. (Low) • All Council Tax write offs should be reported to CMT and Elected Members for transparency. (Medium) • Procedures should be in place for processing Council Tax refunds and for processing Council Tax discounts and exemptions. (Low) 	0	1	2	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>Management have agreed to implement two (both Low risk) of the three recommendations within acceptable timescales.</p> <p>Management have indicated “No action proposed” in respect of the Medium risk recommendation, indicating that “existing performance reporting and reporting of CTIA is considered appropriate”.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Trading Standards</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 04 February 2021 Draft; 18 February 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the business practices and ways of working within Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed.</p> <p>Trading Standards is a regulatory service within Midlothian Council and is responsible for enforcing a wide range of Scottish and UK legislation involving the price, quality, quantity, description, and safety of goods. Trading standards can take enforcement action as part of their work including issuing warning letters, fixed penalties where legislation permits, and the reporting of cases to the Procurator Fiscal.</p> <p>The service has 3.2 full time equivalent (FTE) employees and a shared manager with Scottish Borders Council (represented by the 0.2 FTE until 31 March 2021). The management structure is currently subject to a service review. The service budget was £212k in 2020/21.</p> <p>The Covid-19 pandemic has impacted the service delivery: a delay to the start of inspections in 2020/21 due to the first lockdown, an increased number of inspections carried out remotely instead of in-person; and an increased number of farm visits.</p> <p>Internal Audit considers that the level of assurance is Substantial over the business practices within Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed. Largely satisfactory risk, control, and governance systems are in place.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • Policies (i.e. Enforcement Policy), procedures, risk management, progress reporting, and internal reporting using the Uniform system should be further developed. This should include a review of how inspections and service requests are recorded to improve record consistency, completeness (e.g. legislation), and audit trail. (Low) • Records retention practices for the Idox Uniform system should be reviewed against the Council's approved retention schedule. (Low) • Senior Management should review the workforce planning and succession planning for the Trading Standards service particularly the Council's responsibility relating to the Weights and Measures Act 1985. (Medium) 	0	1	2	Awaiting Management responses on factual accuracy and acceptance of findings and improvement actions.

Internal Audit Follow-Up of Recommendations Progress**Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks, and consider whether it is satisfied with the progress made by Management;
- b) Endorse the proposal to extend the due dates for the overdue recommendations; and
- c) 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 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 15 February 2021

Report Contact:

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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 Pentana, 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 A new Protocol for agreeing extensions to due dates for Internal Audit recommendations made was implemented in August 2019 to ensure that Internal Audit has oversight of this and to provide a visible audit trail within the Pentana Risk system.
- 3.5 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 (reported to the 12 October 2020 Audit Committee). The second reports on the progress Management have made in implementing the recommendations by the expected date (the subject of this report).
- 3.6 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. Progress Update

- 4.1 An Internal Audit action performance report was generated from Pentana Performance on 17 December 2020 which reflected Quarter 2 updates from the current financial year. As at 17 December 2020, 10 actions were overdue and 47 actions were in progress.

Financial Year	Action Status	High	Medium	Low	Total
2016/17	Overdue	0	0	0	0
	In Progress	0	3	0	3
2017/18	Overdue	0	0	0	0
	In Progress	0	3	0	3
2018/19	Overdue	0	2	0	2
	In Progress	4	9	2	15
2019/20	Overdue	0	6	2	8
	In Progress	10	6	8	24
2020/21	Overdue	0	0	0	0
	In Progress	0	1	1	2
	Total	14	30	13	57

- 4.2 The table above demonstrates that 14 audit actions that were rated as High are in progress. From the 30 audit actions which are rated as Medium, 8 of these are overdue and 22 are in progress. From the 13 audit actions which are rated as Low, 2 of these are overdue and 11 are in progress.
- 4.3 The Overdue actions are summarised in Appendix 1. The proposal for the 10 actions which are overdue (8 medium rated and 2 low rated) is that their due dates in the Pentana system will be extended to 30 June 2021. This will ensure these are completed within a reasonable time in light of the ongoing Covid-19 pandemic. CMT are in support of this proposal and the Audit Committee are asked to endorse this proposal. In Progress actions are summarised in Appendix 2.
- 4.4 There has been a significant impact of Covid-19 response on Management's progress with the implementation of some of the Audit Recommendations due to capacity and delays in activity.
- 4.5 This report was prepared for presentation to the Audit Committee on 26 January 2021 which was subsequently cancelled. Since this report was produced from the Pentana system as at 17 December 2020, it should be noted that some actions have been Completed (marked *) and some actions have moved from In Progress to Overdue as they've gone beyond their due date.
- 4.6 The progress on implementation of Internal Audit recommendations has been discussed with Corporate Management Team on 24 February 2021 as part of their responsibility to design and maintain adequate risk management, governance and internal control processes and checking that the arrangements and controls are operating effectively. These are known as the first and second lines. Internal Audit is the third line.

- 4.7 The quarterly performance monitoring process provides an opportunity for Management to have a discussion on all 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. Internal Audit will continue to monitor for completion the outstanding recommendations.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 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.

5.2 Digital

There are no digital implications arising from this report.

5.3 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.

5.4 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.

5.5 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 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 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. The report identifies the performance of the Council in closing Internal Audit recommendations by the agreed implementation date.

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 Internal Audit Recommendations – Overdue Actions

As at 17 December 2020

Audit Recommendation (Risk Rating)	Rating	Due Date	Progress	Service
2018/19 - Follow-up of Audit Recommendations 2018/19 - Follow-up Audit Reports are not given an overall audit rating				
Where staff fail to engage with the staff debt process, the process of issuing memos to Heads of Service to enable disciplinary action to be progressed needs to be re-established.	Medium	30-Sep-2020	75%*	Corporate Solutions
2018/19 - Revenue Financial Budget Monitoring - Limited Assurance				
Processes, whether system automated or otherwise, should better recognise commitments when arriving at actual and projected outturn reported figures. The long standing issues with feeder systems must be addressed.	Medium	30-June-2020	50%	Corporate Solutions
2019/20 - Asset Registers - Substantial Assurance in terms of accuracy of main registers and insurance arrangements. Limited Assurance in terms of utilisation reporting, low value plant, and some improvements noted as required for asset disposal.				
Land Services - Ensure that there is an adequate audit trail of the authorisation for the asset disposal and Review with Procurement the suppliers used for disposal of assets. This may involve either retendering, or completion of NCA forms.	Medium	30-June-2020	50%	Place
Travel and Fleet - Ensure that there is an adequate audit trail of the authorisation for the asset disposal and Review with Procurement the suppliers used for disposal of assets. This may involve either retendering, or completion of NCA	Medium	30-June-2020	25%	Place
Property - utilisation reporting should be further developed by Services across the Council.	Medium	30-June-2020	15%	Place
2019/20 - Commercial Rents - Mix of Substantial and Limited Assurance				
The local PIA procedures should be reviewed and updated.	Low	30-Sep-2020	25%	Place
A formal Property Asset Management Plan for the PIA assets needs to be developed, which should include property repairs required on the units and the criticality of these.	Medium	30-Sep-2020	25%	Place
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	30-Sep-2020	75%	Place
2019/20 - Leisure Management System - limited assurance in terms of Project Governance, reporting and the interface between Legend and Integra systems. Substantial in terms of policy and procedures, income collection and security				
The outstanding debt recorded on the Legend system should be reviewed and updated to ensure it accurately reflects any invoices paid via Integra. The refund policy for block bookings should be reviewed taking account of VAT regulations.	Medium	30-Nov-2020	45%*	Adult Health and Social Care
Standardised processes and procedures for all centres should be implemented and a procedure for write offs should be created. Training should be provided to staff to ensure they are aware of the requirements.	Medium	30-Nov-2020	45%	Adult Health and Social Care

Appendix 2 Internal Audit Recommendations – In Progress

As at 17 December 2020

Audit Recommendation (Risk Rating)	Rating	Due Date	Progress	Service
2016/17 - Monitoring of External Care Homes - Average Assurance Rating				
The system (Mosaic) should be updated to allow staff to send work flow notifications relating to the care home.	Medium	31-Jan-2021	75%	Corporate Solutions
2016/17 - Stores - Average Assurance Rating				
Management should periodically review the scope for reducing paper and capture of electronic information to streamline the Stores processes.	Medium	31-Mar-2022	80%	Corporate Solutions
2016/17 - Sundry Debt - Average Assurance Rating				
The procedure for Sundry Debt detailed in the Financial Directive should be expanded into a broader procedure note. Additionally, the Sundry Debt risk register should be updated quarterly.	Medium	31-Dec-2020	0%*	Corporate Solutions
2017/18 - Climate Change - Average Assurance Rating				
Management should: ensure the Climate Change risk assessment is undertaken; and consider using the Climate Change Assessment Tool.	Medium	31-Jan-2021	65%	Place Service
2017/18 - Complaints - Average Assurance Rating				
For implementation of the new CRM, address access permissions, integrate letter templates, set up deputies for feedback officers, combine customers with multiple UCRNs, and date controls to ensure closure date input does not precede date of complaint.	Medium	31-Mar-2021	0%	Chief Executive
Similarly, for the 2017/18 Annual Complaints report more steps should be taken to report on Customer Satisfaction with the Complaints procedure.	Medium	31-Mar-2021	0%	Policy and Scrutiny Team
2018/19 - Tyne Esk LEADER 2018/19 - Follow-up Audit reports are not given an overall rating; 2019/20 - Tyne ESK LEADER - Substantial Assurance				
The performance monitoring aspects of the Communications Plan should be progressed	Low	31-Mar-2021	50%	Place Service
2018/19 - Developer Contributions follow up review - Follow-up reviews are not given an overall rating				
A procedure should be developed that covers the entire developer contribution process identifying which steps in the process are to be carried out by each Service. Each Service should then develop local procedures in their area.	Medium	31-Dec-2020	70%*	Place Service
2018/19 - Follow-up of Audit Recommendations 2018/19 - Follow-up Audit Reports are not given an overall audit rating				
A policy needs to be established, to either refund credit balances or to update records if the customer in credit is not traceable. The aged Sundry Debt credit balances held by the Council should be addressed once the policy is agreed.	Medium	31-Dec-2020	0%	Corporate Solutions

Audit Recommendation (Risk Rating)	Rating	Due Date	Progress	Service
2018/19 - Following the Public Pound 2018/19 - Substantial Assurance				
The 'Provider Fitness Check' process should be rolled out to all relevant contracts with outside bodies within the Education, Communities and Economy Directorate	Medium	31-Dec-2020	75%	Corporate Solutions
2018/19 - Payroll - Starters and Leavers - Substantial Assurance				
Quality assurance checking of data entered into the iTrent system and a periodic system review should be undertaken to ensure data is accurate and complete	Medium	28-Feb-2021	80%	Corporate Solutions
2018/19 - Revenue Financial Budget Monitoring - Limited Assurance				
The vacant post of Senior Accountant supporting Education, Communities and Economy Directorate should be filled. The Council should consider full adoption of a Finance Business Partner model in order to facilitate better decision making.	Medium	31-Dec-2020	50%	Corporate Solutions
2018/19 - Sales to Cash - Substantial Assurance				
The updated Financial Regulations need to include the controls and governance over how refunds should be processed in service areas.	Medium	31-Dec-2020	0%	Corporate Solutions
A sample check should be undertaken on the VAT treatment for the income collected via the ICON receipting system.	Low	31-Dec-2020	0%	Corporate Solutions
2018/19 - Workforce Strategy and Planning - Substantial Assurance				
The Council's Workforce Strategy should be reviewed in order to ensure it properly fits with the revised priorities arising from the Council's acute financial pressures as reflected in financial, business and transformation plans.	High	31-Dec-2020	33%	Corporate Solutions
CS - Revision to Service Workforce Plans and Action Plans are required for reasons set out in recommendation 5.1 including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting for evaluation of success in delivering the Workforce Plan.	High	31-Dec-2020	25%	Corporate Solutions
ASC Revision to Service Workforce Plans and Action Plans are also required for reasons set out in recommendation 5.1 including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting for evaluation of success in delivering the Workforce Plan.	High	31-Dec-2020	35%	Adult Health and Social Care
PLACE Revision to Service Workforce Plans and Action Plans are also required for reasons set out in recommendation 5.1 including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting for evaluation of success in delivering the Workforce Plan	High	31-Dec-2020	50%	Chief Officer Place
A formal review process for monitoring the delivery of Service Workforce Plans and Action Plans should be introduced, along with evaluation of outcomes against performance measures and targets.	Medium	28-Feb-2021	25%	Corporate Solutions

Audit Recommendation (Risk Rating)	Rating	Due Date	Progress	Service
ASC Workforce planning processes should be aligned with business and financial planning processes, through timetabling and closer working of HR Business Partners with performance and finance colleagues to support Directors and Service Managers.	Medium	31-Dec-2020	30%*	Adult Health and Social Care
PLACE Workforce planning processes should be aligned with business and financial planning processes, through timetabling and closer working of HR Business Partners with performance and finance colleagues to support Directors and Service Managers.	Medium	31-Dec-2020	50%	Place Service
2019/20 - Asset Registers - Substantial Assurance in terms of accuracy of main registers and insurance arrangements. Limited Assurance in terms of utilisation reporting, low value plant, and some improvements noted as required for asset disposal				
Improve and consolidate road and footpath asset management data in Confirm system, and improve the referencing to road adoption / acquisition documentation.	Low	31-Mar-2021	0%	Place Service
Digital Services Asset utilisation reporting should be further developed by Services across the Council.	Medium	31-Dec-2020	65%	Corporate Solutions
2019/20 - Business Planning, Budget Setting and Monitoring - Limited Assurance relating to budgets set for 2019/20 and associated monitoring and reporting processes. Limited Assurance relating to budgets set for 2019/20				
The Financial Services team should review budget monitoring reporting at other local authorities of a similar size to Midlothian. Opportunities exist to present reports in more detail and with greater clarity for users than are currently produced; a fuller explanation of the reasons and implications of revisions to budgets during the year would be helpful to aid all stakeholders in their understanding of the budget position.	Medium	31-Jan-2021	50%	Corporate Solutions
2019/20 - Change and Transformation Programme - Limited Assurance				
Service areas should place greater emphasis on developing truly ambitious initiatives which will transform the way that services are delivered. As transformational changes may have long lead times this work should be undertaken at the earliest opportunity. Each Directorate should have a Change Board to develop savings proposals and implementation plans, and to monitor their delivery.	High	31-Mar-2021	75%	Adult Health and Social Care
Service areas should place greater emphasis on developing truly ambitious initiatives which will transform the way that services are delivered. As transformational changes may have long lead times this work should be undertaken at the earliest opportunity. Each Directorate should have a Change Board to develop savings proposals and implementation plans, and to monitor their delivery.	High	31-Mar-2021	0%	Childrens Services, Partnership and Communities
Service areas should place greater emphasis on developing truly ambitious initiatives which will transform the way that services are delivered. As transformational changes may have long lead times this work should be undertaken at the earliest opportunity. Each Directorate should have a Change Board to develop savings proposals and implementation plans, and to monitor their delivery.	High	31-Mar-2021	0%	Education
Service areas should place greater emphasis on developing truly ambitious initiatives which will transform the way that services are delivered. As transformational changes may have long lead times this work should be	High	31-Mar-2021	0%	Place Service

Audit Recommendation (Risk Rating)	Rating	Due Date	Progress	Service
undertaken at the earliest opportunity. Each Directorate should have a Change Board to develop savings proposals and implementation plans, and to monitor their delivery.				
BTB should call in underlying plans for existing higher value proposals and assess how robust/realistic those plans are in terms of delivery. Where FISS have already completed an assessment BTB should have due regard to their findings and undertake further enquiry where appropriate. In future where a proposal has significant financial implications BTB should review the planning documentation and satisfy themselves as to the viability of the initiative <u>before</u> allowing admission to the programme	High	31-Mar-2021	75%	Adult Health and Social Care
BTB should call in underlying plans for existing higher value proposals and assess how robust/realistic those plans are in terms of delivery. Where FISS have already completed an assessment BTB should have due regard to their findings and undertake further enquiry where appropriate. In future where a proposal has significant financial implications BTB should review the planning documentation and satisfy themselves as to the viability of the initiative <u>before</u> allowing admission to the programme	High	31-Mar-2021	75%	Childrens Services, Partnership and Communities
BTB should call in underlying plans for existing higher value proposals and assess how robust/realistic those plans are in terms of delivery. Where FISS have already completed an assessment BTB should have due regard to their findings and undertake further enquiry where appropriate. In future where a proposal has significant financial implications BTB should review the planning documentation and satisfy themselves as to the viability of the initiative <u>before</u> allowing admission to the programme	High	31-Dec-2020	0%	Education
BTB should call in underlying plans for existing higher value proposals and assess how robust/realistic those plans are in terms of delivery. Where FISS have already completed an assessment BTB should have due regard to their findings and undertake further enquiry where appropriate. In future where a proposal has significant financial implications BTB should review the planning documentation and satisfy themselves as to the viability of the initiative <u>before</u> allowing admission to the programme	High	31-Dec-2020	0%	Place Service
2019/20 - Electronic Payment Systems - Substantial Assurance				
There should be up to date documentation mapping out the flow of transactions for all relevant payment systems. The Eform for the interface reconciliation for Council Tax refunds made via cheque should be implemented.	Low	31-Dec-2020	50%	Corporate Solutions
Authorisation types in the Payment Guidelines need to be clarified and the signatory authorities detailed in the Authorised Signatories Database (ASD) relating to electronic payments should be reviewed to make sure the signatories are appropriate.	Low	31-Dec-2020	0%	Corporate Solutions
For the two systems identified in the audit review, there should be exception reporting and segregation of duties in place to review any changes to bank details made before payment.	Low	31-Dec-2020	0%	Corporate Solutions
2019/20 - Information Governance (Records Management) - Substantial Assurance for the majority of the elements in the Council's records management plan				
The Council's RMP should be updated and a records management action plan should be formalised and progress reported as part of the IMG's update to management.	Medium	31-Mar-2021	75%*	Corporate Solutions

Audit Recommendation (Risk Rating)	Rating	Due Date	Progress	Service
Progress should be made in addressing the outstanding record reviews, destructions, and the records with no retention category in the Iron Mountain system.	Low	31-Dec-2020	35%	Corporate Solutions
Management should develop a plan for reviewing records held on Windows directory drives, establish the compliance of all Council systems in relation to records retention rules, and improve the link between lead application officers and the RADM Team Lead.	Low	31-Mar-2021	20%	Corporate Solutions
A programme of quality assurance reviews should be developed and commenced for the Information Asset Registers and adequate guidance should be created to support services in the identification of their vital records.	Low	31-Mar-2021	20%	Corporate Solutions
The records management e-learning package should be promoted as part of the refreshed GDPR training and the Council's Records Champions listing should be reviewed to ensure it is accurate and up to date.	Low	31-Mar-2021	75%	Corporate Solutions
2019/20 - Procurement and Management of Contracts - Limited Assurance				
Plans for the future delivery of the Procurement function should be urgently developed to ensure there is sufficient capacity to deliver an effective and efficient service.	High	31-Dec-2020	10%	Corporate Solutions
Contracts that have expired should be urgently retendered to ensure that the Council is obtaining best value.	High	31-Mar-2021	50%	Corporate Solutions
Contract and supplier management processes require to be strengthened, including a system to manage contracts, resource to monitor and manage contractors, and sufficient performance measures built into every contract for adequate monitoring.	Medium	31-Jan-2021	0%	Corporate Solutions
The improvement actions arising from the Scotland Excel PCIP assessments, the Council's self-evaluation and audit recommendations should be progressed.	Medium	31-Dec-2020	0%	Corporate Solutions
A Quality Assurance arrangement should be developed and implemented as a matter of urgency to ensure the necessary improvement actions are being implemented and to continuously improve this service area.	Medium	31-Dec-2020	0%	Corporate Solutions
2020/21 Tyne Esk Leader Programme 2020/21 - Substantial in terms of governance of the programme and grant application management. Assurance is limited for the grant claims processes				
Management should ensure there is sufficient staff 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	31-Dec-2020	0%	Place Service
Tyne Esk LEADER should undertake a quality check of the LEADER projects information on the web-portal system provided by the Scottish Government for completeness and accuracy (taking account of the Internal Audit findings).	Low	31-Mar-2021	0%	Place Service

Counter Fraud Controls Assessment

Report by Kevin Anderson, Executive Director Place

Report for Decision

1 Recommendations

The Audit Committee:

- a) Acknowledge the findings from the Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks; and
- b) Endorse the necessary actions to enhance the Council's resilience to fraud.

2 Purpose of Report/Executive Summary

The purpose of the report is to make the Audit Committee aware of the findings and necessary actions arising from the Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks.

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices, are specific changes associated with the Counter Fraud Strategy.

Date 18 February 2021

Report Contact:

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3 Background

- 3.1** The Council at its meeting on 25 August 2020 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy, which had been endorsed by the Audit Committee on 22 June 2020 along with the Terms of Reference of the new Integrity Group.
- 3.2** Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices, are specific changes associated with the Counter Fraud Strategy.
- 3.3** The purpose of the new Integrity Group, which is integral to delivering the Counter Fraud Strategy, is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering).
- 3.3** The Audit Committee, at its meeting on 12 October 2020, considered three counter fraud reports published by Audit Scotland in June and July 2020, including one on Covid-19 emerging fraud risks <https://www.audit-scotland.gov.uk/report/covid-19-emerging-fraud-risks>. The Audit Committee recommended that the new Integrity Group carry out an assessment of Midlothian Council's counter fraud controls associated with Covid-19 emerging fraud risks and requested an assurance report thereon.
- 3.4** The Integrity Group is chaired by the Executive Director Place and currently has representatives from HR, Finance, Legal, IT, Internal Audit and Corporate Fraud. Monthly meetings were held in October to December 2020 to initiate its functions as set out in its Terms of Reference. One task was carrying out a self-assessment of the Council's arrangements using the Audit Scotland report, as recommended by Audit Committee.

4 Self-Assessment Findings and Necessary Actions

- 4.1** To avoid duplication in the self-assessment, the Integrity Group used the controls assurance information for relevant fraud risks due to Covid-19 from the report by the Chief Officer Corporate Solutions 'Annual Governance Statement – Financial Improvement Update' presented to the Audit Committee on 8 December 2020 ([link](#)). Input on the controls assurance information to other relevant fraud risks due to Covid-19 was completed by the Human Resources Manager, Legal Services Manager, Financial Services Manager, and Information Governance/Security Services Lead.
- 4.2** The Audit Scotland report on emerging public sector fraud risks due to Covid-19 was structured within categories. The findings of the Integrity Group's assessment of Midlothian Council's counter fraud controls and necessary actions are set out below using those categories.

4.3 General Governance risk

Existing controls remained applicable with the shift to remote working or new services which were implemented at pace. There were some changes to internal controls. Supervision and training was provided by host Services for deployed staff. Internal Audit staff are working from home; 2 of 5 team members were deployed part-time for a period during the initial response phase and 1 employee continues to assist part-time with grant applications. Adjustments to the Internal Audit Annual Plan 2020-21 were discussed with DMTs then CMT and were approved by the Audit Committee on 8 December 2020.

The necessary action is the update of Financial Regulations (2012) and Financial Directives, as indicated in the report 'Annual Governance Statement – Financial Improvement Update' to the Audit Committee on 8 December 2020 by the Chief Officer Corporate Solutions.

4.4 Procurement risk

Processes to update supplier bank details remain the same as pre-Covid with verifiable evidence necessary in advance of making any changes. Creditors' staff are aware of the increased risk and are being extra vigilant.

The Integra system and associated invoice approval workflows provides a digital route from the ordering of goods and services through to payment of suppliers. Internal controls are inbuilt into the systems and associated workflows. Use of invoice approval process was rolled out at pace to additional service areas in March/April as follows: Street Lighting; Energy/Property Management; Transportation; Construction and Projects.

The Procurement team worked closely with suppliers, Scotland Excel and other public sector colleagues to protect the supply chain. Use was made of the provisions in Regulation 72 of the Public Contracts (Scotland) Regulations 2015 and the Council's Non Competitive Action procedure to modify and extend existing contracts, where appropriate, to avoid disrupting the supply of goods and services.

Controls in the Purchase Ledger system highlight any potential payment that is the same or similar to another and the veracity of this payment is reviewed prior to processing. The processes for authorisation of invoices require authorisers to ensure that goods and services are received before proceeding to payment stage.

Required procedures in terms of the Procurement Manual were maintained albeit using electronic signatures and e-mail communications for authorisation. Contract award and variation letters were issued electronically.

The necessary action is to strengthen the capacity and skills in the Procurement Team through recruitment and an engagement with Scotland Excel, as indicated in the report 'Annual Governance Statement – Financial Improvement Update' to the Audit Committee on 8 December 2020 by the Chief Officer Corporate Solutions.

4.5 Covid-19 Funding risk

The main Business Grant scheme was administered on the Council's behalf by the City of Edinburgh Council (CoEC) which administers Non Domestic Rates (NDR) billing and collection for the Council due to the close alignment of this grant scheme to NDR records. Reliance was placed on CoEC internal control and financial governance arrangements for the scheme, which were subject to due diligence checks prior to the release of monies.

Self Employed and B&B Grants schemes were administered directly by Midlothian Council via a mailbox for applicants to submit the application form and associated supporting evidence. This was fed into an Integra E-form which provided the following stages: Input; Scrutiny; Authorisation; Integra Registration. There were segregation of duties and a full audit trail through workflow using unique reference number e-form to payment. Weekly reporting of stats were submitted to Scottish Government.

4.6 Payroll/Recruitment risk

Interviews were carried out virtually and have continued as an established practice where appropriate. Recruiting Manager verification of the person was notified by email. Physical verification of documents was carried out retrospectively when candidate commenced employment. Disclosure Scotland brought forward the implementation for online PVG requests; this has been introduced.

There were no changes in the process for payroll checking and reconciliation. The use of Finance e-forms for the request and authorisation of BACS and Bankline payments has been implemented. E-forms and workflows were already in place for contractual change notifications. E-forms and workflows were implemented for the submission of sickness absence notification and COVID related special leave. The process for the submission and processing of timesheets not changed.

4.7 IT/Cybercrime risk

Midlothian employees have recently completed updated GDPR and Records Management Training. All staff are signatories of the ICT Acceptable Use Policy. There is a specific Remote Working Security Policy that has been promoted to all staff. There was a week's security awareness campaign to all staff and periodic emails reminding staff of their responsibilities. A number of business applications maintain audit trails of access that can be reviewed by Managers for security purposes. There are a limited number of individuals taking card payments at home who have agreed to a specific set of controls. There is an email address to report suspected phishing emails.

The Council employs a defence in depth approach that includes a series of technical and organisational controls to prevent a cyber attack. However there is no guarantee that criminals can't circumvent these controls as they have at other organisations.

There is ongoing monitoring of the effectiveness of the technical and organisational controls and continuous monitoring of the threat landscape.

4.8 Health and Wellbeing risk

Staff communications include weekly staff update emails and Chief Executive message, ranging from daily to twice weekly, that provide guidance, support and information on the response and recovery activity, remote working, and other safe systems of work. A range of wellbeing supports includes provision of a mix of formal and informal offerings to support the wellness of its employees, ranging from occupational health, people policies, themed events, training, helplines and other support. Supervision and training provided by host Services for deployed staff. Message to staff on their responsibilities for Protecting the Public Purse as well as information on how to raise concerns via the whistleblowing process.

There is ongoing staff and other stakeholder communications to remind them of the wellness supports that are available, and ongoing supervision and training.

4.9 Wider risk

Public awareness campaigns from the Scottish Government, Action Fraud, National Cyber Security Centre (NCSC) and others alert people to the dangers of phishing emails and texts and cold calling from fraudsters. These are ongoing.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

The Integrity Group will support Management across the Council with counter fraud management by: overseeing the review of the counter fraud policy framework in line with best practice; highlighting emerging fraud and corruption risks, threats, vulnerabilities; agreeing fraud and corruption mitigation actions; raising awareness of bribery, fraud and corruption in the Council as a method of prevention; meeting during the course of fraud investigations with the aim to take corrective action, minimise losses and help prevent further frauds; and coordinating with the Serious Organised Crime (SOC) Group.

5.2 Digital

None.

5.3 Risk

The Council is committed to minimising the risk of loss due to fraud, theft, corruption or crime and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

The Counter Fraud Policy Statement sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy provides a shift in approach to focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team in collaboration with other Services is designed to reduce the fraud risks within the Council.

The Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks contained in this report is designed to provide assurance to Management and the Audit Committee on the efficacy of Midlothian Council's arrangements, and sets out the actions that are ongoing or required to enhance the Council's resilience to fraud. The Integrity Group agreed the content of this report at its meeting on 9 February 2021.

The Integrity Group will carry out a further review of these fraud risks and any other emerging fraud risks relating to Covid-19 in due course, to ensure the controls continue to be effective in mitigating the risks. This will include the receipt, consideration and monitoring of organisational vulnerability alerts or fraud flags, including those identified via various internal and external sources.

5.4 Ensuring Equalities

An Integrated Impact Assessment (IIA) Form was completed prior to the presentation of the revised Counter Fraud Policy and Strategy that were approved by the Council on 25 August 2020.

5.5 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 (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) by preventing and detecting fraud, additional resources might be available to support the Council's objectives. Any loss of funds due to fraud, theft, corruption or crime might impact on the ability of Midlothian Council to achieve its key priorities.

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 arrangements for tackling fraud as set out in the Counter Fraud Policy Statement and Counter Fraud Strategy. The shift to the key drivers for change is an intrinsic part of the proposed change in approach and culture for the Council for tackling fraud and corruption. For example:

- (a) The formal establishment of an Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) shifting to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council;
- (b) A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption, and crime and ensure these are embedded preventative practices;
- (c) Applying the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)' for counter fraud policy, strategy and other practices, and adopting the CIPFA Counter Fraud Maturity Model as a means of self-assessment moving forward will enable continuous improvement to be evaluated, managed and evidenced; and
- (d) Use of a blend of toolkits such as fraud vulnerability assessments and e-learning packages that can be tailored to specific Services.

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

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. The Counter Fraud Strategy states the Council will measure progress against the CIPFA Counter Fraud Maturity Model as a self-assessment approach to continuous improvement in order to be evaluated, managed and evidenced to demonstrate best value in the use of resources.

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has been promoted in recent years and is being utilised by staff, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. The Findings and Recommendations from Internal Audit and Corporate Fraud work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

A.7 Adopting a Preventative Approach

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the Counter Fraud Strategy.

A.8 Supporting Sustainable Development

None.

Local Code of Corporate Governance

Report by Chief Executive

Report for Decision

1 Recommendations

The Audit Committee is invited to:

- a) Note the changes outlined in this report;
- b) Recommend to Council for approval of the updated Local Code of Corporate Governance (Appendix 1); and
- c) Note that the updated Local Code will be used for the 2020/21 annual assurance process.

2 Purpose of Report/Executive Summary

This report provides the Audit Committee with the opportunity to scrutinise the updated Local Code of Corporate Governance for Midlothian Council and recommend it for Council approval, to assist with the 2020/21 annual assurance process.

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and the supporting guidance notes for Scottish authorities (2016), was approved by Council in December 2017.

The Local Code has been updated as part of Internal Audit's assessment of internal control and governance and through engagement with the Corporate Management Team.

The updated Local Code of Corporate Governance (Appendix 1) will require approval by Council to ensure this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.

Date 03 February 2021

Report Contact:

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3 Background

- 3.1** Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 3.2** The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and the supporting guidance notes for Scottish authorities (2016), was approved by Council in December 2017.
- 3.3** Fundamentally Corporate Governance is about openness, integrity and accountability. It comprises the systems and processes, and cultures and values by which the authority is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its communities.
- 3.4** The CIPFA/SOLACE Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 3.5** The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.¹

4 Local Code of Corporate Governance

- 4.1** The Midlothian Council Internal Audit Annual Assurance Report 2019/20, which was presented to the Audit Committee on 22 June 2020, stated within the audit opinion section:

“The Council's Local Code of Corporate Governance (approved December 2017) complies with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). The Local Code has been updated as part of Internal Audit's assessment of internal control and governance to include comprehensive evidence against each of the seven principles of good governance and sub-principles. The updated Local Code will require approval by Council to ensure this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.”
- 4.2** It was agreed that a report would be presented to a future meeting of the Audit Committee on the updated Local Code of Corporate Governance for Midlothian Council prior to being presented to Council for approval. Updates on progress were provided at subsequent meetings of the Audit Committee as part of the Actions Log.

¹ CIPFA guidance note for local authorities – Audit Committee (2018)

- 4.3** The 7 core principles of good governance set out in the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) are:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - B. Ensuring openness and comprehensive stakeholder engagement
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes
 - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - F. Managing risks and performance through robust internal control and strong public financial management
 - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability
- 4.4** The Council's Corporate Management Team (CMT) were provided the opportunity to engage in the review and finalisation of the updated Local Code of Corporate Governance, and considered one Local Code principle at a time as follows:
- CMT 5 August 2020 – Principle G
 - CMT 19 August 2020 – Principle F
 - CMT 9 September 2020 – Principle E
 - CMT 23 September 2020 – Principle D
 - CMT 14 October 2020 – Principle C
 - CMT 4 November 2020 – Principle B
 - CMT 18 November 2020 – Principle A
- 4.5** Discussions were held thereafter with relevant members of CMT to update the evidence to demonstrate good governance which reflects the current operating environment, thus revising one Local Code principle at a time.
- 4.6** The CMT considered the collated revised Local Code of Corporate Governance at its meeting on 16 December 2020 and again on 24 February 2021 for sign-off in order to finalise the updated Local Code.
- 4.7** The main changes to the Local Code cover:
- Comprehensive evidence against each of the seven principles of good governance and sub-principles;
 - Updates to strategies, plans and processes which reflect the current operating environment;
 - Further developments in community and citizen consultation and engagement activities; and
 - Enhancements arising from audit and inspection findings, and other planned changes.
- 4.8** The updated Local Code of Corporate Governance for Midlothian Council (Appendix 1) is presented to the Audit Committee for scrutiny prior to approval by Council. The updated Local Code will be used for the 2020/21 annual assurance process.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

The overall aim of the CIPFA/SOLACE Framework ‘Delivering Good Governance in Local Government’ (2016), on which Midlothian Council’s Local Code of Corporate Governance is framed, is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities;
- there is sound and inclusive decision making; and
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Core principle of good governance “E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it” is included within the CIPFA/SOLACE Framework. Workforce and elected member development are a key part of the good governance framework within the Council’s Local Code of Corporate Governance.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The review and update of the Local Code of Corporate Governance will ensure that internal controls, risk management and other governance arrangements reflect the arrangements in place on an evidence-basis.

Core principle of good governance “F. Managing risks and performance through robust internal control and strong public financial management” is included within the CIPFA/SOLACE Framework. Midlothian Council’s evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its updated Local Code of Corporate Governance.

5.4 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 application of equalities legislation within practices is set out in Midlothian Council’s Local Code of Corporate Governance to demonstrate compliance of core principle of good governance “A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law” which is included within the CIPFA/SOLACE Framework.

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives as set out in the Single Midlothian Plan.

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 embedded in the Council's Local Code of Corporate Governance 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 overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016), on which Midlothian Council's Local Code of Corporate Governance is framed, is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

This will enable the Council to fulfil its obligations to provide best value service delivery to its citizens.

A.5 Involving Communities and Other Stakeholders

Core principle of good governance "B. Ensuring openness and comprehensive stakeholder engagement" is included within the CIPFA/SOLACE Framework. Midlothian Council's evidence of systems,

processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its Local Code of Corporate Governance.

The Council's Corporate Management Team has been engaged in the review and finalisation of the updated Local Code of Corporate Governance, and the update of the evidence to demonstrate good governance which reflects the current operating environment.

A.6 Impact on Performance and Outcomes

The updated Local Code will be used for the 2020/21 annual assurance process. This process includes the annual self-assessment, the identification of improvement actions that are designed to enhance the internal control environment, and risk management and corporate governance arrangements, and the preparation and publication of an Annual Governance Statement reporting on the review and outcomes. This process not only creates an opportunity for the Council to set out its standards for good governance but also to ensure that its governance arrangements are seen to be sound. This is important as the governance arrangements in public services are closely scrutinised.

This demonstrates the core principle of good governance "G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability" included within the CIPFA/SOLACE Framework.

A.7 Adopting a Preventative Approach

Core principle of good governance "D. Determining the interventions necessary to optimise the achievement of the intended outcomes" is included within the CIPFA/SOLACE Framework. Prevention governance arrangements are a key part of the good governance framework within the Council's Local Code of Corporate Governance.

A.8 Supporting Sustainable Development

Core principle of good governance "C. Defining outcomes in terms of sustainable economic, social, and environmental benefits" is included within the CIPFA/SOLACE Framework. Midlothian Council's evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its Local Code of Corporate Governance.



Midlothian Council Local Code of Corporate Governance (Revised February 2021)

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council operates through a governance framework for the conduct of its affairs which brings together an underlying set of legislative requirements, governance principles and management processes. The Council's revised Local Code of Corporate Governance, which is consistent with the principles and requirements of the CIPFA/SOLACE Framework 2016 "Delivering Good Governance in Local Government", will help to ensure proper arrangements continue to be in place to meet the Council's responsibilities.

The concept underpinning the Framework is that it assists local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework helps authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The environment in which it works local government is increasing in complexity. The Public Bodies (Joint Working) (Scotland) Act 2014 and other legislation have brought about new roles, opportunities and greater flexibility, as well as challenges for authorities.

The development of new structures, such as health and social care partnerships, necessitates the design of governance structures from the bottom up, ensuring that the core principles of good governance covering openness and stakeholder engagement, defining outcomes, monitoring performance and demonstrating effective accountability are integrated and embedded within the new structures and that mechanisms for effective scrutiny are established.

Whether working with other authorities, public sector bodies, the third sector or private sector providers, local authorities must ensure that robust governance arrangements are established at the outset. The 'Framework' defines the seven core principles of good governance, which the Council fully supports, namely:

- (i) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- (ii) Ensuring openness and comprehensive stakeholder engagement
- (iii) Defining outcomes in terms of sustainable economic, social, and environmental benefits
- (iv) Determining the interventions necessary to optimise the achievement of the intended outcomes
- (v) Developing the entity's capacity, including the capability of its leadership and the individuals within it
- (vi) Managing risks and performance through robust internal control and strong public financial management
- (vii) Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Midlothian Council aims to meet the highest standards of corporate governance to help ensure that it meets its objectives. It will test its structure against these principles by:

- Reviewing its existing governance arrangements against the 'Framework'
- Developing and maintaining an up-to-date Local Code of Governance including arrangements for ensuring its ongoing application and effectiveness
- Preparing a governance statement (Annual Governance Statement) in order to report publicly on the extent to which it complies with its own code on an annual basis, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes for the coming period.

The preparation and publication of an Annual Governance Statement in accordance with the Framework fulfils the statutory requirement for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. This process not only creates an opportunity for the Council to set out its standards for good governance but also to ensure that its governance arrangements are seen to be sound. This is important as the governance arrangements in public services are closely scrutinised.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

A1 Behaving with integrity

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation	Standards are set out in the Councillors Code of Conduct. Employees Code of Conduct reflects the values of the Council, “The Seven Principles of Public Life” identified by the Nolan Committee on Standards in Public Life, and signposts to the Council’s Whistleblowing – Public Interest Disclosure Policy. The Performance Appraisal scheme in place for officers (MPM) is based upon the Council’s values and standards.
2	Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)	The Single Midlothian Plan (endorsed by Council and published on website) sets out the vision, values and standards to guide the way it works and to inform strategies and policies based on priorities.
3	Leading by example and using these standard operating principles or values as a framework for decision making and other actions	Declarations of interest are set out in the Council's Standing Orders which govern the conduct of each Committee meeting.
4	Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively	Councillors and Employees Codes of Conduct outline the minimum standards of conduct and behaviours that are expected and reflect the values of the Council to make sure that public business is conducted with fairness and integrity. Declarations of Interest are set out in the Council's Standing Orders which govern the conduct of each Committee meeting. Employees Code of Conduct signposts to Council’s Whistleblowing – Public Interest Disclosure Policy. The standalone Outside Employment and Other Interests Policy and Gifts and Hospitality Policy aim to provide clear instruction to employees for identifying, mitigating and recording potential conflicts of interest, hospitality and gifts.

A2 Demonstrating strong commitment to ethical values

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Seeking to establish, monitor and maintain the organisation's ethical standards and performance	Annual Governance Statement is the outcome of self-evaluation of compliance. The Audit Committee have oversight to ensure that the highest standards of probity and public accountability are demonstrated.
2	Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation	Standards of conduct and behaviour are set out in the Councillors and Employees Codes of Conduct (reflects Nolan principles). Induction programmes include the above to ensure competency.
3	Developing and maintaining robust policies and procedures	Employees Code of Conduct reflects the values of the Council, and "The Seven Principles of Public Life".
4	Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation	Procurement Strategy states the five strategic themes as a procuring / contracting authority: Economic Benefits, Social Benefits, Environmental Benefits, Commercial Efficiency, and Contract and Supplier Management.

A3 Respecting the rule of law

	Behaviours and actions that demonstrate good governance ccc	Demonstration of good governance in practice
1	Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations	Advice and overseeing compliance on legal matters is provided by the Legal Services Manager (Monitoring Officer).
2	Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements	The Scheme of Delegation sets out the particular delegations to Senior Management. Membership of Professional Bodies is required. Professional advice on the discharge of statutory social work duties is provided to the Council by the Head of Adult Health and Social Care (Chief Social Work Officer).
3	Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders	Local Code of Corporate Governance, Standing Orders, Scheme of Administration, Scheme of Delegation, and Financial Regulations reflect legal requirements placed upon the Council.
4	Dealing with breaches of legal and regulatory provisions effectively.	The Monitoring Officer (statutory role) is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. The Standards Committee is responsible for dealing with matters relating to conduct and ethical standards.
5	Ensuring corruption and misuse of power are dealt with effectively	Counter Fraud Policy and Strategy approved by Council. Integrity Group established to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). Counter Fraud Annual Report presented to Audit Committee.

B. Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders

B1 Openness

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness	Behaviours demonstrated in B1.2. B1.3 and B1.4. Compliance with Data Protection and Freedom of Information legislation.
2	Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided	Calendar of main Council and Committee meetings. Minutes and committee reports are published on the Council's website. Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.
3	Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear	The standard report template for decision-making reports to Committees, include Resources, Risk, Single Midlothian Plan and Key Priorities, Key Drivers for Change, Key Delivery Streams, Delivering Best Value, Impact on Performance and Outcomes, Adopting a Preventative Approach, Involving Communities and Other Stakeholders, Ensuring Equalities, Supporting Sustainable Development, and Digital. Calendar of main Council and Committee meetings. Committee reports are published on Council's website in advance of meeting dates.
4	Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action	The Community Planning Partnership (CPP) actively pursues formal and informal consultation. Service specific consultation is also undertaken.

B2 Engaging comprehensively with institutional stakeholders

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably	The Community Planning Partnership (of which the Council is a partner) has a Community Plan - The Single Midlothian Plan, as the Local Outcomes Improvement Plan (LOIP). The Council's vision, strategic objectives and priorities underpinned by a strategic assessment are reflected in the Single Midlothian Plan.
2	Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively	As B2.1
3	Ensuring that partnerships are based on: <ul style="list-style-type: none"> • trust; • a shared commitment to change; • a culture that promotes and accepts challenge among partners; and • that the added value of partnership working is explicit 	As B2.1

B3 Engaging stakeholders effectively, including individual citizens and service users

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes	<p>The CPP's Governance Framework sets out principles for Community Engagement for the CPP which includes the Council as one of the partners.</p> <p>The Strategic Plan (The Single Midlothian Plan) was developed following consultations with interested parties including members of the public, therefore highly co-produced.</p>
2	Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement	As B3.1
3	Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs	<p>As B3.1</p> <p>Citizen's panel.</p> <p>The Council has put robust arrangements in place to comply with key elements of the Community Empowerment Act. The Council fully supports community empowerment and recognises the importance of building community capacity and volunteering as a key factor in building stronger, safer, and supportive communities. The success of the CPP #kindnessmidlothian campaign in harnessing a community planning partnership response to Covid-19 resulted in a significant increase in volunteering during the emergency phase of the pandemic; plans to build on this further through the next phases.</p>
4	Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.	<p>As B3.1</p> <p>The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.</p>
5	Taking account of the interests of future generations of tax payers and service users	<p>As B3.1</p> <p>Elected Members are appointed to the Midlothian Integration Joint Board.</p>

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available

C1 Defining outcomes

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions	<p>The Community Planning Partnership (of which the Council is a partner) has a Community Plan - The Single Midlothian Plan, as the Local Outcomes Improvement Plan (LOIP).</p> <p>The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Single Midlothian Plan.</p> <p>In response to the Covid-19 Pandemic, Council approved the Midlothian Route Map through and out of the Crisis in June 2020. This presents an ambitious programme of recovery in line with the 9 Drivers for change. In addition, Council also approved the Climate Change Strategy in August 2020 which is a significant in its overarching aim to be Carbon Neutral by 2030. An updated Economic Renewal strategy was approved by Council in August 2020 in response to the recovery actions required as a result of the pandemic. The Council is also committed to accelerating the Capital Programme and a number of reports were approved by Council in June and August 2020 which Officers are now progressing.</p>
2	Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer	<p>The standard report template for decision-making reports to Committees, outlining any proposals to change policies, strategies and plans, was reviewed in response to the shift to virtual meetings and new ways of working as a result of the pandemic and to ensure that key elements identified in the Midlothian Route Map through and out of the Crisis are reflected. Considerations include Resources, Risk, Single Midlothian Plan and Key Priorities, Key Drivers for Change, Key Delivery Streams, Delivering Best Value, Impact on Performance and Outcomes, Adopting a Preventative Approach, Involving Communities and Other Stakeholders, Ensuring Equalities, Supporting Sustainable Development, and Digital.</p>
3	Delivering defined outcomes on a sustainable basis within the resources that will be available	<p>Monitoring the delivery of service plans and performance indicators is conducted quarterly by the Cabinet (the principal decision-making committee of the Council) and by the Performance, Review and Scrutiny Committee (responsible for reviewing performance against policy objectives and commenting on decisions and policies and their impact).</p> <p>The Council carries out monitoring of the revenue and capital financial plans on a quarterly basis. Financial planning arrangements continue to be implemented to address budget gaps, underpinned by financial budgeting and monitoring arrangements with a quarterly financial monitoring board of officers now meeting to scrutinise in year and future year savings.</p>
4	Identifying and managing risks to the achievement of outcomes	<p>Risk management policy and guidance in place.</p> <p>Risk Register review and update is embedded in quarterly reporting processes.</p>
5	Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available	<p>The Council's performance management framework establishes the mechanism to ensure the Council meets its legal duty to provide best value to its citizens. There is annual development and monitoring of Service Plans and PIs which are aligned to Priorities in the Single Midlothian Plan. This includes a self-assessment process to evaluate actual versus standard service quality (for those Services that do not routinely self-evaluate for inspection purposes, the Customer Service Excellence model has been adopted).</p>

C2 Sustainable economic, social and environmental benefits

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision	<p>Asset management planning and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision.</p> <p>Planning processes are in place for revenue and capital expenditure. Social and environmental impact is implicitly considered.</p> <p>The capital programme is being reviewed in light of the Midlothian Route Map Through and Out of the Crisis which was approved by Council in June 2020 as an “accelerate Capital Programme” is a key pillar of the recovery work. Supporting Capital projects were also approved by Council in June and August 2020.</p>
2	Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation’s intended outcomes and short-term factors such as the political cycle or financial constraints	<p>Various strategies and transformative programmes are in place to respond to the social, economic and demographic challenges facing the Council and still deliver high quality and improved services.</p> <p>Business Transformation Steering Group and Business Transformation Board refocus on the scale and pace of delivery of change and transformation resulting from significant changes to the financial landscape.</p>
3	Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs	Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include sections on implications covering Resources, Risk, Single Midlothian Plan and Key Priorities, Key Drivers for Change, Key Delivery Streams, Delivering Best Value, Impact on Performance and Outcomes, Adopting a Preventative Approach, Involving Communities and Other Stakeholders, Ensuring Equalities, Supporting Sustainable Development, and Digital.
4	Ensuring fair access to services	<p>Conducting an Integrated Impact Assessment is a requirement relating to any new or revised proposals such as policy, service or budget change which affects people (the public or staff).</p> <p>Service-specific governance arrangements include Fair access to social care policy and resource panels for children and adults services to ensure consistency.</p>

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

D1 Determining interventions

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided.	Decision makers receive detailed information indicating how intended outcomes would be achieved together with the risks, financial and other implications associated with the proposals, by way of the compulsory sections of the Committee report template. Guidance on preparing reports for Committees. Committee reports are published on Council's website in advance of meeting dates. Officers attend Committee meetings to advise as appropriate.
2	Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts	In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community.

D2 Planning interventions

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	Calendar of main Council and Committee meetings. Regular refreshes of key strategic and operational plans, priorities and targets.
2	Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered	As D1.2
3	Considering and monitoring risks facing each partner when working collaboratively including shared risks	Risk management policy and guidance in place.
4	Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances	Medium Term Financial Strategy to enable the Council to respond to unprecedented social, demographic and economic challenges.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
5	Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured	Performance Management Framework approved by Council. KPIs set out in Single Midlothian Plan Council performance is monitored quarterly. A performance report is produced for the council, and each of the Council Services is scrutinised by committees on a quarterly basis These reports show the progress the services have made towards the outcomes in the Single Midlothian Plan and their individual services priorities.
6	Ensuring capacity exists to generate the information required to review service quality regularly	Independent external inspections are scrutinised by committees. Corporate approach to self-evaluation; programme of review for Services.
7	Preparing budgets in accordance with organisational objectives, strategies and the medium-term financial plan	Prepared from arrangements in D2 .8
8	Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy	Medium Term Financial Strategy and plans for revenue (5-year) and capital (10-year) based on identified priorities.

D3 Optimising achievement of intended outcomes

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	Medium-Term Financial Strategy approved alongside Resources and Financial Plans.
2	Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term	As D3.1
3	Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage	Medium-Term Financial Strategy is in place.
4	Ensuring the achievement of 'social value' through service planning and commissioning <i>(Social Value is technically referred to as Community Benefit in Scotland)</i>	Procurement Strategy states Social Benefits as one of the strategic themes. Plans are in place to implement a mechanism for tracking Community Benefits to determine whether the Council is actually receiving the earmarked community benefits from the procurements undertaken.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

E1 Developing the entity's capacity

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness	Performance Management Framework approved by Council. Corporate approach to self-evaluation; programme of review for Services.
2	Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently	Performance Management Framework approved by Council Participation in the Local Government Benchmarking Framework.
3	Recognising the benefits of partnerships and collaborative working where added value can be achieved	Options are always considered where relevant in any decision making or service review. Shared service agreements are in place in some areas and are being considered in others. Strong ties between the Council and the Community Planning Partnership. Effective partnership and collaborative working as a legacy of emergency response.
4	Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources	Workforce strategy and framework in place for the development of workforce plans.

E2 Developing the capability of the entity's leadership and other individuals

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained	Induction Programme for elected members to understand roles, protocols and standards. Regular meetings are held between Chief Executive and Leader.
2	Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body	The key governance documents, below the Local Code of Corporate Governance, include the Scheme of Administration, Standing Orders, Scheme of Delegation and Financial Regulations which reflect the powers delegated to specific committees and officers to enable effective and efficient fulfilment of their roles within the Council.
3	Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure, whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority	Regular meetings are held between Chief Executive and Leader. The Chief Executive is a Statutory post with job description. Particular delegations to Chief Executive are detailed within the Scheme of Delegation.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
4	Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:-	
-	- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged	Induction Programme and access to comprehensive list of Courses, Seminars and e-learning. Members and Staff Briefings. Leadership and supervisory management development programmes.
-	- ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis	Identification of training needs for elected members as part of a development programme. Performance review process in place for all employees (MPM).
-	- ensuring personal, organisational and system wide development through shared learning, including lessons learnt from both internal and external governance weaknesses	Leadership Forum brings together senior and operational leaders to share and learn. Reports by external scrutiny and inspection bodies outlining findings and recommendations are presented to the relevant committee including associated Action Plans for improvement.
5	Ensuring that there are structures in place to encourage public participation	Single Midlothian Plan is highly co-produced and based on extensive public participation. Application of requirements of the Community Empowerment Act.
6	Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections	Self-evaluation of new Senior Leadership Team. Strategic leaders' development experience 'SOLACE Springboard'.
7	Holding staff to account through regular performance reviews which take account of training or development needs	Development and performance review process in place for all employees (MPM).
8	Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing	Provision of a mix of formal and informal offerings to support the wellness of its employees ranging from occupational health, people policies, themed events, training, helplines and other support.

F. Managing risks and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

F1 Managing risk

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making	Risk management policy and guidance in place. Strategic and operational risk registers in place. Committee Reports for decision making include a section on implications covering risks and mitigations.
2	Implementing robust and integrated risk management arrangements and ensuring that they are working effectively	As F1.1 Risk Management Group as forum for sharing and learning from across Council operational services. Quarterly Risk Management updates on strategic risk reviews presented to Audit Committee.
3	Ensuring that responsibilities for managing individual risks are clearly allocated	Risk Management Policy sets out roles and responsibilities to manage risks of individuals and groups.

F2 Managing performance

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Monitoring service delivery effectively including planning, specification, execution and independent post-implementation review	Quarterly monitoring and progress reports on corporate performance. Performance reporting published on Council's website.
2	Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook	Reports to Committees for decisions include a section on implications covering resources, risks and mitigations. Committee reports are published on CMIS one week in advance of meeting dates. Guidance on preparing Committee reports.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
3	<p>Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (OR, for a committee system)</p> <p>Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making</p> <p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p>	<p>Competent Audit Committee with constructive links to senior officers including Chief Internal Auditor.</p> <p>The Audit Committee agenda and minutes are published on CMIS</p>
4	<p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p>	<p>As F2.1</p> <p>Calendar of meetings approved by Council in advance. Timetables for preparation of and consultation on reports to meet publication dates.</p>
5	<p>Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)</p>	<p>Governance arrangements in place including Standing Orders and Financial Regulations.</p>

F3 Robust internal control

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	<p>Aligning the risk management strategy and policies on internal control with achieving objectives</p>	<p>Risk Management Policy</p> <p>Internal Audit strategy and plans approved by Audit Committee.</p>
2	<p>Evaluating and monitoring risk management and internal control on a regular basis</p>	<p>Risk-based Internal Audit plans and reports approved by Audit Committee.</p>
3	<p>Ensuring effective counter fraud and anti-corruption arrangements are in place</p>	<p>Counter Fraud Policy and Strategy approved by the Council, including an officer steering group (Integrity Group) to focus on fraud prevention and detection.</p> <p>Annual report on counter fraud activity and outcomes considered by Audit Committee.</p>
4	<p>Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor</p>	<p>Internal Audit annual assurance report as part of process for preparation of the Council's Annual Governance Statement.</p> <p>Reports to Audit Committee on provision of Internal Audit statutory service and conformance with Public Sector Internal Audit Standards (PSIAS).</p>
5	<p>Ensuring an Audit Committee or equivalent group or function which is independent of the executive and accountable to the governing body:</p> <ul style="list-style-type: none"> - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment - that its recommendations are listened to and acted upon 	<p>The role of the Audit Committee is to have high-level oversight of internal control, governance and risk management.</p> <p>Independence is maintained through membership composition i.e. external members.</p> <p>Audit Committee Action Tracker to monitor recommendations. Annual self-evaluation of effectiveness of Audit Committee and Annual Report to Council (best practice).</p>

F4 Managing data

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	Privacy Policy is in place to set out data protection compliance requirements across the Council. Information Asset Register overseen by the Information Management Group. The Records Management Policy has been agreed by Keeper of Records Scotland. Independent assurance from PSN and Cyber Essentials Plus certifications.
2	Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies	As F4.1 Periodic Internal Audit reviews covering Information Governance and GDPR Information Asset Register states Data Sharing agreements in place.
3	Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring	Quality and Validation of data used in decision making and performance reporting is typically the responsibility of the service area. Internal Audit annual reviews on Performance Management cover validation of the KPI data submitted for Local Government Benchmarking Framework.

F5 Strong public financial management

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance	As D2.8 Medium Term Financial Strategy and plans for revenue (5-year) and capital (10-year) based on identified priorities. As D3.1 Medium-Term Financial Strategy approved alongside Resources and Financial Plans. As D3.3. Medium-Term Financial Strategy is in place.
2	Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls	As D2.8 Medium Term Financial Strategy and plans for revenue (5-year) and capital (10-year) based on identified priorities.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability	
Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.	

G1 Implementing good practice in transparency
--

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate	Public Performance Reporting is published on Council's website. Committee reports are published on the CMIS site for transparency which reflect the decision-making structure within the Council's Scheme of Administration.
2	Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	A Committee report template is used to ensure published information is written clearly and concisely, having regard to the complexity of the subject matter, with information on the implications of the proposals contained therein.

G2 Implementing good practices in reporting
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	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Reporting at least annually on performance, value for money and the stewardship of its resources	The Statement of Accounts, incorporating a Management Commentary, provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development. The Statement of Accounts is produced in accordance with statutory guidance and deadlines. External Audit Annual Report provides assurance and key recommended improvements.
2	Ensuring members and senior management own the results	Meeting dates of CMT and other senior management and elected member forums have been aligned to enable appropriate engagement and consultation prior to formal Committees. The Committee report template includes section "Involving Communities and Other Stakeholders".
3	Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)	A self-evaluation of compliance with the Governance Framework is undertaken annually. The Annual Governance Statement is the outcome of that process which includes the Governance Framework, the Review of Framework, and Improvement Areas of Governance.
4	Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate	The annual assurance process and the Annual Governance Statement reflect the assurances received from Directors and other senior management which covers the Council's service delivery arrangements which are reflected in the Group Accounts.
5	Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations	The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development. The Statement of Accounts is produced in accordance with statutory guidance and deadlines.

G3 Assurance and effective accountability

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring that recommendations for corrective action made by external audit are acted upon	External Audit reports outlining findings and recommendations (including follow-up progress) are presented to the Audit Committee.
2	Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon	Regular reports on Internal Audit activity, performance and compliance are presented to the Audit Committee. The Chief Internal Auditor meets regularly with the Chair of the Audit Committee. Compliance with CIPFA's Statement on the Role of the Head of Internal Audit (2019). Compliance with Public Sector Internal Audit Standards. Regular reports are presented to the Audit Committee on Management's progress with implementation of recommendations made by Internal Audit to ensure these are acted upon.
3	Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	Reports by external scrutiny and inspection bodies outlining findings and recommendations are presented to the relevant committee including associated Action Plans for improvement.
4	Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement	The existing governance framework including alternative service delivery arrangements and assurances on risks are reflected in the annual assurance process and the Annual Governance Statement.
5	Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met	The Community Planning Partnership and Midlothian Integration Joint Board, which are the most significant, have their own Governance Frameworks in place to align with the Council's Governance Framework on public accountability.

Covid-19

What it means for public audit in Scotland

Update



Prepared by Audit Scotland
January 2021

Our approach

Context

- During 2020, public bodies came under exceptional pressure as they managed the impact of the Covid-19 pandemic.
- In late December 2020 and early January 2021, significant restrictions have been reimposed across Scotland. At this stage it is unclear how long these will be in place.
- Our experience during 2020 was that the pandemic has impacted significantly on the timelines for producing annual accounts at public bodies and for audit work due to pressures on capacity and productivity in all organisations.
- The reimposition of restrictions is likely to continue and potentially exacerbate these pressures during 2021.
- In 2020, guidance and deadlines for financial reporting and audit were amended in light of the pandemic. We are keeping the situation this year under review.
- Public bodies have now adapted how they work in response to Covid-19. Further challenges are likely to emerge as we move to recovery from the acute phase of pandemic. It will also be some time before we fully understand the longer-term impact on public services and finances.

Audit Scotland's principles

- During the initial phase of Covid-19, along with the Auditor General and the Accounts Commission, we adopted a set of key principles setting out how we would respond to the pandemic. During 2020, they proved to be both effective and appropriate. They will continue to be our guiding principles through the next phase of the Covid-19 crisis:
 - Our approach to audit will be flexible, pragmatic and consistent.
 - Sound financial management and effective governance are more important than ever.
 - Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances, and we will prioritise quality and independence.
 - Our work needs to reflect the impact of Covid-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector.
 - We will prioritise the health and wellbeing of our colleagues at all times.

What we have delivered during the pandemic so far

- With the Auditor General and Accounts Commission, we have published more than 260 reports in the past year. This includes:
 - annual financial audits of 215 public bodies
 - performance audits on matters including affordable housing, local government performance, and digital progress in local government
 - statutory reports on issues arising from the audits of public bodies, including the Scottish Government's Consolidated Accounts
 - Covid-19 impact reports on fraud risk, public finances in Scotland, public audit and how Audit Scotland is responding
 - Covid-19 guidance documents to auditors and public bodies on issues such as audit committees, balancing the budget and going concern
 - the National Fraud Initiative and corporate performance reports
 - joint documents with the local government Strategic Scrutiny Group.
- We continued to support the Scottish Parliament to carry out its scrutiny role.
- We have supported the Accounts Commission to meet virtually twice a month.
- We reviewed and consulted on the forward work programme we deliver for the Auditor General and Accounts Commission. We are renewing it to address the emerging impacts of Covid-19 alongside the other key issues Scotland's public sector faces.
- We continued to meet virtually with our fellow audit and inspection agencies across Scotland's public services.

Financial audit

- In 2020, to reflect the pressure on public bodies, the deadlines for preparing public bodies' accounts for the 2019/20 year were extended. These impacted on timings for audit work and reporting.
- While almost all audits were completed within the revised deadlines, the extensions mean that the planning work required for audits of the 2020/21 year has started later than in previous years.
- The reintroduction of restrictions will affect capacity for audit work.
- We are monitoring developments and guidance which may affect the timelines and scope of 2020/21 accounts. We will issue guidance to auditors as required in due course.
- During 2020, the impact on individual bodies' capacity for reporting and engaging with audit varied widely. Prior to the second wave of the pandemic it could have been expected that uncertainty and volatility would settle, but the full impacts of the second wave and the renewed restrictions are still unclear.
- There has been significant additional public spending in response to Covid-19. A key focus of audit is the governance and outcomes of this funding, as far as they are becoming apparent, or 'following the pandemic pound'.

- We will work with colleagues, including appointed audit firms, to promote consistency of judgement on complex issues.
- We will maintain audit quality while continuing to be flexible about timelines.

Performance audit

- During 2020, we paused and reframed our programme of performance audits.
- This was in part in order to understand the emerging impacts of Covid-19, what new work is required and how existing planned work needed to be reshaped.
- This decision was also to avoid placing additional scrutiny burdens on public bodies at a time when they were trying to address the significant impact of the pandemic on public services. We resumed our performance audit programme when we judged it appropriate, and have published audits, briefings and statutory reports (see page 3), as well as consulted with key stakeholders on our refreshed programme.
- We are publishing the refreshed programme shortly. More detail can be found on pages 6-7.

Best Value auditing

- We have continued the programme of Best Value reporting on councils for the Accounts Commission during the pandemic. These audits have provided early indications of how councils are responding to the many challenges caused by the pandemic.
- The reporting timetable and audit approach for some Best Value reports was reviewed during 2020 to reflect the pressures on councils and remote auditing. The remaining seven reports planned for 2021 will now be published across 2021 and 2022.
- We've continued developing the integrated Best Value audit approach for councils and integration joint boards.

Overview reporting

- We have continued to prepare sectoral overview reports (eg, NHS and local government) during the pandemic. A key feature of this work is considering how public bodies are responding to the short, medium and longer-term impact of Covid-19. We adjusted the timetable to reflect the altered audit timelines.

Our resources

- Over the past year we have needed to be flexible with our resources to manage the changing timescales and priorities. For example, while the performance audit programme was being refreshed during 2020, we redeployed appropriately qualified colleagues to allow us to meet the revised statutory deadlines for financial audits.
- The world we audit has changed. We are changing to ensure we can continue to deliver high-quality, independent public audit at a time when Scotland's public sector will face greater challenges than at any point since devolution.
- We are increasing our capacity, infrastructure and skills, and investing in realising the capabilities in areas such as digital audit.

- When necessary, we will be flexible about deadlines in order to safeguard quality.
- The Auditor General for Scotland and the Accounts Commission have extended the current audit appointments until 2022 to provide continuity and stability in a challenging environment.

Our future Covid-19 work

Overview

Audit Scotland is committed to helping the Parliament, the public sector and the people of Scotland understand how public money has been used during this crisis and ensure lessons are learned for the future. While we will keep a dynamic approach as the pandemic progresses and the impacts become clearer over time, key focuses of our work will include issues such as the effect on inequalities in health, economic security and opportunities, and what public money has achieved in helping Scotland recover. We will also consider how innovations, such as using digital technology to deliver services and engage with communities, can be shared.

Covid-19 will be a key aspect of all financial audit work for the foreseeable future. Through the performance audit programme, we will address the pandemic through specific Covid-19 audits and in audits on other areas of public service provision and planning. The table below outlines some of the themes and the areas we will address on behalf of the Auditor General and Accounts Commission.

Theme	What we'll look at	Key areas
Economic recovery and growth	How public money is being used to support the economy and its response to, and recovery from, Covid-19	<ul style="list-style-type: none"> Public finances including new devolved financial powers Supporting jobs, business and enterprise How funds have been distributed across the public and third sectors and communities Skills and training Infrastructure investment and low carbon economy Impact of EU withdrawal
Policy priorities	Progress on key policy commitments and public services' ability to deliver on long-term strategic priorities and outcomes	<ul style="list-style-type: none"> Early learning and childcare School education Community empowerment Health and social care integration Community justice Climate change
Inequalities	The impact of Covid-19 on different groups in society, with a focus on the risk of exacerbation of existing inequalities	<ul style="list-style-type: none"> Child poverty Children and young people with additional needs Care experienced children and young people Mental health Social security Digital inclusion

Theme	What we'll look at	Key areas
Innovation and transformation	How public bodies are learning lessons and innovating and transforming public services	Digital transformation Service re-design Workforce planning
Governance and accountability	How public bodies are ensuring the proper and effective use of public money across the public sector and within individual bodies	Fraud risks Effective scrutiny Collaborative leadership Following the pandemic pound

Covid-19

What it means for public audit in Scotland Update

This report is available in PDF and RTF formats,
along with a podcast summary at:

www.audit-scotland.gov.uk 

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Midlothian Council

**Provisional Annual Audit Plan
Year ending 31 March 2021**

Audit Committee – 9 March 2021

Contents

Section	Auditor Responsibility	Page
Executive Summary	Summarise the purpose and key information for the 2020/21 audit	03
Local Government developments	Provide a summary of the overall local government environment	06
Financial Statements and Accounting	Summary of audit approach, materiality, risks etc.	09
Wider Scope Audit Risks	Audit approach for reviewing the Council's compliance with the wider public audit scope areas: <ul style="list-style-type: none"> • financial position and arrangements for securing financial sustainability • suitability and effectiveness of corporate governance arrangements • effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets 	20
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards: <ul style="list-style-type: none"> Appendix A: Code of Audit Practice: responsibilities Appendix B: Auditor Independence Appendix C: Required communications with the audit committee Appendix D: Timing and deliverables Appendix E: Audit fees Appendix F: Additional audit information 	24

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Executive summary

Our key contacts:

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Our independence:

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Purpose of our plan

The Accounts Commission appointed EY as the external auditor of Midlothian Council (“the Council”) for the five year period to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22.

This Annual Audit Plan, prepared for the benefit of Council management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2021, the fifth year of our appointment. In preparing this plan, we have updated our understanding of the Council through planning discussions with management, review of relevant documentation and committee reports, and our general understanding of the environment in which the Council is currently operating.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where processes can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

We have issued this provisional audit plan to provide the Audit Committee with indicative areas of focus for 2020/21. Under the timescales reflected within guidance from Audit Scotland, our planning work is not due to be finalised until the end of April. Audit Scotland continues to refresh its guidance to recognise the ongoing impact of the pandemic on timescales for the preparers of financial statements and appointed auditors. Any material changes to this plan will be reported to the Audit Committee. After consideration by the Council’s Audit Committee in May, the finalised plan will be provided to Audit Scotland and published on their website.

Scope and Responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Council and the auditor, more details of which are provided in Appendix A.

Financial statement audit

We are responsible for conducting an audit of the Council's financial statements. We provide an opinion as to:

- whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the Council and its group as at 31 March 2021, and of the income and expenditure of the Council and its group for the year then ended;
- whether they have been properly prepared in accordance with the IFRSs, as interpreted and adapted by the 2020/21 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

Materiality

Materiality levels have been set at the planning stage of the audit as follows:

Planning Materiality	Tolerable Error	Nominal amount
£6.8 million	£ 5.1 million	£250,000
2% of the Council's gross expenditure	Materiality at an individual account level	Level that we will report to committee

Based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider-scope public audit, as well as an assessment around the Council's arrangements for securing Best Value. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money

Our audit work over the wider scope audit dimensions complements our financial statements audit. We have updated our understanding of the risks impacting the Council through discussions with management, review of relevant committee reports, and our knowledge of the local government environment.

Audit Risk Dashboard

Key Financial Statement Risks

Significant Risk: Risk of fraud in revenue and expenditure recognition	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. During 2020/21, we will consider the impact of additional Covid-19 grant income streams that the Council has managed to support the response to the pandemic, including those administered by the City of Edinburgh on the Council's behalf.
Fraud Risk: Misstatement due to fraud or error	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Inherent risk: Valuation of property, plant and equipment	The fair value of property, plant and equipment (PPE) represent significant balances in the Council's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Valuation of pension assets and liabilities	Accounting for the Local Government Pension Scheme involves significant estimation and judgement and management engages an actuary to undertake the calculations on their behalf. The Lothian Pension Fund triennial valuation was completed as at 31 March and will therefore inform the valuation as at 31 March 2021. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets and liabilities at the year end.

Wider Scope Risks

Financial Sustainability: Impact of the pandemic on medium term financial planning	As in previous years, the Council was unable to fully achieve its savings target in 2019/20, and the impact of the global pandemic means that planned savings could not be delivered in 2020/21 as the Council focused on responding to the pandemic. The Council estimates that the net impact of the pandemic is a cost of £2.26 million, resulting in a projected general reserve balance of £3.5 million, only marginally above the Council's minimum reserves level.
Financial Management: Treasury Management	Treasury Management and the application of the Prudential Code are areas of increased focus in local government. In 2020, members of the Audit Committee raised specific concerns which has led to our consideration of treasury management as an area of increased focus as part of our wider scope audit procedures in 2020/21.

2

Local Government developments

Introduction

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Council operates to inform our audit approach.

Scrutiny

The LAN is content that no additional scrutiny requirements are necessary in 2021/22.

A National Scrutiny Plan (NSP) was most recently published by the Accounts Commission (on behalf of the Strategic Scrutiny Group) in September 2019. The NSP summarises all planned and announced strategic scrutiny activity from September 2019 in each of Scotland's 32 councils. The plan was based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the various councils.

As the appointed auditor of the Council, we act as the LAN lead for Midlothian Council shared risk assessment process. The LAN met on 1 March 2021 to discuss the 2021/22 shared risk assessment. The LAN concluded that no additional scrutiny requirements were identified and that no local scrutiny plan would be published.

Political uncertainty

Continuing uncertainty exists around a number of factors in the foreseeable future including:

- **Covid-19 Pandemic:** the impact of the pandemic has dominated the political environment for the past 11 months and will, in all likelihood, continue to do so throughout 2021.
- **EU withdrawal:** the UK formally exited the EU on 31 January 2020, following a transition period until 31 December 2020, its relationship with the EU is now fully under new arrangements.
- **Scottish Parliament Elections:** Scottish elections are due to be held on 6 May 2021.
- **Scottish Local Government Elections:** Due to be held in May 2022
- **Scotland Independence Referendum:** there is continued uncertainty regarding whether a Scottish independence referendum will be held.

We will continue to monitor how the Council prepares for, and responds to, the implications of political factors throughout the audit year.

Accounts Commission Overview

The Accounts Commission (“the Commission”) published their Local Government in Scotland: Financial overview 2019/20 report in January 2021. This report provides an overview of the financial performance of councils in 2019/20.

Key messages highlighted by this report included:

- There was an increase in Scottish Government funding for the sector of £0.5 billion, with nearly half of the increase intended to fund the expansion in early learning and childcare.
- Funding in 2019/20 improved relative to other areas of the Scottish budget but a historic difference continues to exist, meaning that reductions over the last seven years are larger than in other areas of the Scottish Government budget.
- The financial cost of Covid-19 to local government in Scotland in 2020/21 is estimated to be £767 million, with just over half due to lost income.

The report also drew attention to two councils (Fife and Aberdeenshire) now being at risk of running down their general fund balance within four to five years if their current trend of use of reserves continues.

Fiscal flexibilities

A package of financial flexibilities has been developed, with conclusion expected soon, between the Scottish Government and the Convention of Scottish Local Authorities to address the funding pressures faced by local government due to Covid-19.

The flexibilities are intended to be available in 2020/21 and/or 2021/22, and include the use of capital receipts to meet the costs of the pandemic. Additionally, there is continued work to seek to provide the ability to charge depreciation for leases and service concession arrangements to the General Fund over the life of relevant assets, rather than over the contract period and deferment of loans funds repayments. We will consider the Council's assessment and use of flexibilities as part of our wider scope work on Financial Sustainability.

Budget setting process 2021/22

The Scottish Budget for 2021/22 was published on 28 January 2021. This announcement focused on key priorities, including the response to the global pandemic.

Due to delays in the Scottish Budget announcement, many councils delayed agreeing their 2021/22 budget. Midlothian Council met to agree its budget on 23 February 2021. The Council agreed to freeze council tax levels, along with fees and charges, to recognise the unique pressures created by the pandemic and to help protect household incomes. A planned rent increase was delayed for the same reasons. The Council has also agreed a significant capital programme to help support the area's economic recovery and which reflects the level of infrastructure investment needed to meet the needs of rapid population growth. We will consider the Council's approach to budget setting as part of our wider scope work on Financial Management.

3

Financial statements: Our approach and significant risks identified

Introduction to section

The Council's Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit Opinion

We are responsible for conducting an audit of the financial statements of the Council. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the Council and its group as at 31 March 2021, and of the income and expenditure of the Council and its group for the year then ended;
- whether they have been properly prepared in accordance with the IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code. Note that public bodies will continue to use EU-adopted IFRS for 2020/21 and will move to UK-adopted IFRS in 2021/22; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the Council along with its financial statements. We noted that the management commentary and narrative reporting significantly improved in 2019/20 and we will therefore continue to support the Council to improve and refine disclosures, where required.

Audit Approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements.
- Reading other information contained in the financial statements, including that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.
- Substantive tests of detail of transactions and amounts. For 2020/21 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Materiality Level

Rationale

Planning Materiality
£6.8 million

Planning materiality (PM) – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

For planning purposes, materiality for 2020/21 has been set at £6.8 million (2019/20: £6.8 million). This represents 2% of the Council's prior year gross expenditure on provision of services, excluding IJB gross-up of income and expenditure. We have derived this figure following our assessment of risk factors impacting the Council in 2020/21.

Tolerable Error
£5.1 million

Tolerable error (TE) – materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £5.1 million (2018/19: £3.4 million) which represents 75% of planning materiality. This level reflects our prior year audit experience in the preparation of the 2019/20 financial statements.

Summary of Audit
Differences
£250,000

Summary of Audit Differences (SAD) Nominal amount – the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- Remuneration report - given the sensitivity around the disclosure of senior staff remuneration we apply a lower materiality threshold to our audit consideration around the remuneration report and related disclosures.
- Related party transactions – which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.

Covid-19 Pandemic - Impact on Financial Statements

We outlined in our reporting in 2019/20 how the impact of Covid-19 has changed expectations about required disclosures in the financial statements.

- In line with 2019/20, the governance statement should capture how the control environment has changed during the period of the pandemic, and steps being taken by the Council to maintain a robust control environment during the disruption. This includes consideration of how key governance functions are continuing to operate, such as key committee meetings and the delivery of internal audit's programme of work.
- The Council's management commentary should clearly summarise the performance of the Council in the year, including the impact of Covid-19 on both its financial performance and future planning, and its impact of key statutory performance indicators.
- Significant events after the balance sheet date require to be disclosed within the financial statements, either through the post balance sheet events note or in specific accounting notes or the management commentary and governance statement, as appropriate. The detail required in the disclosures will reflect the specific circumstances of the Council.

Accounting policies

While the impact of Covid-19 has been felt for almost a year now, 2020/21 is the first financial year where the full impact on day to day accounting transactions will be seen in the financial statements. Covid-19 will continue to have a potentially material impact on the financial statements, including how the Council accounts for significant income and expenditure. Any specific government support may qualify as a new transaction stream and require development of new accounting policies.

Impact on Audit Process

Following the impact of Covid-19 on the financial statement preparation and audit process in 2020, Audit Scotland has provisionally set its reporting deadline for local government bodies at 31 October 2021, a month later than the traditional timeframe but earlier than the 2020 revised deadlines. These deadlines will continue to be reviewed through the year as circumstances change, however the FRC and Audit Scotland have made clear that any deadlines are secondary to the primacy of audit quality and ensuring completeness of work regardless of the environment in which audit takes place.

We have outlined the planned timing for the key deliverables of the audit process in Appendix D. These reflect initial discussions with management and the agreed intention to maintain planned reporting dates in line with previous timeframes. We will continue to work closely with management to review timeframes and logistics for the completion of the audit in 2020/21.

We will aim to take a pragmatic and flexible approach in the current environment, while also recognising that strong financial management and good governance are more important than ever at this time.

The deadline for audits has not yet been set, reflecting the ongoing and severe impact that the pandemic has had on both Council finance teams and audit timescales.

Significant Risks

We set out below the significant risks identified for 2020/21, along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit.

1. Risk of fraud in expenditure recognition, including through management override of control

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Significant risks identified in the audit relate to the risk of fraud in income and expenditure recognition.

We also perform procedures in all audits to respond to the risk of misstatement due to fraud or error caused by management override of controls.

We will report our findings in these areas within our 2020/21 Annual Audit Report.

We consider there to be a specific risk around income and expenditure recognition through:

- ☐ Incorrect income and expenditure cut-off recognition to alter the Council's financial position around the financial year end.
- ☐ Incorrect recognition applied to grant income with performance conditions.
- ☐ Incorrect capitalisation of revenue expenditure.

In line with auditing standards, we rebut the risk around income and expenditure where appropriate depending on the nature of the account.

Accordingly, we have rebutted the risk of improper recognition of income in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. With regards to expenditure we have rebutted the risk of improper recognition of payroll, depreciation, and financing and investment

Work we will perform:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud and consideration of the effectiveness of controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Review and challenge management on any accounting estimates on income or expenditure recognition for evidence of bias.
- Review Covid-19 related income streams; challenge the judgements of whether to account for schemes as 'agent' or 'principal' and whether income recognition criteria are satisfied.
- ☐ Focused and extended substantive testing of related income and expenditure transactions where we have identified a significant risk.
- ☐ Testing of income and expenditure cut-off treatment around the year end.
- ☐ Review a sample of expenditure transactions recorded in the ledger and payments made from bank accounts post year-end and confirm that the associated expenditure has been recorded in the correct period.
- ☐ Assess and challenge manual adjustments / journal entries by management around the year end for evidence of management bias and evaluation of business rationale and supporting evidence.
- Develop a testing strategy to test material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified.

2. Misstatement due to fraud or error

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

In prior years we identified some audit adjustments which were material to the financial statements in relation to the Council's areas of estimate and judgement. These include the accounting for the Council's property, plant and equipment balances. The nature of the adjustments means we did not identify a specific attempt to alter the financial position of the Council, and through our planning procedures we have not identified a specific account where the risk of management override is higher than generally throughout the financial statements.

Work we will perform:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud, including any controls in place to manage the awarding of Covid-19 related grants and reliefs.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Specific focus on the accounting for any identified key areas of judgement and estimates in the financial statements.

Other areas of focus: Inherent risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

1. Valuation of Property, Plant and Equipment

The fair value of PPE represents a significant balance in the Council's financial statements (2019/20 PPE totalled £891 million) and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year end balances recorded on the balance sheet.

In previous years we identified errors in the Council's valuations. While we noted continued improvement in 2019/20, we noted that this continues to be an area of disproportionate audit effort.

During 2020/21, the Council's valuers will review the primary education school estate. Work we will perform:

- Assess the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Involve EY internal specialists to challenge the work performed by the Council's valuers, where appropriate.
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- Review the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for investment properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Test assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.
- Examine changes to useful economic lives as a result of the most recent valuation.
- Test accounting entries have been correctly processed in the financial statements.

2. Valuation of pension assets and liabilities

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Lothian Pension Fund.

The information disclosed is based on the IAS 19 report issued by the Council's actuary.

Triennial valuations of Scottish Local Government Pension Funds are due to be completed in March 2021. This will identify the funding level in each scheme and inform future funding and investment strategies as well as determining the level of employer and employee contribution rates from 2021/22 onwards.

Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. The Council engages an actuary to undertake the calculations on their behalf.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Work we will perform:

- Liaise with the auditor of Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council and confirm joint assurances in respect of employer and employee contributions in the year.
- Engage our actuarial specialists to assess the work of the actuary (Hyman Robertson), including the assumptions they have used and their assessment of the liability due to recent legal rulings for McCloud and Goodwin.
- Relying on the work of PWC, appointed to consider actuarial assumptions used at the year end for all local government sector bodies.
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- Require an updated IAS19 report in July to ensure that there have been no material movement in the value of pension fund assets between the initial IAS19 report, and the signing of the financial statements.

Other audit considerations

We also plan and perform certain general audit procedures on every audit which may not be directly related to financial statement account assertions. Examples of such procedures includes compliance with applicable laws and regulations, litigation and claims and related parties.

Changes to Auditing Standards

A revised ISA (UK) 701 applies from 2020/21 and aims to secure enhancements to auditor reporting. Our Annual Audit Report will therefore include:

- a description of the most significant assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the audit team;
- how each of the above significant risks of material misstatement was addressed including, as a new requirement of the ISA, significant judgements made with respect to each one;
- specifying the materiality threshold for the financial statements as a whole and, as new requirements, specifying performance materiality and providing an explanation of the significant judgments in determining these amounts; and
- an overview of the scope of the audit, including an explanation of how it addressed each of the significant assessed risks of material misstatement and how it was influenced by the auditor's application of materiality.

ISA(UK) 540 on accounting estimated was issues in December 2019. Guidance on inherent risk factors relevant to the public sector includes examples to be considered such as:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets
- the existence of possible constructive obligations created by political statements or past practice of carrying out actions that may be expected of public authorities but are not required by law; and
- political uncertainty and the possibility of future changes in public policy having an impact on the assumptions used to prepare accounting estimates.

Updates to the CIPFA/LAASAC Code for 2020/21

Changes have been made to the guidance notes issued by CIPFA/LAASAC on the Accounting Code for 2020/21;

- Amendments to reflect changes to the definition of material which now makes reference to the concept of obscuring information.
- Implementation of amendments to IAS 19 in respect of a pension scheme amendment, curtailment or settlement occurring during the year.
- Amendments to the disclosure requirements for pension funds in respect of pooled investment vehicles.
- Clarifications in respect of aspects of financial instruments.

We do not currently consider that the above would result in a material impact to the Council. However, it is important that the Council ensures that it performs its own assessment of the impact in advance of preparation of the 2020/21 financial statements. We will assess management's implementation of this guidance as part of the 2020/21 audit.

Revised practice note on auditing public bodies

A revised version of Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the UK (PN 10)* was issued in November 2020.

A significant aspect of PN 10 is the guidance on applying ISA (UK) 570 Going Concern to the public sector.

Going Concern

Under the revised standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. PN 10 has been extensively revised to clarify the importance of the applicable financial reporting framework in determining the extent of the auditor's procedures. As in prior years, due to the anticipated continuation of service provision, the going concern basis of accounting will continue to be appropriate for the Council. We will review the requirements of the refreshed guidance alongside our wider scope work on Financial Sustainability.

Use of specialists

When auditing key judgements, such as the valuation of property, plant and equipment, defined benefit pension scheme assets and liabilities, or certain assets and liabilities, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- Assess the reasonableness of the assumptions and methods used.
- Consider the appropriateness of the timing of when the specialist carried out the work.
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Internal audit

We will review the internal audit plan and the results of internal audit's work, including the discussion of audit findings at the Audit Committee and management's response to findings. We will reflect the findings from internal audit reports, together with reports from any other work completed in the year, in our plan for the audit, where they raise issues that could have an impact on the financial statements or our wider responsibilities.

Data analytics

Where possible and appropriate, we will use our bespoke data analysers to enable us to capture whole populations of your financial data, in particular covering journal entries and payroll transactions. These analysers help identify specific exceptions and anomalies within populations of data to focus substantive audit tests more effectively than traditional audit sampling.

We will obtain the financial data from both the general ledger and payroll system for 2020/21 as part of our testing strategy. We will report the findings of our work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee through the yearend audit reporting process.

Group financial statements

The Council has a number of non-consolidated interests in other entities. For the purposes of consolidation and incorporation within the Group financial statements the Council recognises subsidiaries including trusts, bequests, common good and trust funds as well as Pacific Shelf 826 Ltd. These entities are below the materiality threshold.

Management has assessed that it exerts significant influence but not control over Lothian Valuation Joint Board, therefore this interest is deemed to be an associate.

The Midlothian Integration Joint Board (IJB) is identified as a joint venture and consolidated in accordance with the requirements of the Code. We have been appointed as auditor to the Midlothian Integration Joint Board and will report separately on our audit of that entity.

The only significant component by size is the Council, which accounts for 99% of consolidated gross expenditure. There have been no specific risks identified that may indicate a component is significant by risk, as the IJB does not affect the transactions as such, only the nominal funding agreement in and out of the IJB.

We will also discuss with management their updated assessment in respect of other entities where the Council has a relationship, but at this stage, it has been assessed that consolidation has not been required.

Other assurance activity

Under the terms of our appointment we are required to undertake a number of other areas of audit activity. These include certifying authorities Whole of Government Accounts returns and certifying any applicable grant claims and returns such as the non-domestic rates return and housing benefits subsidy claim.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and replace The Money Laundering Regulations 2007. The regulations impose an obligation on the Auditor General to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. As appointed auditor we will consider arrangements in place for the Council to identify and report any instances of money laundering in line with Audit Scotland reporting arrangements.

4

Wider Scope Dimensions: Risk assessment and approach

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value.

The Code sets out the four dimension that comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money. The Accounts Commission has also set five strategic Audit Priorities in its 2019-24 strategy. In 2020/21 auditors are not specifically asked to consider and report on these through our audit work, however we will continue to consider them as part of our wider scope work through the year.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. We set out our areas of focus, along with specific significant risks relating to each dimension below.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

Best Value audit approach

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value. The Accounts Commission published the Best Value Assurance Report (BVAR) for Midlothian Council in July 2019.

In August 2019, the Council considered and implemented an action plan to respond to the recommendations within the BVAR. In 2020/21 and beyond, our work will include a follow-up on the findings from the Best Value report and monitoring of the implementation of the improvement actions that the Council identified. Our Annual Audit Report will consider how the Council has demonstrated improvement against the recommendations included within the 2019 Best Value report, while reflecting the severe impact of the pandemic on capacity and priorities.

Our annual audit will continue to focus on specific aspects of Best Value over the term our audit appointment. Our focus for 2020/21 is scheduled to be agreed with Audit Scotland by the end of April 2021.

Financial Sustainability

Financial sustainability considers the medium and longer term outlook for the Council to determine if planning is effective to support service delivery. We focus on the arrangements to develop viable and sustainable financial plans.

In our 2019/20 Annual Audit Report, we noted that the adoption of the Medium Term Financial Strategy and supporting governance arrangements meant that savings proposals were well advanced prior to the impact of Covid-19. Early work to develop Midlothian's local route map through and out of the crisis provides clear and coherent focus on priorities, including economic recovery for the community, and will therefore support the development of future financial plans.

Continuing financial pressures

The Council's most recent projections note a net impact of £2.2 million as a result of the response to the global pandemic in 2020/21. The Council also faces an ongoing challenge to deliver savings in light of the level of risks and uncertainty that are outside the Council's control, including Covid-19 factors and decisions on funding allocations. While the short term risk may be mitigated by fiscal flexibilities, there is a need for continued member and officer focus to safeguard financial sustainability.

The Council has a shared route map through and out of the Covid-19 crisis which aims to secure transformation and support recovery. Our work in this area in 2020/21 will include:

- Consideration of the Council's updated medium term financial plans, including the risk assessment of savings options;
- Assessment of the Council's plans to use fiscal flexibilities to ensure the plans are in accordance with Scottish Government guidance; and
- Progress with embedding the medium term financial strategy, including the revenue consequences of the Council's capital planning.

Financial management

The financial management dimension considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Other financial management work in 2020/21 will encompass:

- Assessment of the control framework with a focus on the prevention of fraud and irregularity, including in procurement;
- The Council's self-assessment of compliance against the CIPFA Financial Management Code;
- A focus on controls to mitigate the risk of fraudulent claims processed by, or on behalf of, the Council in relation to Covid-19 related support for communities and businesses; and
- Continuing monitoring of the Council's participation in the National Fraud Initiative, including notification of any failure to investigate matches by September 2021.

Treasury Management and the application of the Prudential Code are areas of increased focus in local government. In response to the recommendation of the UK Parliament's Public Accounts Committee and the substantial increase in commercial investment, CIPFA proposes to strengthen the provisions within both the existing Prudential and Treasury Management Codes. The closing date for responses to consultations is set for 12 April 2021. The intention is for the revised codes to be published towards the end of the calendar year for 2021/22 implementation.

In December 2020, the Council received media attention due to their fixed-term deposit of funds placed on 3 April 2020 with the London Borough of Croydon Council, which had issued a statutory section 114 notice on 11 November 2020. The increased attention and scrutiny of treasury management and the application of the prudential code within local government, along with specific concerns expressed by members of the Audit Committee, has led to our consideration of treasury management as an area of increased focus as part of our wider scope audit procedures in 2020/21.

Focus on Treasury Management

The effectiveness and appropriateness of the Council's arrangements for Treasury Management will be an area of focus for the 2020/21 audit. Specifically, our wider scope consideration will assess:

- Whether the Council's Treasury Management and Investment Strategy is in line with the principles of the Prudential and Treasury Management Codes.
- Whether the Council can demonstrate that strategies have been applied in practice through the consideration of a sample of transactions in year. This will consider whether the appropriate due diligence has been taken in advance of borrowing and investments decisions.
- The Council's process for appointing their current Treasury Management advisers and reviewing and considering the advice received.
- The quality and completeness of treasury management reporting to management, Audit Committee and Council.

In light of the level of concern expressed by the Audit Committee in relation to this area, it is our current intention to complete this work early in the audit cycle to allow us to report findings to the May meeting of the Audit Committee.

Governance and Transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In our 2019/20 Annual Audit Report we concluded that the key features of good governance are in place and operating effectively. No significant risks have been identified in relation to this dimension.

Our work for the year will consider:

- Progress against recommendations from both internal and external audit alongside the Best Value Report, including the Council's arrangements for ensuring these are monitored and reported on a routine basis;
- Internal audit arrangements during 2020/21, including significant findings identified and the work done to address issues identified;
- The quality of reporting and information provided to key decision makers, and evidence of effective challenge and scrutiny;
- Following the public pound arrangements;
- Implementation of the revised governance arrangements to respond the second national lockdown, ensuring appropriate transition arrangements were in place; and
- Progress in developing a revised programme of member training and support.

Value for money

We consider whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement. As part of its Best Value improvement plan, the Council has introduced revised performance management arrangements to further support elected member scrutiny.

We have not identified a specific significant risk in relation to value for money but we note that the Council is required to meet the requirements of the revised Statutory Performance Information Direction.

5

Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit and Risk Committee

D – Timing and deliverables of the audit

E – Audit fees

F – Additional audit information

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- maintaining proper accounting records.
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and their future use
- how they plan to deal with uncertainty in the medium and longer term
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

Appendix B: Independence Report

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Appendix C: Required Communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process 	Annual Audit Plan Annual Audit Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements The adequacy of related disclosures in the financial statements 	Annual Audit Report
Misstatements <ul style="list-style-type: none"> Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Corrected misstatements that are significant Material misstatements corrected by management 	Annual Audit Report
Fraud <ul style="list-style-type: none"> Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity Any fraud that we have identified or information we have obtained that indicates that a fraud may exist A discussion of any other matters related to fraud 	Annual Audit Report
Consideration of laws and regulations <ul style="list-style-type: none"> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Annual Audit Report or as occurring if material.

Required communication	Our reporting to you
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	No significant matters have been identified. Annual Audit Report or as occurring if material.
Independence Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Annual Audit Plan Annual Audit Report
Internal controls Significant deficiencies in internal controls identified during the audit	Annual Audit Report
Group audits <ul style="list-style-type: none"> • An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Annual Audit Plan Annual Audit Report
Representations We will request written representations from those charged with governance.	Annual Audit Report
Subsequent events Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.	Annual Audit Report
Material inconsistencies Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Annual Audit Report
Fee Reporting <ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Annual Audit Plan Annual Audit Report

Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the Council, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2020/21 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB	<ul style="list-style-type: none"> Onsite fieldwork, documentation and walkthrough of key accounting processes 	Annual Audit Plan	Finalised by April 2021
MAR	<ul style="list-style-type: none"> Scoping of wider scope work for year 		
APR	<ul style="list-style-type: none"> Review of current issues impacting the Council 	Quarterly current issue return submission	Quarterly
	<ul style="list-style-type: none"> Review of reported frauds 	Quarterly fraud return submission	Quarterly
MAY	<ul style="list-style-type: none"> Education Maintenance Allowance (EMA) grant claim testing 	Certified EMA return	TBD: Guidance in May
JUN	<ul style="list-style-type: none"> Submit minimum dataset return to Audit Scotland 	Return for financial overview	TBD: Guidance in May
JUL	<ul style="list-style-type: none"> Review progress of NFI exercise 	Submit NFI Questionnaire	Notified of progress September 2021
AUG	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Whole of Government Accounts assurance statement to NAO (as required)	
SEP	<ul style="list-style-type: none"> Conclude on results of audit procedures 	Certify Annual Financial Statements	Provisionally set at 30 October 2021
OCT	<ul style="list-style-type: none"> Issue opinion on the Council's financial statements 	Issue Annual Audit Report	
		Submit minimum dataset return to Audit Scotland	
NOV	<ul style="list-style-type: none"> Completion of Non-Domestic Rates return testing 	Certified Non-Domestic Rates return	TBD: Guidance in May
DEC	<ul style="list-style-type: none"> Completion of Housing Benefits claim testing 	Certified Housing Benefit subsidy claim	TBD: Guidance in May

Appendix E: Audit fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on 'Our Approach to setting audit fees' (http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf).

Audit Fees (including VAT)		2020/21	2019/20
	Component of fee:		
	Auditor remuneration – expected fee	£148,890	£144,550
	Additional audit procedures (note 1)	£TBD	£45,110
	Audit Scotland fixed charges:		
	Pooled costs	£14,160	£14,140
	Performance audit and best value	£66,860	£64,560
	Audit support costs	£8,190	£8,740
	Total fee	£TBD	£277,100

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year. Fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken.

Note 1

We have outlined through areas of additional audit focus this year which are likely to have an impact on the expected fee, including the Council's Treasury Management process, arrangements for administering Covid-19 grants, the implications of changes to auditing standards and our follow up of findings within the Best Value Assurance Report.

Where further additional work is required, fees will be agreed with management and reported to the Audit Committee in our 2020/21 Annual Audit Report.

Factors Likely to Impact Future Audit Fees

While responsibility for setting the audit fee on an annual basis rests with the Audit Scotland, there are a number of factors that we anticipate will continue to impact audit fees that we would bring to the attention of the Audit Committee:

Regulatory Factors: Recent high profile corporate failures have weakened public trust and confidence in both the auditing profession and business at large. Multiple ongoing regulatory reviews continue to reshape the corporate reporting environment and raise fundamental questions about the purpose, product and role of an external audit, as well as the accountability of auditors and those charged with governance.

Status of sector: Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation and investments. This has also brought increasing risk about the financial sustainability of councils.

Audit of estimates: There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

Resourcing: Across the sector, auditing has become less attractive as a profession, especially due to regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and we face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. While local authorities also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities.

To respond to these factors we have to:

- Increase our sample sizes, seek higher levels of corroborative evidence and engage with our internal specialists on a wider array of matters;
- Increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality; and
- Invest in our audit quality infrastructure, as a firm our compliance costs have doubled as a proportion of revenue over the past five years.

Appendix F: Additional audit information

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the Audit & Risk Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920>.

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

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**Accounts Commission: Local Government in Scotland:
Financial Overview 2019/20 (January 2021)**

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Information

1 Recommendations

The Committee is asked to note the Accounts Commission report and the position of Midlothian Council in relation to the report's key messages.

2 Purpose of Report/Executive Summary

To provide Audit Committee with a summary of the Accounts Commission report, 'Local Government in Scotland: Financial Overview 2019/20' and the Council's position in relation to the report's findings. The full report can be accessed on the Audit Scotland website by following this link:

<https://www.audit-scotland.gov.uk/report/local-government-in-scotland-financial-overview-201920>

Date 15 February 2021

Report Contact:

Gary Fairley Tel No: 0131 271 3110
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3 Background/Main Body of Report

Each year the Accounts Commission produces an overview of issues that have arisen from their local authority audits. In line with the previous publications these will again be encompassed in two reports. The first report, which is covered in this paper, focuses on financial performance of Councils and IJBs during 2019/20, and the other, Local government in Scotland: Challenges and performance which is expected to be published in May 2021, will highlight issues that the Commission, through its strategy, has identified as being of greatest importance, including the current and future challenges councils are facing, pressures on key services, how councils have responded to budgetary pressures and changing demand on services, and councils' performance and progress in meeting challenges.

Local government in Scotland: Financial Overview 2019/20 was published by the Accounts Commission in January 2021. The overview report of the 2019/20 financial year, provides a high-level independent, public assessment of how effectively Scottish local government is managing public money and responding to the financial challenges it faces. It is aimed primarily at councillors and senior council officers as a source of information and to support them in their complex and demanding roles. It is in four parts:

- Part 1: Councils' Income in 2019/20
- Part 2: Councils' Financial Position in 2019/20
- Part 3: Councils' Financial Outlook
- Part 4: Integration Joint Boards' Overview 2019/20

In her introduction the Chair of the Accounts Commission highlights the vital role that Councils and Integration Joint Boards (IJBs) have in supporting Scotland's communities. This has been amplified by the Covid-19 global pandemic. Covid-19 has fundamentally affected local government services and increased the uncertainty of how those services will be provided in the future. The financial impact of the pandemic on our public services is extreme. At the same time, we have seen the strength and resilience of many communities highlighted as they have worked with public service partners to provide invaluable support to those who need it most.

The report noted that in 2019/20, before the pandemic really took hold in Scotland, the financial impact of Covid-19 was limited and that more councils added to their usable revenue reserves than in previous years. Reserves play an important role in effective financial management and provide a cushion for future unexpected events. The emergence of the global pandemic and resultant UK lockdown from 23 March 2020 could be described as a once-in-a-lifetime event and Council reserves can be a key tool to manage the medium-term financial impacts of Covid-19.

The report further noted that Scottish Government funding accounts for the majority of council income. After several years of reductions in funding, there has been a real terms increase in 2019/20. It is important to note though that around 40 per cent of the increase was intended to meet the Scottish Government's policy of expanding early learning and childcare provision. As we have reported before, councils have limited flexibility over how they use this type of additional funding. It is also important to recognise that although funding in 2019/20 improved, reductions in local government funding over the past six years are still larger than in other areas of the Scottish Government budget.

Capital funding had experienced significant increases in the past three years by 33 per cent between 2017/18 to 2019/20. But Scottish Government capital funding in 2020/21 is now decreasing by 30 per cent in real terms. This will have an impact on councils' future investment plans.

In IJBs, the bodies set-up to deliver local health and social care services, the financial pressures are significant, with many needing additional funding from councils and health board partners to break-even in 2019/20. We also continue to see a high turnover in leadership in many IJBs, at a time when they are tackling both the impact of Covid-19 along with the ongoing and longer-term pressures of increased demand.

2020 presented significant challenges to the preparation and audit of councils', pension funds' and IJBs' annual accounts. However, 92 per cent of annual accounts were signed off by the revised audit deadlines due to the dedication of local government finance staff and of our auditors in these challenging circumstances. I am grateful for everyone's hard work and diligence to achieve this outcome.

During 2020/21, the pandemic and associated lockdown has affected many aspects of Councils' and IJB's finances and created significant financial uncertainty. Councils face the challenge of meeting additional mobilisation and recovery costs as well as the lost income resulting from closures of leisure facilities and reductions in income from fees and charges. Councils are also administering support schemes on behalf of the Scottish Government. Substantial additional funding for councils has been announced by the Scottish Government together with some further financial flexibilities, but it is currently unclear whether this will cover all cost pressures faced by councils in 2020/21 and beyond.

2020/21 also saw a large shift in the way that public services and communities worked together to support those most in need. Many communities and individuals stepped in to provide much needed local services and were empowered and encouraged to do so by councils, IJBs and their partners.

We have heard of much good practice and hope that this continues.

The Accounts Commission's future reporting, together with the Auditor General for Scotland, will be refocused on the significant impact of Covid-19 across all public services. This report highlights the emerging and developing financial challenges due to Covid-19, but future financial overview reports will be better able to assess the full year impact in 2020/21, based on financial reporting to 31 March 2021. The Local Government Overview 2021 report, due to publish in May, will consider the initial response phase of the pandemic.

4 Key Messages

The key messages identified in the 2019/20 report include:

- Councils' funding and income increased by £0.8 billion in 2019/20. There was an increase in Scottish Government funding of £0.5 billion, but reductions over the past seven years are still larger than in other areas of the Scottish Government budget.
- Nearly half of the increase in Scottish Government funding in 2019/20, and all the initial additional funding in 2020/21, was to fund the expansion in early learning and childcare.
- Councils continue to plan for, and deliver, savings as part of their annual budgets, but there are significant variations in individual councils' ability to deliver planned savings.
- More councils added to their usable revenue reserves totalling £65 million (net) in 2019/20.
- Glasgow City Council's equal pay funding strategy had a significant impact on total reserves, debt and capital expenditure this year (2019/20).
- The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million, with just over half due to lost income. We estimate that funding announced by November 2020 meets 60 to 70 per cent of the cost pressures identified by councils, although total costs and funding are still uncertain
- Councils' auditors reported wider medium-term financial implications of Covid-19.
- A majority of IJBs (22) struggled to achieve break-even in 2019/20 and many received year-end funding from partners.
- Total mobilisation costs for Health and Social Care Partnerships for 2020/21 due to Covid-19 are estimated as £422 million. It is not yet clear whether the Scottish Government is to fund all of these costs.
- Instability of leadership continues to be a challenge for IJBs. There were changes in chief officer at 12 IJB's in 2019/20.

5 Financial Overview 2019/20

Part 1 - Councils' Income in 2019/20

- Councils' funding and income increased by £0.8 billion in 2019/20.
- The cash increase in Scottish Government funding (£0.5 billion) in 2019/20 improved the position relative to others, but reductions over the past seven years are still larger than in other areas of the Scottish Government budget.
- Nearly half of the increase in Scottish Government funding in 2019/20 was to fund the expansion in early learning and childcare.

The position with income will be familiar to Elected Members from their experience in developing the Medium Term Financial Strategy and setting annual budgets.

Part 2 – Councils' Financial Position in 2019/20

- On the whole councils continue to deliver savings as part of their budget in 2019/20, but there are significant variations in individual councils.
- In 2019/20 councils' auditors reported wider medium-term financial implications of Covid-19.
- More councils added to their usable revenue reserves in the year totalling £65 million (net).
- Two councils are at risk of running out of general fund reserves in the medium-term if current trends continue.
- Glasgow City Council's equal pay funding strategy had a significant impact on total reserves, debt and capital expenditure this year.
- Councils had the highest level of capital expenditure of the last five years.
- Local auditors drew attention to material uncertainty in property and investment valuations due to Covid-19
- Local government pension funds returns were negatively affected by Covid-19, but the majority of funds still tended to outperform their benchmarks.

Again the key messages reflect the challenges the Council faces. The real terms reduction in the value of resources available to the Council reinforces the importance of the Council's Medium Term Financial

Strategy which sets out the plans which ensure the sustainability of services and the increasing importance of maintaining robust financial management and reporting. In that regard Committee will also recollect from the Annual Auditors report that the Council achieved a green rating for Financial Management, and reflecting the external factors, an Amber rating for Financial Sustainability.

All councils hold an uncommitted general fund to protect against unforeseen financial pressures. Exhibit 7 in the report sets out Council's General Fund reserves as a proportion of net annual revenue split between committed, uncommitted and HRA. The exhibit provides a useful comparison of Midlothian's uncommitted General Fund position compared to other councils.

Council has a significant requirement to invest in assets to support the growing population. Though the level of borrowing is increasing the Treasury Management Strategy and prudential indicators provide Council with reassurance that this level of investment is financially sustainable and can be serviced from the revenue budget.

There is no doubt that difficult decisions lie ahead for all councils and the report highlights the importance of being proactive in addressing the financial pressures.

Part 3 – Councils' Financial Outlook

- 2020/21 initial budgets identified savings targets as the main way to close a budget gap of £0.5 billion, with more councils setting multi-year indicative budgets.
- Before the impact of Covid-19, Scottish Government revenue funding in 2020/21 increased by 1.4 per cent in real terms, but this is to fund the expansion in Early Learning and Childcare.
- The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million, with just over half due to lost income.
- We estimate that funding announced by the Scottish Government by November 2020 meets 60 to 70 per cent of the cost pressures identified by councils through COSLA's cost-gathering exercise, although total costs and funding are still uncertain.
- Scottish Government capital funding to local government in 2020/21 is decreasing by 30 per cent in real terms.
- Councils need to review and revise their medium-term financial plans due to Covid-19.

The approval of the Medium Term Financial Strategy in June 2019 was an important step-change and one that provided greater certainty for local communities and also for employees. It has allowed the Council to

shift from having to consider savings each and every year at February Council meetings to planning for the medium term and in turn securing continued financial sustainability.

As a result the approval of the Medium Term Financial Strategy and, on the recommendation of the Business Transformation Steering Group, the subsequent approval of the 2020/21 budget ensured that the Council secured a strategic budget which invested in Midlothian to help it fulfil its potential to be a great place to grow.

The Medium Term Financial Strategy has provided a strong foundation on which the Council has been able to build its response to the financial impact of the Covid pandemic. A pandemic which continues to bring unprecedented financial challenges, risks and uncertainties for Local Government during the current financial year, for the 2021/22 budget, and which will likely impact on Council budgets for a number of years to come.

It is against this backdrop that a corporate solution was developed to support the achievement of balanced budgets for 2021/22 and 2022/23, the two budgets which will be required to be determined during the remaining term of this Council.

On 23 February 2021 Council set a budget for financial year 2021/22 which did not include any additional service reductions.

Part 4 – Integration Joint Boards' Overview 2019/20

- A majority of IJBs (22 of 30) struggled to achieve break-even in 2019/20 or recorded deficits.
- Total mobilisation costs for Health and Social Care Partnerships for 2020/21 are estimated as £422 million. It is not yet clear whether the Scottish Government is to fund all these costs.
- Revisions will be required to medium-term financial plans to reflect the impact of Covid-19.
- There were changes in chief officer at 12 IJBs in 2019/20.

The Midlothian IJB has continued to deliver delegated services within the resources allocated to it by both the Council and NHS Lothian. Like all IJB's Midlothian continues to face significant financial challenges given the increasing demand for services.

It is expected that the overview report will also be presented to the Midlothian IJB Audit and Risk Committee.

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

6.1 Resource

There are no additional resource implications.

6.2 Digital

There are no IT issues arising from this report at this time.

6.3 Risk

There are no additional direct risks associated with this report.

6.4 Ensuring Equalities

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

6.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Additional Report Implications

Appendix B – Background Information/Links

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

This report does not directly impact Midlothian Council's key priorities but a key message within the Accounts Commission report is that the way Council's respond to the financial challenge will inevitably impact on how they can deliver of key priorities and outcomes.

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

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 report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

This report does not directly relate to involving communities and stakeholders.

A.6 Impact on Performance and Outcomes

The report does not directly impact Midlothian Council's and wider partners performance and outcomes but it does stress the need to

ensure consideration is given to the wider strategic planning and objectives as part of the council's response to the findings noted in the report.

A.7 Adopting a Preventative Approach

This report does not directly impact actions and plans in place to adopt a preventative approach.

A.8 Supporting Sustainable Development

The recommendations in this report support Midlothian Council's position in relation to delivering sustainable services going forward.

APPENDIX B**Background Papers/Resource Links (if applicable)**

Accounts Commission - Local government in Scotland: Financial Overview 2019/20 – (January 2021).

Internal Audit Charter

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is invited to:

- a) Note the changes outlined in this report;
- b) Approve the revised Internal Audit Charter shown at Appendix 1; and
- c) Note that the Internal Audit Charter will be reviewed annually.

2 Purpose of Report/Executive Summary

This report provides the Audit Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Audit Executive to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and for Midlothian Health and Social Care Integration Joint Board.

In accordance with the Public Sector Internal Audit Standards (PSIAS) (2017), the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

The Internal Audit Charter has been updated in response to enhancements highlighted during the annual self-assessment against the PSIAS, and is shown in Appendix 1.

Date 17 February 2021

Report Contact:

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3 Background

- 3.1** 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.”
- 3.2** The Midlothian Council Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 (amended 2017), along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice.
- 3.3** In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive at Midlothian Council (Scottish Borders Council’s Chief Officer Audit & Risk shared post) must periodically review the Internal Audit Charter and present it to ‘senior management’ (Corporate Management Team) and the ‘board’ (Audit Committee) for approval.
- 3.4** Within the PSIAS a Public Sector requirement states the Internal Audit Charter must also:
- define the terms ‘board’ and ‘senior management’ for the purposes of Internal Audit activity;
 - cover the arrangements for appropriate resourcing;
 - define the role of Internal Audit in any fraud-related work; and
 - include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.

4 Internal Audit Charter

- 4.1** The authority for Internal Audit to operate in Midlothian Council is contained in the Council’s Local Code of Corporate Governance, Standing Orders, and Financial Regulations. This Internal Audit Charter expands upon that framework.
- 4.2** The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity’s position within the organisation, including the nature of the Chief Audit Executive’s functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.
- 4.3** The Internal Audit Charter, which was previously approved by the Audit Committee on 10 March 2020, has been updated in response to enhancements highlighted during the annual self-assessment against the PSIAS. The following explicit references have been added to ensure full conformance with PSIAS:

- The Mission Statement of Internal Audit and the Core Principles within the section 'Introduction';
- The Council's statutory officers within the section 'Position of Internal Audit within Midlothian Council';
- Explicit references on Internal Audit compliance with the Seven Principles of Public Life, the professional qualifications and competences of the Chief Audit Executive, the aims of the Internal Audit Strategy, and the risk-based Internal Audit planning process within the section 'Audit Resources and Work Prioritisation';
- Explicit references to ensure Internal Audit independence and objectivity is not impaired within the section 'Non-Audit Activities'

4.4 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2021/22 that sets out the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions. The Strategy also sets out the Council's assurance framework within which Internal Audit operates.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service.

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the Chief Audit Executive to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council and the MIJB.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.

At all times, Management's responsibilities (led by the Corporate Management Team) include:

- Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These are not fixed but evolve as the Council changes.

- Checking that these governance arrangements and internal controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. (The above are known as the first and second lines.)
- Engaging with Internal Audit (the third line) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
- Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

5.4 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. This is of particular importance and relevance 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.

5.5 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."

Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives.

Recommendations made by Internal Audit underpin 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 Audit Executive 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 on 24 February 2021 to outline the key role of Internal Audit.

A.6 Impact on Performance and Outcomes

Applying the framework of the PSIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

A.7 Adopting a Preventative Approach

The PSIAS are applicable from 1 April 2013 (amended 2017) which means the Internal Audit Service has taken steps to be fully compliant.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives including sustainable outcomes.

INTERNAL AUDIT CHARTER

INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* (Standards) detailed in the PSIAS.

Midlothian Council has adopted from the PSIAS¹: the definition of Internal Auditing “*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*”, the Mission Statement of Internal Audit “*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*” and the Core Principles.

OBJECTIVES OF INTERNAL AUDIT

Internal Audit’s responsibility is to report to Midlothian Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team (‘senior management’) and the Audit Committee (the ‘board’ for the purposes of Internal Audit activity).

Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.

As part of Midlothian Council’s system of corporate governance, Internal Audit’s purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:

- In support of the Council’s vision, values and priorities.
- As a contribution to the Council’s corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council’s objectives.
- As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
- As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.

Midlothian Council’s Internal Audit function provides assurance services to the Midlothian Health and Social Care Integration Joint Board (MIJB) and will apply the same standards as defined in this Charter to any work undertaken for MIJB, with separate Internal Audit plans and reports presented to its ‘senior management’ (MIJB Chief Officer and MIJB Chief Finance Officer) and to the ‘board’ (MIJB Audit and Risk Committee).

¹ Public Sector Internal Audit Standards (PSIAS) (2017)

POSITION OF INTERNAL AUDIT WITHIN MIDLOTHIAN COUNCIL

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Audit Executive (CAE) should have “sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation.”²

The CAE within Midlothian Council (the shared Chief Internal Auditor) has full access to those charged with governance, specifically the Elected Members and the Corporate Management Team. The latter includes the Council’s statutory officers: head of paid service (Chief Executive), s95 finance officer (Chief Officer Corporate Solutions), monitoring officer (Legal Services Manager) and chief social work officer (Head of Adult Health and Social Care). The CAE has free and unfettered access to the Chair of each organisation’s ‘board’ to discuss any matters the members or auditors believe should be raised privately.

In terms of accountability and independence to ensure conformance with PSIAS, the CAE reports functionally to the Midlothian Council Audit Committee. In this context functional reporting³ means the Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Annual Plan.
- Ratify the Internal Audit budget and resource plan to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.
- Receive communications from the CAE on the Internal Audit activity’s performance relative to its plan and other matters.
- Ratify all decisions regarding the appointment or removal of the CAE.
- Provide feedback to contribute to the performance appraisal of the CAE.
- Make appropriate enquiries of Management and the CAE to determine whether there are inappropriate scope or resource limitations.

The CAE is line managed by the Chief Executive but retains responsibility for all operational audit activity and reports in their own name and retains final right of edit over all Internal Audit reports.

The reporting line is managed in a manner which: ensures the CAE is accorded open and direct communication with Management; and ensures the CAE and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council and IJB.

RIGHTS OF ACCESS

The CAE and any member of the Internal Audit function authorised by them, relevant to the delivery of audit engagements for each of the organisations, has authority to:

- Have access at any reasonable times to all computer systems and records (paper/digital).
- Require and receive explanations concerning any matter under examination from personnel relevant to their roles including Elected Members / Board Members.
- Enter at all reasonable times and without notice any properties, provided that where such properties are leased to a third party the terms of the lease are observed.
- Require personnel to produce cash, stores, or other assets under their control.

Internal Audit safeguards all information obtained in the carrying out of its duties, only uses it for defined purposes and makes no disclosure of any information held, unless this is authorised or there is a legal or professional requirement to do so.

² Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

³ Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing

SCOPE OF INTERNAL AUDIT ACTIVITY

For each organisation Internal Audit shall systematically review, appraise, make appropriate recommendations for improvement, and report upon:

- the governance arrangements and processes;
- the design, implementation and effectiveness of ethics-related objectives, programmes and activities;
- the information technology governance in support of strategies and objectives;
- the systems and processes in place to ensure effective performance management and accountability;
- the effectiveness and appropriateness of controls and other arrangements put in place to manage risk;
- the potential for the occurrence of fraud and how fraud risk is managed;
- the completeness, reliability, integrity and timeliness of information, both financial and operational;
- the systems and processes established to ensure compliance with policies, plans, procedures, laws, and regulations, whether established internally or externally, and that employees' actions are in compliance;
- the action(s) taken to address significant legislative or regulatory issues;
- the effectiveness of arrangements for safeguarding assets and interests;
- the economy, efficiency and effectiveness with which resources are deployed;
- the effectiveness and efficiency of operations and programmes; and
- the extent to which operations are being carried out as planned and strategic objectives and goals are met.

Internal Audit's work covers:

- all activities, systems, processes, controls, policies, and protocols that are currently existing or under development;
- all records, personnel and properties; and
- all services and other activities for which each organisation is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

AUDIT RESOURCES AND WORK PRIORITISATION

The CAE ensures that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of qualifications, knowledge, skills and other competencies needed to perform the plan such as compliance with the Code of Ethics set out in the PSIAS and with the Nolan principles established in the Seven Principles of Public Life. This is of particular importance and relevance for the profession of Internal Audit, founded as it is on the trust placed in its objective assurance about risk management, internal control and governance. The CAE holds a professional qualification (BA (Hons) ACMA CGMA) and is suitably experienced. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

The Internal Audit Strategy, as approved by the Midlothian Council Audit Committee, outlines the strategic direction for how Internal Audit will achieve its objectives in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and the MIJB.

The Midlothian Council Internal Audit Annual Plan, as approved by the Audit Committee, is the main determinant of the relative priority to be placed on each part of the work of Internal Audit, with an Internal Audit Annual Plan specific to the MIJB being approved and monitored by its 'senior management' and 'board' (MIJB Audit and Risk Committee). The Internal Audit planning

process, to determine the priorities of the Internal Audit activity consistent with the organisation's goals, includes consideration of the organisation's priorities, policies, strategies, plans, objectives, risks and mitigating controls, and the internal and external assurances provided. The CAE determines the actual deployment of available resources covering the range and breadth of audit areas which are integral to the assurance process across the activities of Midlothian Council and MIJB in order to provide the statutory annual Internal Audit opinion to each organisation's 'senior management' and 'board'. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of each organisation.

The Plan has within it the provision of resources as Contingency to respond to specific control issues highlighted during the year and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

The Plan has within it the provision of resources for Internal Audit 'critical friend' Consultancy that are valued by Management to support them in delivering innovation, change and transformation. Requests are considered and approved by the CAE subject to any consultancy activity being deliverable within the boundaries of the role of Internal Audit and the resources available.

In the event that there is a need for a greater audit work to provide the statutory audit opinions than there are resources available, the CAE will identify the shortfall in the Plan and initially advise the Chief Executive followed by the Audit Committee. It will be for the Audit Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires Management to identify additional resources.

NON-AUDIT ACTIVITIES

The Internal Audit service preserves its independence and objectivity by: ensuring that staff are free from any conflicts of interest when undertaking assurance audits by following the requirements of relevant professional bodies and HR policies; and providing clarity on duties undertaken during audit consultancy engagements to ensure these do not impact on assurance audits and do not impair its independence and objectivity.

APPROVAL

The Internal Audit Charter was reported to and approved by the Midlothian Council Audit Committee at its meeting on *09 March 2021* and shall be subject to regular review by the CAE and the Audit Committee.

Internal Audit Strategy and Annual Plan 2021/22**Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is invited to:

- a) Approve the Internal Audit Strategy (Appendix 1); and
- b) Approve the Internal Audit Annual Plan 2021/22 (Appendix 2).

2 Purpose of Report/Executive Summary

The purpose of this report is to gain approval from the Audit Committee to the proposed Internal Audit Strategy and Annual Plan 2021/22 to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and Midlothian Health and Social Care Integration Joint Board.

The Internal Audit Strategy at Appendix 1 outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and the MIJB.

The Internal Audit Annual Plan 2021/22 at Appendix 2 has been developed by the Chief Internal Auditor and the Principal Internal Auditor to set out the proposed range and breadth of audit activity to be undertaken to provide the independent and objective audit opinion.

Date 19 February 2021

Report Contact:

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jill.stacey@midlothian.gov.uk

3 Background

- 3.1** The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the organisation.

4 Internal Audit Strategy

- 4.1** The key standards within the PSIAS which relate to Managing the Internal Audit Activity are summarised below:

“The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

The internal audit activity is effectively managed when:

- The results of the internal audit activity’s work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.”

- 4.2** The Internal Audit Strategy at Appendix 1 outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and the MIJB.

- 4.3** The Internal Audit Strategy:

- Outlines the assurance framework, providing clarity of the respective responsibilities of Management for designing and monitoring governance and control systems and of the role of Internal Audit in providing independent assurance thereon;
- States how the key themes which are integral to the assurance gathering process across the organisation’s activities will be covered to inform the annual Internal Audit opinion statement;
- Describes the approach to the development of the risk based Internal Audit annual plan;
- Sets out the relative allocation of Internal Audit resources;
- Outlines how the Internal Audit programme of work will be delivered to add value; and
- Describes the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation’s audit committee/board.

5 Internal Audit Annual Plan 2021/22

- 5.1** The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:
- Standard 2010 – Planning which states that “the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”
 - Standard 2020 – Communication and Approval which states that “the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.”
- 5.2** The CIPFA Publication ‘Audit Committees: Practical Guidance for Local Authorities and Police – 2018 Edition’ states that “The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to provide an annual internal audit opinion that can be used to inform the Annual Governance Statement. Specific activities will include:
- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance.”
- 5.3** The CIPFA Publication also states that “The committee will wish to seek assurance from the HIA that appropriate risk assessment has been carried out as part of the preparation of the internal audit plans when they are presented.”
- 5.4** The Internal Audit Annual Plan 2021/22 at Appendix 2 has been developed by the Chief Internal Auditor and the Principal Internal Auditor to set out the proposed range and breadth of audit activity to be undertaken to provide the independent and objective audit opinion.
- 5.5** As part of the Internal Audit planning process it was necessary to consider each organisation’s priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation’s goals, as follows:
- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage;
 - The Corporate Risk Register was checked to confirm coverage on key strategic risks; and
 - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.6** It is envisaged that 2021/22 will continue to be year of change for the Council, therefore the Internal Audit Annual Plan 2021/22 should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities or available resources. Any amendments relating to the Council will be brought to the Audit Committee for approval.

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

6.1 Resource

The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service.

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the Chief Audit Executive to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and for Midlothian Health and Social Care Integration Joint Board.

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). There is currently a staff resource of 4.64 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 1.42 FTE Other shared Internal Audit resources), Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). Each member of the Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to perform the plan. After deduction for annual leave, public holidays, absence (estimated), learning and development, management and supervision this equates to a total of 775 days available for Internal Audit activity.

The Revenue Financial Plans which were approved by the Council on 23 February 2021 reflect this shared arrangement and resources.

There is a commitment to provide 40 days of Internal Audit resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) as part of the Council's commitment to partnership working. A separate plan with proposed audits and time allocated will be presented to MIJB Audit and Risk Committee for approval.

6.2 Digital

There are no digital implications arising from this report.

6.3 Risk

The Objectives of Internal Audit are set out in its Charter, including “As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so: As a contribution to the Council's corporate management of risk.”

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit activity for inclusion within the plan. As in previous years, to capture potential areas of risk and

uncertainty more fully, reference has been made to the corporate risk register and key stakeholders have been consulted.

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.

At all times, Management's responsibilities (led by the Corporate Management Team) include:

- Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These are not fixed but evolve as the Council changes.
- Checking that these governance arrangements and internal controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. (The above are known as the first and second lines.)
- Engaging with Internal Audit (the third line) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
- Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

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. This is of particular importance and relevance 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

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."

Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives.

Recommendations made by Internal Audit underpin 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 Audit Executive is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders. The Audit Committee remit includes "To approve the risk-based internal audit plan, including internal audit's resources requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources".

The Corporate Management Team has been consulted on the risk-based audit approach and the resultant planned Internal Audit coverage to ensure it will provide assurance on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities.

A.6 Impact on Performance and Outcomes

Applying the framework of the PSIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

The delivery of the Internal Audit strategy and annual plan assists the Council in improving its performance and outcomes.

A.7 Adopting a Preventative Approach

The PSIAS are applicable from 1 April 2013 (amended 2017) which means the Internal Audit Service has taken steps to be fully compliant.

Specific audits within the 2021/22 plan will include assessments on when a preventative approach can be adopted by the Council.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives including sustainable outcomes.

1. AIM OF STRATEGY

- 1.1. The aim of this strategy is to guide MLC Internal Audit function in delivering a high quality internal audit service to Midlothian Council (MLC) and Midlothian Health & Social Care Integration Joint Board (MIJB), which is capable of:
- providing the statutory annual assurance and audit opinion on the adequacy of each organisation's risk management, internal control and governance arrangements to the relevant organisation's senior management and board/audit committee;
 - carrying out all other objectives contained in Internal Audit's Charter; and
 - adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to their strategic priorities.

2. STRATEGY OBJECTIVES

- 2.1. The objectives of this strategy are to:
- Outline the assurance framework which comprises assurances from within the organisation and from external providers of assurance to improve the organisational understanding of the expectations of Internal Audit;
 - State how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual audit opinion statement;
 - Describe the approach to the development of the risk based Internal Audit annual plan;
 - Set out the relative allocation of Internal Audit resources;
 - Outline how the Internal Audit programme of work will be delivered to add value; and
 - Describe the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation's audit committee/board.

3. ASSURANCE FRAMEWORK

- 3.1. It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. These are known as the first and second lines. Internal Audit, as the third line, is the review function which will provide independent assurance on the effectiveness of the first and second lines of defence, challenge current practices, recommend best practice and improvements to lead to a strengthening of the control environment and management of risks, thus assisting the organisation in achieving its objectives.
- 3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of systems in place to mitigate those risks.
- 3.3. The assurance framework comprises assurances from within the organisation (from Management and compliance functions, and independent and objective assurance from Internal Audit) and from external providers of assurance. Examples of the latter include the Accounts Commission, External Audit (EY for MLC and MIJB), Education Scotland, Care Inspectorate, Scottish Housing Regulator, and other regulators.
- 3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within the relevant organisation's Annual Report and Accounts.
- 3.5. Where audit assurance is required on services that are delivered jointly by public sector joint working arrangements which include the organisation as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management.

4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE

- 4.1. Each organisation is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by the organisation to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: setting the strategic direction, vision, culture and values of the organisation; effective operation of corporate systems; processes and internal controls; engaging with and, where appropriate, lead communities; monitoring whether strategic objectives have been achieved and services delivered cost effectively; and ensuring that appropriate arrangements are in place for the managing risks.
- 4.2. The organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Chief Officer Corporate Solutions (MLC) and Chief Finance Officer (MIJB), is responsible for the proper administration of the organisation's financial affairs. Under his/her direction, the organisation's system of internal financial control is based on a framework of Financial Regulations (rules and regulations for financial management or administration arrangements linked to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines), regular Management Information, administrative procedures (including segregation of duties), Management Supervision, and a system of Delegation and Accountability.
- 4.3. The continued use of and investment in technology to support service delivery, and digital change and transformation to improve operations is a key part of the vision for each organisation. Arrangements in place are underpinned by the overarching framework of the ICT security policy designed to ensure that computer systems are secure, reliable and conform to nationally agreed standards, and by the ICT Strategy linked to Corporate Priorities designed to support effective and modern service delivery and to meet service objectives.

5. APPROACH TO PERIODIC PLANNING

- 5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2021/22 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce the statutory annual assurance and audit opinion for each organisation.
- 5.2. As part of the Internal Audit planning process it was necessary to consider each organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation's goals, as follows:
 - Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage;
 - Corporate Risk Register was checked to confirm coverage on key strategic risks; and
 - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management and with External Auditors of each organisation to capture potential areas of risk and uncertainty more fully. This is of particular importance during a period of change and transformation as each organisation responds to new legislation or service delivery arrangements that might affect plans, priorities and resources.

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

- 6.1. The Internal Audit staff resources comprise Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 1.42 FTE Other shared Internal Audit resources), Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). Each member of the Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to perform the plan. The Available Days has been amended to reflect the Internal Audit resources after consideration of annual leave, public holidays, absence (estimated), learning and development, management and supervision.

- 6.2. It is estimated that around 75% of Available Days will be spent on *assurance, and legislative and other compliance* activities combined. The Assurance work includes sufficient work across a range and breadth of audit areas which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of the required annual audit opinion on the adequacy of the organisation's control environment. Within this assurance work 42% is cyclical, based on the Audit Universe, and 58% is risk-based.
- 6.3. An estimate of 16% of Available Days will be spent on Other activities in support of the Internal Audit function meeting its other objectives as set out in the Internal Audit Charter.
- 6.4. An estimate of around 4% of Available Days will be utilised on *consultancy* activities which support Management in delivering innovation, change and transformation. Management seek this value added activity during this unprecedented period of change for Local Government though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.
- 6.5. It is estimated that around 5% of Available Days will be spent on the provision of Internal Audit services to Midlothian Health and Social Care Integration Joint Board. This reflects MLC's contribution of support resources as governance arrangements have changed in response to statutory partnership working for the provision of health and social care integration.

7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

- 7.1. To facilitate operational delivery an Internal Audit Programme of Work will be developed which provides an indication of when work will be scheduled during the year, taking account of discussions with Senior Management and the availability of Internal Audit resources.
- 7.2. For each *Assurance* audit a Terms of Reference detailing the scope, objectives and timing will be prepared and agreed with the relevant Chief Officer/Head of Service and Manager prior to commencement of the Internal Audit fieldwork. Within the assurance work:
 - The organisation's Local Code of Corporate Governance (MLC/MIJB) will be used by Internal Audit as an integrated toolkit to test the extent of compliance.
 - End to end reviews of financial management and administration processes will be undertaken by Internal Audit to test the extent of compliance (as integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably), and substantive testing of transactions and balances will be carried out to ensure completeness and accuracy of data in core financial systems.
 - The Plans (Financial and Asset Management) to deliver the organisation's strategies, plans and priorities will be reviewed against best practice standards.
 - Internal Audit will consider fraud risk and prevention and detection controls, and other appropriate cross-cutting risks and controls (such as performance management, community engagement, equalities, and health and safety), highlight examples of effective internal controls, and share good practice across service areas.
 - The ICT arrangements in place to protect each organisation from attack in relation to data security, integrity and availability will be tested and ICT Plans will be reviewed to confirm they support delivery of the organisation's strategies and priorities.
 - National reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies will be considered and applied by Internal Audit to influence and offer ways to enhance governance and internal controls.
- 7.3. The *Legislative and Other Compliance* work will include testing in accordance with the terms of the funders' service level agreements or legislative requirements, as part of the wider assurance framework.
- 7.4. Within *Consultancy* activities Internal Audit will add value to the Council as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes by influencing and offering ways to ensure adequate governance, risk management and internal controls. Internal Audit in its 'critical friend' role will provide an independent view and challenge of a sample of programmes and projects, and an objective assessment of self-evaluation arrangements and improvement that underpin the provision of Best Value.

7.5. *Other* work will include:

- Carrying out *Follow-Up* to monitor Management's progress with implementation of Audit recommendations to: ensure that improvement actions have been timeously and effectively implemented; check that these have had the desired effect to manage identified risks; and demonstrate continuous improvement in internal control and governance. To facilitate the Internal Audit follow-up activity, Audit recommendations will continue to be input to Pentana, the corporate performance management system, to assist relevant Management in tracking and recording their implementation in a consistent way;
- Performing potentially high risk *Contingency* audits, investigations and review of issues highlighted during the year that may be the result of a weakness in internal controls or that may be requested by Management or the Audit Committee; and
- Delivering the *Help Desk Facility* where Internal Audit guidance and advice is given to Management on internal controls, and enquiries received through the whistle-blowing facilities offered by the Council are managed.

8. MONITORING THE WORK OF INTERNAL AUDIT

- 8.1. The Public Sector Internal Audit Standards (PSIAS) requires periodic reporting on the Internal Audit activity to the relevant organisation's Senior Management and Audit Committee/Board.
- 8.2. Internal Audit work completed and work in progress for the Council within regular reports to its Audit Committee will include an Executive Summary of the audit objective, good practice, findings, recommendations, and audit opinion of assurance for each Final Internal Audit Report issued to relevant Senior Management in the period.
- 8.3. Regular progress updates on implementation by Management of relevant Audit recommendations will be reported periodically during the year to the relevant organisation's Senior Management and Audit Committee/Board.
- 8.4. Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against Public Sector Internal Audit Standards (PSIAS) will be considered by the Chief Internal Auditor on a regular basis and formally reported every six months to the Council's Corporate Management Team and the Audit Committee, through a Mid-Term Performance Report and within the Annual Assurance Report.
- 8.5. The Internal Audit Annual Assurance Report for each organisation (Midlothian Council and MIJB) to their respective Senior Management and Audit Committee/Board will provide the statutory annual audit opinion on the levels of assurance based on Internal Audit findings over the year to inform each organisation's annual governance statement.
- 8.6. The PSIAS requires an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years by appropriately qualified and independent reviewers. Reporting on outcomes includes a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP). The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have implemented a "peer review" framework, in which MLC participates, as a cost effective means of complying with the EQA requirement.

Ref	Category	Audit	Days	Commentary
1	Assurance - Cyclical	Annual Assessment of Internal Control and Governance	35	Prepare an annual assurance report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and internal control. Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with the Local Code of Corporate Governance covering the corporate whole and individual Directorates / Services.
2	Assurance – Cyclical b/f 2020/21	Income Collection	30	Review of the policies and procedures in place for the collection of income and debt recovery. The income sample will include Parent-pay system, car parking and licensing.
3	Assurance – Cyclical b/f 2020/21	Roads Maintenance Service	30	Review of the Roads Maintenance service including both capital and revenue jobs ensuring that the service is complying with the relevant code of practice / risk based inspection regime.
4	Assurance – Cyclical b/f 2020/21	Homelessness	30	Review of controls in place to ensure the achievement of statutory obligations for the Homelessness service with a focus on prevention and support. Review of the provision, funding and costs associated with providing accommodation for homeless clients.
5	Assurance - Cyclical	Information Governance	20	Continual audit approach to review the information governance framework including roles and responsibilities, policy development and implementation, specifically on information security. Specific review of FOI process and resources.
6	Assurance - Cyclical	Schools	30	Review of internal financial controls and business administrative procedures in place and data analytics of expenditure (DSM, PEF and other Funds including Schools Funds) to ensure the efficient and effective use of resources in the school establishments, to complement the assurance received from Education Scotland arising from their inspection programme of schools.
7	Assurance - Cyclical	Performance Management	30	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's Services, specifically to ensure accuracy of data submitted for Local Government Benchmarking Framework (LGBF) and Corporate Priorities PIs. Assess progress of the review and refresh of the Performance Management Framework.

Ref	Category	Audit	Days	Commentary
8	Assurance - Cyclical	Risk Management	20	Review the process for identifying, evaluating, controlling / mitigating, recording, monitoring and reporting risks that potentially have a detrimental impact on the effective and efficient delivery of Services. Review risk management policy, strategy, training and toolkits, and assess risk registers at Strategic, Service Operational, Programme/Project, and Partnership levels.
9	Assurance - Cyclical	Financial Policy and Governance Framework	15	Assess the Financial Policy and Governance Framework, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant Financial Regulations, Policies, Procedures, Guidelines and any associated Codes of Practice, including the rollout to employees.
10	Assurance - Risk b/f 2020/21	Learning and Physical Disabilities Services	30	Review of 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.
11	Assurance - Risk b/f 2020/21	School Excursions	30	Assess the policies and procedures in place to ensure the inclusion and safety of children on excursions.
12	Assurance - Risk b/f 2020/21	Automated Invoice Payments	10	Assess the authorisation controls, including segregation of duties, and security controls over payments.
13	Assurance - Risk	ICT Security	30	Assess the adequacy of the ICT security arrangements associated with the network and business supplications, including: policy and guidelines; physical and operational controls; business continuity and disaster recovery arrangements; and third party access. Review of the Public Services Network (PSN) and Cyber Essentials accreditation requirements.
14	Assurance - Risk	Waste and Recycling Services	30	Ensure there are adequate financial and operational controls in place for the effective delivery of waste collection and recycling services including plans to achieve Zero Waste targets.

Ref	Category	Audit	Days	Commentary
15	Assurance - Risk	Scottish Welfare Fund	20	Assess the adequacy of the operational processes in place to administer the payment of Crisis Grants and Community Care Grants for the Scottish Welfare Fund and that they are effective, appropriate and consistent. Include a specific review of Discretionary Housing Payment policy, processes and payments.
16	Assurance - Risk	Housing Allocations	30	Assess the policies, procedures and practices in place to ensure the Council allocates housing in accordance with the Housing (Scotland) Act 2001 and 2014.
17	Assurance - Risk	Sustainable Environment	20	Assess progress with the development of new governance arrangements and action plans to meet obligations regarding sustainable environmental programmes, including corporate and social responsibility such as climate change.
18	Assurance - Risk	Capital Investment	30	Continual audit approach to assess compliance with established good practice by Accounts Commission - review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme/projects. Specific focus on monitoring and scrutiny of delivery.
19	Assurance - Risk	Early Years	30	Review of the Council's progress with delivering the expansion in early learning and childcare to 1140 hours and the allocation of the capital funding received to deliver the additional capacity required.
20	Assurance - Risk	Adult Social Care Contract Monitoring	30	Review of the contract monitoring arrangements with suppliers for both care at home and care homes.
21	Assurance - Risk	Digital Learning Strategy	20	Review of the roles and responsibilities and project governance to ensure that the digital learning rollout is aligned to Council priorities and business requirements.
22	Assurance - Risk	Business Continuity	20	Review the process for setting, testing, reviewing and updating Business Continuity Plans to ensure the delivery of business critical (and other) services across the Council, that they are aligned with requirements and that they are fit for purpose (i.e. no critical single points of failure).

Ref	Category	Activity	Days	Commentary
23	Legislative and Compliance	EU Funded Programme Tyne Esk LEADER	10	Annual requirement to review the controls in place to deliver the EU Funded Programme Tyne Esk LEADER and to undertake compliance related work as defined by the Service Level Agreement (extension granted to the programme).
24	Consultancy	Consultancy - critical friend	30	In its 'critical friend' role provide: an independent view and challenge of a sample of programmes and projects (including Learning Estate Strategy, Business Transformation Board, Information Management Group); and an objective assessment of self-evaluation arrangements.
25	IA Other	PSIAS Self-Assessment	10	Undertake annual self-assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) and report findings to the Audit Committee.
26	IA Other	MLC Audit Committee Self-Assessment	5	Provide assistance to Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance.
27	IA Other	MLC Recommendation Follow Up Reviews	30	Undertake 2 reviews: the first includes a sample check on the adequacy of new internal controls for Audit Actions flagged as closed, and the second assesses performance against closing Audit Actions by the agreed due date.
28	IA Other	Contingency	30	Support / undertake any investigations and other reactive work to ensure high risk issues and concerns identified by Management or Audit Committee during the year are appropriately addressed.
29	IA Other	Help Desk Enquiry system	22	Provide guidance and advice to Management and Staff on internal controls. Manage any enquiries received through the whistle-blowing facilities offered by the Council.
30	IA Other	MLC Administration of Audit Scotland Reports	2	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.

Ref	Category	Activity	Number of Days	Commentary
31	IA Other	Risk Management Group	5	Attend and provide support to the Risk Management Group, the Serious and Organised Crime Group, and the new Integrity Group.
32	IA Other	MLC Attendance at Boards / Committees	10	Prepare for and attend Audit Committee meetings and other Boards/Committees as relevant.
33	IA Other	MLC Audit Planning for 2022/23	11	Update the Audit Universe, check risk registers and other sources of assurance, and develop and consult on proposed coverage within the Internal Audit Annual Plan 2022/23.
34	MIJB IA Assurance	Midlothian Health and Social Care Integration Joint Board	40	Audit reviews and support to be determined and agreed by the Midlothian Health and Social Care Integration Joint Board Audit and Risk Committee for review of the adequacy of the MIJB's arrangements for risk management, governance and internal control for delegated resources.
Total			775	

Counter Fraud Annual Plan 2021/22**Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is invited to:

- a) Approve the Counter Fraud Annual Plan 2021/22 (Appendix 1).

2 Purpose of Report/Executive Summary

The purpose of this report is to gain approval from the Audit Committee to the proposed Counter Fraud Annual Plan 2021/22 to support the delivery of the Council's Counter Fraud Strategy and to demonstrate compliance with the Council's Counter Fraud Policy Statement.

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the approved Counter Fraud Strategy that was approved by Council on 25 August 2020.

The Counter Fraud Annual Plan 2021/22 (Appendix 1) sets out the planned counter fraud activity to support the change in approach and culture for the Council for tackling fraud and corruption to deliver the revised Counter Fraud Strategy. This will enable the Council to demonstrate compliance with its Counter Fraud Policy Statement as its commitment to tackling fraud.

Date 02 February 2021

Report Contact:

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3 Background

- 3.1** A review was carried out in 2019/20 of counter fraud management arrangements in place and to make improvements in light of the significant fraud investigations that have occurred within Midlothian Council in recent years, noting that some are ongoing.
- 3.2** The conclusion of the review included a refresh to the corporate policy and strategy for tackling fraud. A revised Counter Fraud Policy Statement and Counter Fraud Strategy and proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Policy and Strategy, which have been endorsed by the Audit Committee on 22 June 2020, were approved by Midlothian Council on 25 August 2020.

4 Counter Fraud Annual Plan 2021/22

- 4.1** Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the approved Counter Fraud Strategy that was approved by Council on 25 August 2020.
- 4.2** The Counter Fraud Annual Plan 2020/21 (Appendix 1) sets out the planned Counter Fraud activity to support the change in approach and culture for the Council for tackling fraud and corruption to deliver the approved Counter Fraud Strategy. This will enable the Council to demonstrate compliance with its Counter Fraud Policy Statement as its commitment to tackling fraud.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group and the Corporate Fraud Team.

The purpose of the Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). The formal establishment of the Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) enables the shift to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council. Monthly meetings of the Integrity Group have been held since October 2020 to initiate its role and remit. The Integrity Group considered and endorsed this plan on 9 February 2021.

The revised Counter Fraud Policy Statement and Counter Fraud Strategy and proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Policy and Strategy, which were endorsed by the Audit Committee on 22 June 2020, were approved by Midlothian Council on 25 August 2020.

A Service Review in collaboration with HR to formally establish the 2 FTE Corporate Fraud Officers posts and 1 FTE Audit resource in place of the two Fraud & Audit Officers is nearing completion. The job evaluation process is complete and formal changes to the establishment is awaiting the confirmation of the funding.

Savings will continue to be identified arising from Corporate Fraud Team activity, which will be stated within the Counter Fraud Annual Reports presented to the Audit Committee.

5.2 Digital

None.

5.3 Risk

The Council is committed to minimising the risk of loss due to fraud, theft, corruption or crime and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

The Counter Fraud Policy Statement sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy provides a shift in approach to focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud. The work undertaken by the Corporate Fraud Team in collaboration with other Services is designed to reduce the fraud risks within the Council.

5.4 Ensuring Equalities

An Integrated Impact Assessment (IIA) Form was completed as part of the development of the revised Counter Fraud Policy and Strategy approved by Council on 25 August 2020. The conclusion was that undertaking a Combined Impact Assessment was not necessary as the policy / proposal has little relevance to equality, negligible impact on the economy, and no impact on the environment. The revised Counter Fraud Policy and Strategy set out enhancements to internal Management arrangements though it is anticipated that there will be minimal impact on internal staff only; there is no change to the Whistleblowing external-facing arrangements.

5.5 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 (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) by preventing and detecting fraud, additional resources might be available to support the Council's objectives. Any loss of funds due to fraud, theft, corruption or crime might impact on the ability of Midlothian Council to achieve its key priorities.

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 arrangements for tackling fraud as set out in the Counter Fraud Policy Statement and Counter Fraud Strategy that were approved by Council on 25 August 2020. The shift to the key drivers for change is an intrinsic part of the change in approach and culture for the Council for tackling fraud and corruption. For example:

- (a) The formal establishment of an Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) shifting to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council;
- (b) A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption, and crime and ensure these are embedded preventative practices;
- (c) Applying the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)' for counter fraud policy, strategy and other practices, and adopting the CIPFA Counter Fraud Maturity Model as a means of self-assessment moving forward will enable continuous improvement to be evaluated, managed and evidenced; and
- (d) Use of a blend of toolkits such as fraud risk assessments and e-learning packages that can be tailored to specific Services.

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

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. The approved Counter Fraud Strategy states the Council will measure progress against the CIPFA Counter Fraud Maturity Model as a self-assessment approach to continuous improvement in order to continuous improvement to be evaluated, managed and evidenced demonstrate best value in the use of resources.

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has been promoted in recent years and is being utilised, as stated in the Counter Fraud Annual Report 2019/20 that reported outcomes of corporate fraud activity, some of which arose from whistleblowing received from staff, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group and the Corporate Fraud team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. The Findings and Recommendations from Internal Audit and Corporate Fraud work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

A.7 Adopting a Preventative Approach

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the approved Counter Fraud Strategy.

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 including sustainable outcomes.

Ref	Category	Activity	Number of Days	Commentary
1.	Compliance	Contract Management	50	Testing of governance and internal controls in place over Contract Management arrangements with third parties to determine whether there is compliance with procurement rules and Management monitoring is adequate.
2.	Compliance	Corporate Fraud Enquiries	155	Respond to whistleblowing notifications.
3.	Data Match	National Fraud Initiative	100	Co-ordinate the NFI exercise across Council services, review and investigate data matches, and periodically produce reports on the outcomes. New data sets proposed by Cabinet Office associated with support funding to businesses re Covid-19 response.
4.	Data Match	Social Housing	10	Data analytics on Social Housing
5.	Data Match	Council Tax	10	Data analytics on Council Tax
6.	Other	Corporate Fraud Policy Framework	15	Support the Integrity Group with monitoring of policies and procedures review, update and communication. Assist with the self-assessment of compliance against the CIPFA code on Managing the Risk of Fraud and Corruption.
7.	Other	Fraud Risk Assessments	40	Support operational Service Managers to assess fraud risks and put in place appropriate controls within processes and practices.
8.	Other	Fraud Awareness Training	20	Develop and deliver fraud awareness training modules (either face-to-face or via e-learning) to Management and Staff.
9.	Other	Integrity and SOC Groups	6	Attend and provide support to the Council's Integrity Group and the Serious and Organised Crime Group.
Corporate Fraud Total			406	

Risk Management Update, Quarter 3 2020/21

Report by Chris Lawson, Service Manager – Waste, Risk and Resilience

Report for Information

1 Recommendations

Audit Committee is recommended to note the current risk landscape and organisational response to the most significant risks at this time.

2 Purpose of Report/Executive Summary

Regular reporting has been requested on the Council's Strategic Risks and the purpose of this report is to provide an update on the risk responses Midlothian Council has implemented during quarter 3 2020/21 to respond to the current risk climate.

Date 23 February 2021

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3 Background/Main Body of Report

- 3.1** Midlothian Council has delivered a wide range of services to the people of Midlothian throughout quarter 3 of 2020/21 against a backdrop of operating within a series of government directed constraints, associated with responding to a global pandemic. The Scottish Government response to the above resulted in sectors being instructed to close as part of a national lockdown response in December 2020.

As the Council has responded to the risks introduced by the pandemic it has become apparent that the public sector faced a new challenge in quarter 3. There were 3 significant factors which had the potential to interplay over quarter 3 and into quarter 4. These are the concurrent risks of:

- COVID 19,
- UK Exit from the EU, and
- Winter

In addition to these new risks the Council continue to manage those risks recorded within the Strategic Risk Profile. The work required to maintain the necessary Corporate oversight over the broader strategic landscape continues, while there is a current focus on the particular set of external factors the organisation needs to respond to.

3.2 COVID 19

During quarter 3, it became apparent that the level of Community transmission had began to increase across Scotland and the rest of the UK. The Scottish Government had introduced a tiered restriction model which was deployed in quarter 3 in response to the rise in infection rate.

Ahead of the new tiered model being deployed, the Council's Incident Management Team (CIMT) was re-established to co-ordinate and oversee preparations and planned responses to the implementation of the new tiered system. During this time the CIMT have maintained a COVID-19 risk assessment to track potential risk impacts, the risk controls in place and to record progress on actions being taken to mitigate potential or expected impacts.

Following the announcement made by the First Minister that additional level 4 restrictions were in place from midnight on Monday 4 January, 2021, in response to the COVID-19 public health emergency, Midlothian Council moved to Critical Service delivery only, which means that as a Category 1 responder we now only carry out 3 essential functions:

- . Caring for the vulnerable
- . Co-operating with our Resilience Partners
- . Supporting Economic Recovery

The Stay at Home and Work at Home guidance remains appropriate and we have the workforce carrying out alternative duties, with the

Midlothian Community Planning Partnership Board convening regularly to discuss and address community resilience.

3.3 UK Exit from EU

The UK stopped being a member of the European Union at 23:00 on 31 January 2020. The UK continued in a transition period up to the 31 December 2020 when the UK formally left the European Union.

In the period between 31 January 2020 and 31 December 2020 the UK government had sought to negotiate its future relationship with the EU including trade arrangements. There remained a risk of significant change from the current established approaches in many areas going into quarter 3. The Council have continued to monitor preparatory guidance issued by the UK Government. The UK agreed a Trade and Cooperation agreement in December 2020 ahead of the exit date.

The Council's EU Exit Working Group had been reconvened by the Chief Officer Place in quarter 1 2020/21 to enable suitable planning to take place in response the emerging new relationship with the EU and any changes which had the potential to impact services or supplies as Midlothian Council has a statutory obligation to deliver a range of core public services. The Council also provides valuable place leadership and therefore has an important role in supporting its communities and businesses while there exists a high level of uncertainty surrounding what and how severe any impacts will be.

Midlothian Council worked with partners including CoSLA and the Local Authority Resilience Group to monitor developments in this area and plan accordingly.

The Council's EU exit risk register was revised through the EU Exit working group, taking into account UK Government guidance and through appropriate use of the UK governments 'reasonable worst case scenario planning assumptions'. This was reported to Council on 15 December, 2020 and a detailed Resilience Briefing session was subsequently provided to elected members.

3.4 Winter preparedness

The winter months always present a potential risk of winter weather and/or severe weather, with the associated risk of impacts across a range of sectors. In preparation for this winter, Midlothian Council's severe weather plan was reviewed. This review included an update of the Council's Roads Service response given the significant contribution they play in keeping essential roads and pedestrian routes open during severe weather.

The challenge facing Council's across the UK going into this winter had been the concurrent risks associated with COVID-19 and the potential for rise in community transmission during the normal winter flu season.

Going into any winter period anyone of the above risks could have created a significant impact in their own right. This required careful planning to ensure that in the event of winter impacts and/or EU exit

impacts, against a backdrop rising COVID 19 community based transmission, the Council remained in a position able to deliver the critical services the people of Midlothian rely on and a detailed Resilience Briefing session was provided to elected members and subsequently to the Council's Leadership Forum.

- 3.5** Outlined above is an overview of the response to the most significant risk faced by the Council during quarter 3 2020/21 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks at this time.

4 Report Implications (Resource, Digital, Risk and Equalities)

4.1 Resource

There are no direct resource implications indicated in this report, although, individual risks have associated resource implications.

4.2 Digital

None.

4.3 Risk

The risks reported in this report are understood with the Council able to demonstrate the measures it is taking in response to these.

4.4 Ensuring Equalities

There are no direct equalities issues arising from this report.

4.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Additional Report Implications

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

This report provides an overview of the Strategic Risk profile of Midlothian Council at a defined point in time. The issues, risks and opportunities affecting or supporting delivery of the council priorities are set out within the Strategic risk profile

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

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 Council's commitment to best value and securing continuous improvement can best be delivered when decisions are made against a backdrop of understanding the risks and opportunities before an organisation. This report seeks to provide assurance that the current risk environment is understood and that Midlothian Council is taking appropriate action in response to those identified risks.

A.5 Involving Communities and Other Stakeholders

This Strategic Risk Profile report has been compile with input from a range of internal key stakeholders.

A.6 Impact on Performance and Outcomes

This report seeks to provide an overview of the challenging risk environment within which the Council is operating at this time. Being in

a risk aware position helps to inform current and future decision making, with the intention of enhancing decision making and the associated performance and outcomes which flow from well informed decision making.

A.7 Adopting a Preventative Approach

The Risk Management approach being taken by the Council is founded on a preventative approach to managing risks, where appropriate and more generally to decision making with far greater risk awareness.

A.8 Supporting Sustainable Development

Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Strategic and Service level Risks and Opportunities.