

# Notice of Meeting and Agenda



## Audit Committee

**Venue:** Council Chambers,  
Midlothian House, Dalkeith, EH22 1DN

**Date:** Tuesday, 12 March 2019

**Time:** 10:00

### Director, Resources

**Contact:**

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### Further Information:

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

**Recording Notice:** Please note that this meeting will be recorded. The recording will be publicly available following the meeting. The Council will comply with its statutory obligations under the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002.

## **1 Welcome, Introductions and Apologies**

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## **2 Order of Business**

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Including notice of new business submitted as urgent for consideration at the end of the meeting.

## **3 Declaration of Interest**

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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**

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**4.1** Minute of Meeting of 29 January 2019 submitted for approval 3 - 8

**4.2** Action Log updated 9 - 10

## **5 Public Reports**

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**5.1** Risk Management, Update for 1 October 2018 – 31 December 2018 - Report by Risk Manager 11 - 36

**5.2** External Audit Annual Plan 2018/19 for Midlothian Council - Report by EY, External Auditors (To Follow)

**5.3** Final Internal Audit Report - Workforce Strategy and Planning - Report by Chief Internal Auditor 37 - 44

**5.4** Final Internal Audit Report - Information Governance Framework and GDPR - Report by Chief Internal Auditor 45 - 50

**5.5** Internal Audit Strategy and Annual Plan 2019/20 - Report by Chief Internal Auditor 51 - 64

## **6 Private Reports**

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No items for discussion

## **7 Date of Next Meeting**

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The next meeting will be held on

# Minute of Meeting

Audit Committee  
Tuesday 12 March 2019  
Item No: 4.1



Midlothian

## Audit Committee

Date	Time	Venue
Tuesday 29 January 2019	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

### Present:

Peter Smail (Chair)
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Peter de Vink (Independent Member)

### In attendance:

Grace Vickers	Chief Executive
Mary Smith	Director of Education, Communities and Economy
Allister Short	Director of Midlothian Health and Social Care Partnership
Gary Fairley	Head of Finance and Integrated Service Support
Stephen Reid	Ernst and Young, External Auditors
Sarah Croft	Ernst and Young, External Auditors
Jill Stacey	Chief Internal Auditor
Alan Turpie	Legal Services Manager
Janet Ritchie	Democratic Services Officer

## **1. Welcome and Apologies**

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- 1.1 Apologies were received from Mike Ramsay (Independent Chair) and Councillor Parry.
- 1.2 In the absence of Mike Ramsay, the independent Chair, Councillor Smail took the Chair which had previously been agreed at the Audit Committee at its meeting on 11 December 2018.

## **2. Order of Business**

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The order of business was as set on the Agenda.

## **3. Declarations of interest**

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No declarations of interest were received.

## **4. Minutes of Previous Meetings**

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- 4.1 The minute of 11 December 2018 was submitted and approved as a correct record.

### 4.1.1 Matters Arising:

The Chief Internal Auditor highlighted Item 5.8 Mid Term Performance Report 2018/19 from the Previous Minutes where the Audit Committee approved three pieces of work to be deferred to 2019/20. The Chief Internal Auditor advised that she was seeking approval for an additional piece of work, ICT Operational Processes to be deferred and all these would be reflected in the draft Audit Plan which would be presented to the Audit Committee in March 2019. The Audit Committee approved this.

- 4.2 The Action log was submitted and the following agreed:

- 1) 'Annual Governance Statement 2017/18' - To note the completion date for this was June 2019.
- 2) 'Follow-up Review of Audit Recommendations' - To note the action was closed at the last meeting.
- 3) 'Briefing – Informal Audit Committee Session' - To note this had taken place prior to the Audit Committee meeting and this action was now complete.
- 4) 'Local Government in Scotland Financial Overview 2017/18' - To note this was included on the Agenda for discussion.

## 5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Audit Scotland Report: Local Government in Scotland: Financial Overview 2017/18 (Audit Scotland, November 2018)	Head of Finance and Integrated Service Support
<b>Outline of report and summary of discussion</b>		
<p>There was a report presented to the Audit Committee by the Head of Finance and Integrated Services Support providing the Audit committee with a summary of the Audit Scotland report, 'Local government in Scotland: Financial Overview 2017/18' and the Council's position in relation to the report's findings and a link to this full report was provided in the report.</p> <p>The Head of Finance and Integrated Service Support highlighted the key messages contained within the report. Thereafter he responded to questions and comments raised by members of the Committee.</p> <p>Several members of the Committee raised their concerns with regards to the Scottish Government settlement cut and the impact this will have on services. It was also acknowledged the extent of the challenges the Council face in delivering a Balanced Budget for this year and future years. The Chief Internal Auditor highlighted that as well as the publication from the Accounts Commission there are also some useful supplements on the Audit Scotland website one of which is a scrutiny tool for Councillors to assist them in scrutinising financial performance.</p>		
<b>Decision</b>		
The Audit Committee noted the Audit Scotland report and the position of Midlothian Council in relation to the report's key messages		

Report No.	Report Title	Submitted by:
5.2	Final Internal Audit Report – Payroll	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<p>The purpose of this audit was to review the review the adequacy of the control framework over starters and leavers within Midlothian Council.</p> <p>The Chief Internal Auditor provided a summary of the details of the report highlighting there are a number of effective controls in place and examples of good practice as listed in the report. The audit identified areas of improvement and four recommendations were made, three of the recommendations are now complete and plans are in place to implement the final recommendation by its due date of 31 March 2019.</p>		
<b>Decision</b>		
The Audit Committee noted the report.		

Report No.	Report Title	Submitted by:
5.3	Internal Audit Recommendations Progress Report	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<p>The purpose of this report was to inform the Audit Committee of the number of recommendations raised by Internal Audit over the last 4 years and the Council's performance in addressing these issues by the agreed implementation dates.</p> <p>The Chief Internal Auditor advised the Committee in comparison to previous years there has been an improvement in the implementation of the recommendations, however there were some long standing actions and in discussion with Officers it was highlighted that setting more realistic due dates would enable them to implement these actions. Also highlighted was that additional monitoring of the actions was in place to ensure these are implemented by the due date.</p> <p>Thereafter the Chief Internal Auditor responded to a question raised by the Chair with regards to the process of the Internal Audit being inspected by another local authority.</p>		
<b>Decision</b>		
<p>The Audit Committee is asked to:</p> <ul style="list-style-type: none"> <li>• Noted the content of the report;</li> <li>• Approved the revised implementation dates as shown in Appendix 1.</li> <li>• Noted that Internal Audit will continue to monitor for completion of the outstanding recommendations and will provide reports to the Audit Committee.</li> </ul>		
<b>Action</b>		
Internal Audit		

Report No.	Report Title	Submitted by:
5.4	Final Internal Audit Report on Revenue Budget Monitoring	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<p>The purpose of this audit was to review the overarching arrangements for setting and monitoring the Revenue Financial Budget within Midlothian Council.</p> <p>The scope of this audit was to examine and evaluate the following areas:</p> <ul style="list-style-type: none"> <li>• Financial sustainability in setting the revenue budget, including the utilisation of reserves;</li> <li>• Financial budget monitoring reporting for elected members including assessment of scrutiny and challenge of those reports by elected members; and</li> </ul>		

- Budget monitoring processes and information at service level and senior management level.

The Chief Internal Auditor highlighted the main sections of the report and advised the Committee that this report should be read alongside the Internal Audit report on the Delivering Excellence Programme, as these two areas are inextricably linked.

There followed a discussion on the scrutiny and challenge of the financial information by Elected Members and Officers, thereafter Officers responded to questions and comments raised by Members of the Committee.

#### Decision

The Audit Committee noted the content of the report.

Report No.	Report Title	Submitted by:
5.5	Final Internal Audit Report – Delivering Excellence Programme	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<p>The purpose of this audit was to review the overarching arrangements for setting and monitoring the Revenue Financial Budget within Midlothian Council.</p> <p>The scope of this audit was to examine and evaluate the following areas:</p> <ul style="list-style-type: none"> <li>• The compilation and governance of the programme and its delivery;</li> <li>• based on a sample of projects: <ul style="list-style-type: none"> <li>➤ the appraisal and analysis undertaken in order to arrive at the savings proposed and assessment of whether they are realistic, achievable and aligned to the Council’s priorities and outcomes;</li> <li>➤ a review of the evidence used to support the calculation of planned savings, key assumptions and cost drivers;</li> </ul> </li> <li>• a high level review of processes in place for monitoring delivery of savings.</li> </ul> <p>The Chief Internal Auditor highlighted the main sections from within the audit report and that the Delivering Excellence Programme had delivered savings in some Service areas but in recent years it has not delivered the cost savings and efficiencies consistently across all Service areas. She outlined some of the key findings of the audit and the recommendations to improve internal control and governance of the Delivering Excellence Programme.</p> <p>Thereafter followed a discussion during which Officers responded to questions and comments raised by members of the Committee.</p>		
<b>Decision</b>		
The Audit Committee noted the content of the report.		

Report No.	Report Title	Submitted by:
5.6	Treasury Management and Investment Strategy 2019/20 & Prudential Indicators	Head of Finance and Integrated Service Support
<b>Outline of report and summary of discussion</b>		
<p>A draft of the Treasury Management and Investment Strategy 2019/20 &amp; Prudential Indicators report is being presented today to Audit Committee.</p> <p>The report was presented in draft and subject to ongoing work on the Loans Fund Review. In addition, any comments on this report from Audit Committee shall be included in the final report to Council. The purpose of the report was to seek the agreement of Council to the Treasury Management and Annual Investment Strategies for 2019/20 and the Prudential and Treasury indicators contained therein.</p> <p>The Head of Finance and Integrated Service Support highlighted the main sections contained within the report and advised the Committee that this report was written for Council and presented to the Audit Committee for comments. It was noted that the main comments from today's meeting would be around permitted investments and counterparty limits.</p> <p>The External Auditor responding to questions from the Chair confirmed that his only comment at this stage would be with the governance process and he had noted the significant level of increase in borrowing and this would be commented within his annual report.</p> <p>Councillor Milligan gave his congratulations on the Council performing better than 31 other Councils yet again this year. He stated that although he accepts the need to be critical of the requirement to increase our borrowing the school estate urgently needs to expand and the very ambitious social housing programme if not completed would be more expensive to the Council. He further expanded on some of the issues the Council are facing with slippage in the capital plan which are due to factors out with their control.</p> <p>Thereafter the Head of Finance and Integrated Service Support responded to questions raised by Members of the Committee with regards to the investments made by West Lothian Council. He advised the Committee that he would investigate the investments made by West Lothian Council and take this into consideration when finalising the Treasury Management Strategy.</p>		
<b>Decision</b>		
<p>The Audit Committee commented on this draft report and strategy prior to the final report and strategy being presented to Council on 12 February 2019.</p>		

## **6. Private Reports**

No private business was discussed.

## **7. Date of Next Meeting**

The next meeting will be held on Tuesday 12 March 2019

The meeting terminated at 12.45 pm

# Actions Log



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	<b>Annual Governance Statement 2017/18 (2018/19 Areas for Improvement)</b>	19/06/18		Chief Executive	June 2019	Final AGS 2017/18 included within audited Statement of Accounts 2017/18 for 25/09/2018. Management's proposal is to report on Areas of Improvement progress to Audit Committee on a quarterly basis.
2	<b>Briefing – Informal Audit Committee Session</b>	11/12/18	Agreed that a briefing would be presented to the members in January 2019 in relation to the Treasury Management Strategy.	Head of Finance and Integrated Services Support/Chief Internal Auditor	Complete	Informal Session on 29 January 2019 to focus on Treasury Management.
3	<b>Local Government in Scotland Financial Overview 2017/18</b>	11/12/18	The Audit Committee agreed to carry this report forward to the January 2019 meeting and a report prepared by Officers in connection with this report.	Head of Finance and Integrated Services Support	Complete	The Audit Committee noted the Audit Scotland report and the position of Midlothian Council in relation to the report's key messages.

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
4	<b>Treasury Management and Investment Strategy 2019/20 &amp; Prudential Indicators</b>	29/01/19	Head of Finance and Integrated Service Support would investigate the investments made by West Lothian Council and take this into consideration when finalising the Treasury Management Strategy.	Head of Finance and Integrated Services Support	12 February 2019	Treasury Management Strategy presented to full Council 12 February 2019 for approval.

**Risk Management, Update for 1 October 2018 – 31 December 2018****Report by Chris Lawson, Risk Manager****1 Purpose of Report**

Audit Committee has requested regular reporting on the Council's Strategic Risks. The Strategic Risk Profile seeks to provide a strategic look at the current issues, future risk and opportunities facing the Council.

The purpose of this report is to provide Audit Committee with the 2018/19 quarter 3 strategic risk management update, covering the period 1 October 2018 to 31 December 2018.

**2 Background**

Midlothian Council faces an increasing challenge particularly around delivering a wide range of services to a growing local community, against a backdrop of reducing grant settlement from the Scottish Government. The Council has done much to reduce spend in recent years while continuing to deliver services to our local communities.

Transformational change has, and continues to be vitally important to the Council as it seeks to improve local outcomes with reducing resources.

The continued financial outlook is challenging, with uncertainty associated with future years grant settlements, pay awards, the economic impact of Brexit which is heading towards a no deal outcome. This last risk will need to be tracked carefully to ensure the Council is fully prepared for a potential no deal exit from the European Union at the end of quarter 4.

Following the national pay offer made to Teachers, which the Scottish Government states is more generous than any other public sector pay deal offered within the UK, the teaching Unions are recommending to their members to reject the offer. Given the Scottish Government has stated this is the best offer they can make this increases the prospect of industrial action during 2019.

The projected budget gap for 2019/20 has resulted in the need for a wide range of budget reductions options to enable the Council to set a balanced budget at its meeting on 12 February 2019. The budget gap for 2019/20 exceeds the current level of usable reserves held by the Council. While reserves have been used by a number of Council's to manage budget shortfalls the current level of reserve and budget gap mean this is not a viable option.

Councillors and Senior Management, working closely with communities, will continue to be faced with difficult decisions on where limited resources should be allocated. It is therefore important the impact of these decisions on communities are transparent and understood by those deciding on resource allocation.

### 2.3 Strategic Risk Profile Summary

The Top Strategic Issues are summarised in table 1.

Top Issues	Likelihood	Impact	Score	Evaluation	
Financial Stability	5	5	25	Critical	
The Change Programme	5	5	25	Critical	

The Strategic Risks for the Council are summarised in table 2 below.

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Balancing budget in future years	5	5	25	Critical	
Growing Council	4	5	20	High	
Scottish Abuse Inquiry	5	4	20	High	
Historic Abuse Claims Project	4	5	20	High	
Cyber Security	5	4	20	High	
Early Years Expansion (1140 Hours)	4	5	20	High	
Welfare Reform	4	4	16	High	
The Longer Term Change Programme	4	4	16	High	
UK decision to leave the EU	4	4	16	High	
Information Security	3	5	15	Medium	
Health and Safety	3	5	15	Medium	
Political uncertainty – Education Governance Review	3	4	12	Medium	
Integration of health and social care	3	4	12	Medium	
Governance and standards	3	4	12	Medium	
Employee performance	3	4	12	Medium	
Emergency planning and business continuity	3	4	12	Medium	
Climate change	3	3	9	Medium	
Legal and regulatory compliance	3	3	9	Medium	
Working with other to deliver outcomes	3	3	9	Medium	
Asset management	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Corporate policies and strategies	2	3	6	Low	

The Strategic Opportunities for the Council are summarised in table 3.

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
City deal	5	5	25	Critical	
Growing Council	5	5	25	Critical	
Creating a World Class Education System	4	5	20	High	
Shawfair	5	4	20	High	
Borders rail	5	4	20	High	
Easter Bush – Penicuik	5	4	20	High	

## 2.6 STRATEGIC ISSUES – RATED CRITICAL AND HIGH

### 2.6.1 Financial Stability

The updated Financial Strategy Report has been prepared during quarter 3 and reported to Council on 12 February 2019 with the purpose of allowing the Council to set a balanced budget. The paper includes a proposal to develop medium term financial planning.

### 2.6.2 The Change Programme

The budget approved on 13 February 2018 incorporated a range of savings which form the Change Programme and the delivery of the 2018/19 outturn within the approved budget.

Monitoring the oversight of the Change Programme continues to be delivered through dashboard reporting prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board and the Business Transformation Steering Group. This is in addition to continued quarterly financial reporting by Financial Services.

### 2.6.3 UK Decision to leave the European Union

The UK decision to leave the European Union has seen a number of public and private sector organisations step up preparations for a potential no deal exit from the European Union (EU) on 29 March 2019. Services have been giving consideration to business critical functions/services reliant on goods or services supplied from within the EU as the prospect of no deal has increased substantially. The Council are working with strategic partners including the Scottish Government in preparation for a no deal scenario. The Council Management Team have established a BREXIT Working Group with the purpose of overseeing final Service and Council preparations for a no deal exit from the European Union.

A report will be made to Cabinet setting out the anticipated impact and the preparatory arrangements being taken to mitigate damaging impacts.

## **2.7 STRATEGIC RISKS – RATED CRITICAL/HIGH**

### **2.7.1 Balancing budget in future years**

The updated Financial Strategy was presented to Council 12 February 2019 which set out a range of budget reduction proposals for 2019/20 to enable members to set a balanced budget.

### **2.7.2 Growing Council**

Midlothian Council has been identified as the fastest growing Council in Scotland with a projected population growth of 26% between 2014 - 2039. This would see the population of Midlothian grow from 86,220 – 108,369 by 2039. The growth is expected to see the 0-15 population increase by 20%. The fastest rate increase is expected in the 75+ population with a projected 106% increase between 2014 and 2039. Failure to resource and plan for these rises will significantly impact the Council's ability to fulfil its statutory obligations in relation to these groups.

To plan for the impact this growth will have on the school estate, Education have developed a Learning Estate Strategy to address the expected pressures from this and other known Government policies which will impact on capacity requirements within schools. Any delays in delivering the Learning Estate Strategy could impact on the Council's ability to respond effectively to future pupil growth projections.

This growth together with reductions in the grant settlement from the Scottish Government has created acute pressure on Council Budgets.

### **2.7.3 Scottish abuse inquiry and Abuse Claims**

The Council have an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise.

A communications plan and training plan are in place. A web page is available to provide information on the Limitation (Childhood Abuse) (Scotland) Act 2017 and guidance for childhood abuse survivors on claiming compensation.

### **2.7.4 Cyber Security**

Over the past year the Council have been monitoring reports of cyber-attacks on public sector networks. In recent months attacks have been made on a number of public sector organisation, raising the potential for an attack to be directed at Midlothian Council.

### **2.7.5 Early Years Expansion (1140 Hours)**

Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140 from August 2020 the council has commenced preparations with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in capacity. These challenges are being considered in the wider context of the plan, in which the capacity and expansion of all funded providers (council, private and voluntary settings as well as childminders) combine to deliver the requirements. Following cost projection work by all Scottish council's multi-year capital and revenue funding is being provided by the Scottish Government and Midlothian's expansion plan is being revised to align with this. Pilots are already underway offering over 100 expanded hour places at council settings and blended with childminders. The number of pilot places is being significantly increased and expanded to include funded provider settings in the next few months. A capital grant funding scheme to support funded providers increasing their physical capacity will be launched shortly.

### **2.7.6 Welfare Reform**

The Universal Credit Programme closed gateways for legacy benefits, so existing benefits are no longer eligible for all new benefit claimants, except pension benefits. The migration of those remaining claimants on current benefit types continues until the digital rollout is complete for all of UK. The risk of income disruption to housing rent payments and Council Tax Reduction scheme is evident in the increased arrears, although this is currently within the bad debt provision anticipated.

### **2.7.7 The Longer Term Change Programme**

The strands of work that will continue to be necessary to address the projected budget shortfalls in the medium term, encompassing:-

- Business Transformation Steering Group;
- The Delivering Excellence programme;
- The Transformation Programme;
- The EWIM programme;
- An updated Capital Strategy and Reserves Strategy;
- Operational savings encompassing financial discipline measures;
- The development of further savings options for 2018/19 and beyond.

## **2.8 STRATEGIC OPPORTUNITIES**

### **2.8.1 City Deal**

South East Scotland Region City Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018.

## **2.8.2 Fastest Growing Council**

Midlothian Council has been identified as, not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.

This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.

This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.

## **2.8.3 Creating a world Class Education System**

The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. The newly built Newbattle high school opened its doors to pupils on 5 June 2018, with the formal opening by the Scottish Government, Education Minister, John Swinney on 7 November 2018. This ambitious project is designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty.

## **2.8.4 Shawfair**

The Shawfair development with its new Rail link provides a major incentive for house builders, employers' retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.

## **2.8.5 Borders Rail**

Regeneration of priority communities of Midlothian through which the railway passes.

The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also an opportunity to encourage sustainable travel by residents of major new housing developments in the rail corridor.

A focus of this opportunity will be to ensure Midlothian secures appropriate levels of Blueprint funding from the multi-agency Borders Rail 'Blueprint' funding group.

### 2.8.6 Easter Bush

Fast growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM.

## 3 Report Implications

### 3.1 Resource

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

### 3.2 Risk

The Strategic Risk Profile seeks to articulate the significant issues, risks and opportunities facing the Council at a specific point in time. The Risks reported are generally those that impact on all parts of the Council and the strategic priorities of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis by officers.

The risks referred to in this report are set out within the Council's Strategic Risk Profile, attached as Appendix 1.

### 3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

### 3.4 Impact on Performance and Outcomes

The purpose of the Council's risk management approach is to support a level of risk awareness, to inform decision making and support the Council to deliver on its key outcomes by highlighting and taking steps to mitigate potential disruption to delivery of services.

### 3.5 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.

### **3.6 Involving Communities and Other Stakeholders**

Consultation has taken place with Senior Managers responsible for leading responses to key Strategic Issues, Risk and Opportunities.

### **3.7 Ensuring Equalities**

There are no direct equalities issues arising from this report.

### **3.8 Supporting Sustainable Development**

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

### **3.9 IT Issues**

No additional issues other than those relating to the Strategic Risk Profile.

## **4 Recommendations**

Audit Committee is recommended to:

Note the quarter 3 2018/19 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

**Date:** 21 February 2019

**Report Contact:**

Chris Lawson, Risk Manager

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[chris.lawson@midlothian.gov.uk](mailto:chris.lawson@midlothian.gov.uk)

**Background Papers:**      **Appendix 1** Strategic Risks Profile  
Quarter 3 2018/19

## Strategic Risk Profile

## Issues



## SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p><b>Risk cause</b> Change programme that doesn't address the budget shortfall; The Change Programme does not achieve the projected savings</p> <p><b>Risk event</b> Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework.</p> <p><b>Risk effect</b> Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Head of Finance and Integrated Service Support;; Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	<ol style="list-style-type: none"> <li>1. Change Programme including Delivering Excellence framework which addresses projected budget shortfalls.</li> <li>2. Delivering Excellence Management Tools to support the application of the framework.</li> <li>3. Action to ensure that the financial impact of change proposals is verified and that evidence is available to support delivery in the prescribed timescales. Section 95 Officer will rely on that evidence determining if change programme savings are deliverable <ul style="list-style-type: none"> <li>. Financial Strategy.</li> <li>. Leadership from all Elected members Executive Team and Senior Leadership Group.</li> <li>. Appropriated governance in place across the Change Programme.</li> <li>. Links between Change Programme and Workforce Plans</li> <li>. Resilience planning.</li> <li>. Senior Leadership Group regularly considering Change Programme and budget position.</li> <li>. Capacity to deliver change.</li> </ul> </li> <li>4. Health and Social Care transformation board monitoring the 12 transformation strands on a monthly basis.</li> </ol>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.IA.02.03	Development of 2019/20 Budget	<b>Q3 18/19:</b> Financial Strategy prepared to be presented to Council on 12 February 2019 which sets out the measures to allow elected members to set a balanced budget for 2019/20.	Head of Finance and Integrated Service Support	11 March 2019	

		Financial Strategy includes a recommendation to present a Medium Term Financial Strategy (which balances each year's budget) to Council before summer recess.  Increased management oversight on the accountability and responsibility for delivery of Change Programme measures.			
SRP.IA.02.02	Bottom up Service Reviews - Phase 1	<b>Q3 18/19:</b> Bottom up Service review - remit of working group and proposed initial 3 phases of review programme set out in report to Council, June 2018 first meetings held in relation to Land Services and waste Services. Further analysis being provided to working group for consideration. Roads Services due to have initial meeting end of January 2019.	Head of Commercial Operations; Head of Property and Facilities Management	31-Mar-2019	

### SRP.IR.07 Financial Sustainability

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p><b>Risk cause</b> Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Rising customer expectations</p> <p><b>Risk event</b> Change Programme and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps</p> <p><b>Risk effect</b> A shortfall and or slow or delayed savings arising from the Change Programme. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Head of Finance and Integrated Service Support	<ol style="list-style-type: none"> <li>1. Medium Term Financial Strategy and multi-year Change Programme.</li> <li>2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures.</li> <li>3. Sustainable Capital Strategy.</li> <li>4. Development of a Reserves Strategy presented to February Council</li> <li>5. Continued work with Strategic Leadership Group to ensure financial sustainability.</li> <li>6. Programme monitoring - continual reassessment of grant settlement prospects by the Finance Team.</li> <li>7. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</li> <li>8. Monitoring the oversight of the Change Programme through the Change Programme Dashboard prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board and the Business Transformation Steering Group. Change programme dashboards to be verified by finance team supported in addition to continued quarterly financial reporting by Financial Services.</li> <li>9. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth.</li> </ol>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.IA.02.03	Development of 2019/20 Budget	<p><b>Q3 18/19:</b> Financial Strategy prepared to be presented to Council on 12 February 2019 which sets out the measures to allow elected members to set a balanced budget for 2019/20.</p> <p>Financial Strategy includes a recommendation to present a Medium Term Financial Strategy (which balances each year's budget) to Council before summer recess.</p> <p>Increased management oversight on the accountability and responsibility for delivery of Change Programme measures.</p>	Head of Finance and Integrated Service Support	11 March 2019	
SPR.IA.02.04	Revenue Service Review	<p><b>Q3 18/19:</b> Preparatory work being carried out ahead of initial engagement for Service Review to be carried out in 2019-20.</p>	Jane Milne	31 Mar 2022	

## Risks

### SRP.RR.01 Balancing Budgets in future years/Impact of Budget Cuts/Financial Strength of Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p><b>Risk cause:</b> Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Population growth and time lag to fund pressures on public services. Policy decisions by UK &amp; Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand Rising customer expectations</p> <p><b>Risk event:</b> Reducing grant settlement. Policies decisions at Government level not fully funded to Council's. Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates.</p> <p><b>Risk effect:</b> Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit</p>	Head of Finance and Integrated Service Support	<ol style="list-style-type: none"> <li>1. The Financial Strategy to 2022-23</li> <li>2. Work to progress the 2019/20 budget will be reported through council in November/December 2018 and finalised at council on 12 February 2019.</li> <li>3. Maintaining a level of reserves to deal with unforeseen or one off cost pressures.</li> <li>4. Finalised Capital Strategy to November Council</li> <li>5. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</li> <li>6. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in.</li> </ol>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.IA.02.03	Development of 2019/20 Budget	<p><b>Q3 18/19:</b> Financial Strategy prepared to be presented to Council on 12 February 2019 which sets out the measures to allow elected members to set a balanced budget for 2019/20.</p> <p>Financial Strategy includes a recommendation to present a Medium Term Financial Strategy (which balances each year's budget) to Council before summer recess.</p> <p>Increased management oversight on the accountability and responsibility for delivery of Change Programme measures.</p>	Head of Finance and Integrated Service Support	11 March 2019	

## SRP.RR.02 The Long Term Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<p><b>Risk cause</b>            A change program that doesn't address the budget shortfall or contextual factors relating to the Midlothian area            Reduced resources            Leadership fit for the future            Lack of clarity or clear compelling vision for the future            Delay or shortfall in securing savings            Lack of or not securing transformational change in service provision</p> <p><b>Risk event</b>            Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework            Slow benefits realisation and budget savings            Cuts in service provision rather than service transformation</p> <p><b>Risk effect</b>            Objectives of change not actually met            Adverse impact on services            Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities.            Staff morale negatively affected, Government step-in Short term savings instead of transformation</p>	Head of Finance and Integrated Service Support	<p>Financial Strategy and Change Programme</p> <ol style="list-style-type: none"> <li>Leadership from all elected members, Executive Team and Senior Leadership Group.</li> <li>Appropriated governance in place across the Change Programme.</li> <li>Links between Change Programme and Workforce Plans</li> <li>Resilience planning.</li> <li>Senior Leadership Group regularly considering Change Programme and budget position.</li> <li>Capacity to deliver change.</li> </ol>	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA - 02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q3 18/19:</b> Financial Strategy report being presented to Council on 12 February 2019 includes a recommendation to present a Medium Term Financial Strategy and implementation of existing Reserves Strategy and Capital Strategy.</p> <p>Enhanced financial control is planned through enhanced management oversight, clearer responsibility, accountability and monitoring of the delivery of Change Programme measures. This will require a focus on financial management and financial accountability as part of Making Performance Matter.</p>	Head of Finance and Integrated Service Support	31-Mar-2019	

## SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p><b>Risk cause</b> Current or new legislation applying to Midlothian Council</p> <p><b>Risk event</b> Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p><b>Risk effect</b> Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p>	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Head of Finance and Integrated Service Support;; Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk based audit plan. 4. External Audit. 5. Statutory Inspection. 6. Local Scrutiny Plan - Report to Council 8 May 2018. 7. Best Value Audit self-assessment and audit.	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.01	Legal & Regulatory Compliance	<b>Q3 18/19:</b> Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Head of Finance and	31-Mar-2019	

			Integrated Service Support; Head of Property and Facilities Management; Director of Resources		
SRP.RA.03.03	Demographic Growth	<b>Q3 18/19:</b> The Council has prepared a Learning Estate Strategy to reflect the projected growth in demand through to 2040.Capital Strategy to set out infrastructure required to meet those demographic pressures. This updated report will be presented to Council in February 2018.	Head of Education	31-Jul-2020	
SRP.RA.03.07	Learning Estate Strategy	<b>Q3 18/19:</b> The Council has prepared a Learning Estate Strategy to reflect the projected growth in demand through to 2040.This updated report will be presented to Council in February 2018	Head of Education; Head of Property and Facilities Management		
SRP.RA.03.05	Participatory Budgeting	<b>Q3 18/19:</b> Development of a strategy or action plan to comply with requirements of the Community Empowerment Act 2015.	Director of Education Communities and Economy;	31-Mar-2021	
SRP.RA.03.06	Education Act 2000 to be repealed.	<b>Q3 18/19:</b> Education Service have implemented the Education Act 2016 which requires mandatory reporting on closing the attainment gap which we do via the NIF report annually in August to SG and then annually to Midlothian Council in December 2018 via the achievement and attainment report. There is a duty to collaborate across Local Authorities which we are doing via the South East Improvement Collaborative (SEIC).	Head of Education	31-Mar-2019	
SRP.RA.03.06	Free personal Care for people under 65	<b>Q3 18/19:</b> Report due to Council in February setting out potential impact on Council.	Head of Adult and Social Care	1 April 2019	

### SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<p><b>Risk cause</b>            Employees not suitably trained/developed for the roles required of them.            limited availability of qualified practitioners in certain sectors            Change program not informed by all key stakeholders            Ageing work force            Employees unclear on expected behaviours.            Employees constrained to innovate as a result of management practice            Employee productivity rate below the required level</p>	Head of Finance and Integrated Service Support	<p><b>Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan.</b></p> <p><b>Attendance / Wellbeing</b>            1. Implementation of the Wellness@Midlothian agenda including service-level wellness plans.            2. Implementation of Mental Health Framework.            3. Maintaining the Healthy Working Lives Gold Award.            4. Proactive use of Occupational Health, Midlothian Physiotherapy,</p>	3	4	

	<p>because of ineffective use of the People Policies particularly Maximising Attendance</p> <p><b>Risk event</b> Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p> <p><b>Risk effect</b> Difficulties recruiting the right staff Challenges retaining quality staff Low skill levels Low morale, especially during change High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge</p>		<p>Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Range of related policies and management guidance. 6. Development of progressive People Policies including sexual harassment.</p> <p><b>Performance</b> 1. Council-side and Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Reviewed Code of Conduct. 4. Employee engagement/action planning sessions underway following publication of the staff survey results. 5. Continued re-enforcement of all People Policies involving various communication methods. 6. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc.</p> <p><b>Organisational Change</b> 1. Revised Policy for Organisational Change including strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment. 3. Agreed protocol for accessing the Redeployment Fund. Support mechanisms identified for staff during this period of unprecedented change.</p> <p><b>Conduct</b> 1. Resolution Policy encourages early intervention in workplace issues. 2. Professional standards and values to be re-enforced in structured format. Disciplinary procedure continues to be robustly applied where areas of alleged misconduct are identified.</p> <p><b>Communication</b> 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.0	Workforce Strategy	Q3 18/19: Continued ongoing delivery of the workforce strategy actions	Head of Finance	31-Mar-2019	

3			and Integrated Service Support		
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### SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p><b>Risk cause</b> General Data Protection Regulation is a new piece of legislation currently being formulated by the European Commission. It is expected to be agreed in the first part of 2016 with a two year lead in period.</p> <p><b>Risk event</b> The Regulation implemented on 25 May 2018.</p> <p><b>Risk effect</b> The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros which ever is greater.</p>	Ian Wragg	<ol style="list-style-type: none"> <li>1. Information Management Group</li> <li>2. Public Sector Network Compliance.</li> <li>3. Meta Compliance</li> <li>4. Information Management, awareness raising program (Private-i)</li> <li>5. General Data Protection Regulation Project plan implemented with close report.</li> <li>6. Public sector cyber security compliance</li> <li>7. Implementing Scottish Government Cyber Security Action Plan</li> </ol>	3	5	

### SRP.RR.08 Asset Management – buildings, vehicles, roads and Digital assets/networks

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p><b>Risk cause</b> Many of the assets the Council own by their nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles &amp; buildings used to deliver services.</p> <p><b>Risk event</b> Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p><b>Risk effect</b> In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid</p>	Head of Commercial Operations; Head of Finance and Integrated Service Support; Head of Property and Facilities Management	<ol style="list-style-type: none"> <li>1. There is provision in place within the capital plan for investment in the asset base.</li> <li>2. Asset register</li> <li>3. Conditional Survey</li> <li>4. Understanding of future asset needs</li> <li>5. Asset Strategy: <ul style="list-style-type: none"> <li>. Roads</li> <li>. Land</li> <li>. Fleet</li> <li>. Digital Service Network</li> <li>. Digital Service hardware</li> </ul> </li> <li>6. Capital program - investment in estate.</li> <li>7. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users.</li> <li>8. Introduction of Capital Plan and Asset Management Board</li> </ol>	3	3	

	resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.		9. Housing Asset Strategy and Strategic Housing Investment Plan			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.0 2	Appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	<b>Q3 18/19:</b> Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys.  Continuing to develop property asset management plans, priority spend on basis of independent surveys.	Head of Property and Facilities Management	31-Mar-2019	
SRP.RA.08.0 4	Reviewed Roads Asset Management Strategy	<b>Q3 18/19:</b> Roads Asset Strategy, work progressing to migrate to version 4 through 2018/19. Information to be taken to capital board on future need for next 5 years.	Head of Commercial Operations	31-Mar-2019	
SRP.RA.03.0 3	Demographic Growth	<b>Q3 18/19:</b> The Council has prepared a Learning Estate Strategy to reflect the projected growth in demand through to 2040. Capital Strategy to set out infrastructure required to meet those demographic pressures. This updated report will be presented to Council in February 2019.	Head of Education	31-Jul-2020	

### SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	<p><b>Risk cause</b> Code of conduct for Members and employees actions falling short of International Standards.</p> <p><b>Risk event</b> Failure in openness, accountability, clarity.</p> <p><b>Risk effect</b> Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life</p>	Alan Turpie	<p><u>Potential</u> sub risks include:-</p> <p>01 Macro governance at the top – failure in openness, accountability, clarity;</p> <p>02 Micro governance in services, partnerships and projects and outcomes not achieved</p> <p>03 Non-compliance with codes of conduct and reduction in standards in public life</p> <p>04 Annual Assurance Statement.</p>	3	4	

## SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<p><b>Risk cause</b> Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p><b>Risk event</b> Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.</p> <p><b>Risk effect</b> Policies not monitored could result in non-compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Head of Finance and Integrated Service Support; Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding. 5. Community Safety Strategic assessment completed. 6. Procurement Strategy 2018 7. Capital Strategy 8. IJB Strategic Plan	2	3	

## SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p><b>Risk cause</b> Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the</p>	Head of Adult and Social Care; Head of Children's	1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls.	3	3	

<p>risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information</p> <p><b>Risk event</b> Persons exploiting opportunities to commit fraud Waste and errors</p> <p><b>Risk effect</b> Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p> <p>Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance</p>	<p>Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Head of Finance and Integrated Service Support; Head of Property and Facilities Management; Director of Resources</p>	<p>3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy. 5. Internal and external assurance. 6. Statutory inspection.</p>			
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**SRP.RR.16 Growing Council**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p><b>Risk cause</b> Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increased by 100% between 2014 and 2039.</p> <p><b>Risk event</b> Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p><b>Risk effect</b> Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted. Increased demand on Council Housing. Increase in population is likely to see a corresponding % increase in need for support services for example children's services.</p>	<p>Director of Resources, Director of Education Communities and Economy; A.Short (Joint Director Midlothian Health and Social Care Partnership)</p>	<p>1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Strategy Strategy 6. Housing Strategy and SHIP 7. IJB Strategic Plan 8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth.</p>	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.03	Demographic Growth	<b>Q3 18/19:</b> The Council has prepared a Learning Estate Strategy to reflect the projected growth in demand through to 2040. Capital Strategy to set out infrastructure required to meet those demographic pressures. This updated report will be presented to Council in February 2019.	Head of Education	31-Jul-2020	

**SRP.RR.17 UK Decision to leave the EU**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	<p><b>Risk cause</b> UK vote to leave the European Union</p> <p><b>Risk event</b> UK leaving the European Union</p> <p><b>Risk effect</b> The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear as negotiations progress following the triggering of article 50. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.</p>	Director Resources; Director of Education Communities and Economy; A.Short (Joint Director Midlothian Health and Social Care Partnership)	01 - The Council will monitor the implications of the UK's decision to leave the EU on the Council through its risk management approach and will develop approaches to respond to specific risks as further clarity on impact becomes clearer.	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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SRP.RA.17.A 1	Impact of no deal being assessed	<b>Q3 2018/19:</b> All Council Services have been made aware of the potential of the UK Government being unable to reach an agreement with the European Union and leaving the EU on 29 March 2019 without a deal. Services have been directed towards UK Government guidance on how to prepare for a no deal and have been tasked with assessing the potential impact and identifying appropriate risk responses.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Head of Education; Head of Finance and Integrated Service Support; Head of Primary Care and Older People's Services; Head of Property and Facilities Management	29-Mar-2019	
SRP.RA.17.A 2	Preparations for potential no deal	<b>Q3 18/19:</b> Report prepared for CMT on EU settlement scheme. Proposal to carry out a further survey of staff to better capture / articulate what risk is of outward migration during quarter 4.	Head of Finance and Integrated Service Support	29-Mar-2019	

### SRP.RR.20 Early Years Expansion (1140 Hours)

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	<p><b>Risk cause</b> Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment to increase the current provision of free early years care from 600 to 1140 hours.</p> <p><b>Risk event</b> Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p><b>Risk effect</b> Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools</p>	Head of Education	<ol style="list-style-type: none"> <li>1. Learning Estate Strategy</li> <li>2. Early Years Expansion to 1140 hours updates</li> <li>3. Capital Strategy</li> </ol>	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.03	Demographic Growth	<b>Q3 18/19:</b> The Council has prepared a Learning Estate Strategy to reflect the projected growth in demand through to 2040. Capital Strategy to set out infrastructure required to meet those demographic pressures. This updated report will be presented to Council in February 2019.	Head of Education	31-Jul-2020	

### SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p><b>Risk Cause:</b> Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p><b>Risk Event:</b> The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering.</p> <p><b>Risk Effect:</b> Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient.</p> <p>Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	Head of Finance and Integrated Service Support	<ol style="list-style-type: none"> <li>1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan</li> <li>2. Cyber Essentials Plus Certification</li> <li>3. Public Sector Network Certification</li> <li>4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack</li> <li>5. Employing an Information Governance and Security Lead</li> <li>6. Implementing Scottish Government Cyber Security Action Plan</li> </ol>	4	5	

## Opportunities

### SRP.OP.01 Shawfair

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house-builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Director of Education Communities and Economy;	<ol style="list-style-type: none"> <li>1. Shawfair Development Group.</li> <li>2. Legal agreement with developers to secure developer contributions (Section 75)</li> <li>3. Plan for entire community:</li> <li>4. Business and industrial provision, including small business incubator space.</li> <li>5. Circa 4000 new homes</li> <li>6. A school campus comprising Early Years, Nursery, Primary, Secondary &amp; Life Long Learning provision</li> <li>7. New Primary schools</li> </ol>	5	4	

### SRP.OP.02 Borders Rail

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Passenger numbers after three years of operation are above projections. The railway has been, and continues to be a catalyst for economic development, access to training and labour markets, tourism growth, environmental improvements must notably in town centres, and access to the countryside.	Director of Education Communities and Economy;	<ol style="list-style-type: none"> <li>1. Designated Project Manager post.</li> <li>2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government (to be refined in quarter 4), Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway.</li> <li>3. Dedicated Tourism Development post - March 2019.</li> <li>4. Timely submission of bids for approval by the Blueprint Group</li> <li>5. Close monitoring of approved funded projects.</li> </ol>	5	4	

### SRP.OP.03 Easter Bush – Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	One of Midlothian's largest and most significant employment areas. Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. Need to secure long-term strategic road access to ensure continued growth.	Director of Education Communities and Economy;	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including Science Technology Engineering and Mathematics (STEM). 2. Land allocated for expansion. 3. Midlothian Science Zone. 4. City Deal funding to provide for growth and strategic road access.	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A1	A702 Trunk Road Improvements	<b>Q3 18/19:</b> City Deal business case for Easter Bush expansion includes A702 road scheme to improve long term strategic access. Through liaison with Edinburgh University and Transport Scotland within the context of City Deal.	Director of Education Communities and Economy;	31-Mar-2019	

### SRP.OP.04 City Deal

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation. 200 Council Houses linked to the City Deal.	Director of Education Communities and Economy;	1. City Deal signed in August 2018. 2. Maintain strong Midlothian involvement through the City Deal governance structure. 3. Midlothian City Deal Key Officer (Internal) Group. 4. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases.	3	5	

### SRP.OP.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as the fastest growing Council's in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a	Chief Executive	1. Community Planning Partnership 2. The Single Midlothian Plan 3. Strategic Housing Investment Plan (SHIP)	5	5	

	<p>focus on area targeting, improving economic opportunities, improving education and health outcome.</p> <p>This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing bracket, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.</p>					
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**SRP.OP.07 Creating a world Class Education System**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty. .	Head of Education	<ol style="list-style-type: none"> <li>Digital Centre of Excellence at Newbattle Community High School</li> <li>Partnership agreement with the University of Edinburgh</li> </ol>	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	<b>Q3 18/19:</b> Research and development on the Centre of Excellence continues a number of work streams are planned to support its implementation. Work streams are set out in update report to Council in June 2018.	Head of Education	31-Mar-2019	



**Chief Internal Auditor  
Jill Stacey**

Audit Committee  
Tuesday 12 March 2019  
Item No: 5.3

**Auditor: Chris Hurt, Ext 3285**

## **Final Internal Audit Report**

**to**

- Chief Executive
  - All Directors
- All Heads of Service
  - HR Manager
- HR Business Partners

**on**

## **Workforce Strategy and Planning**

**22 February 2019**

## 1 Introduction

1.1 The purpose of this audit was to review the approach to workforce development in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.

## 2 Audit Scope

2.1 The scope of this audit was to examine and evaluate the following areas:

- the contribution of the strategy towards the attainment of the Council's vision and priorities,
- the completeness of workforce planning across service areas;
- on a sample basis, the assessment and analysis of workforce plans intended to deliver the strategy including the appraisal of key planning assumptions; and
- the review of processes in place for monitoring delivery of the strategy.

## 3 Management Summary

3.1 On 19 December 2017 the Council approved a Workforce Strategy covering the period 2017-2022 intended to set out the approach to reshaping, supporting and developing a workforce appropriate to the Council's values and vision. The Workforce Strategy forms the framework within which Service Workforce Plans are produced. Adult Social Care develops its Workforce Plans within a separate framework known as the Midlothian Health and Social Care Partnership Workforce Framework. The function of the Framework is very similar to that of the Council's Strategy but is produced taking into account the priorities and roles of both the Council and NHS Lothian in delivering integrated health and social care services.

3.2 Workforce Plans and Action Plans are in place for most Services. Considerable effort has been put into developing these plans although further work is now required to reflect the acute financial pressures facing the public sector and to align with the medium term financial, business and transformation plans specifically in the following areas:

- analysis of future workforce requirements;
- gap analysis and gap closing strategies; and
- setting performance measures and targets in order to evaluate how successfully the plans are being delivered.

3.3 The following examples of good practice were found:

- Considerable progress has been made with Workforce Planning; the workforce planning exercise initially undertaken during 2016/17 represents a significant step forward.
- Joint Workforce Planning undertaken by Midlothian Health and Social Care Partnership is a sensible approach to integrated planning between Adult Social Care with Health.

3.4 Internal Audit considers that the level of assurance we are able to give is Substantial Assurance.

3.5 The Internal Audit function conforms to the professional standards as set out in the Public Sector Internal Audit Standards (2017), including the production of this report to communicate the results of the review.

3.6 We would like to thank those officers who assisted us during our review.

#### 4 Findings

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
<p>4.1 The Workforce strategy does not assist the Council in delivering against the Single Midlothian Plan priorities resulting in local hardship for the population of Midlothian and reputational damage to the Council.</p>	<p>The Workforce Strategy should provide a meaningful framework within which detailed plans are made to assist the Council in delivering against the Single Midlothian Plan priorities.</p>	<p>The Council has approved a Workforce Strategy covering the period 2017-2022 intended to set out the approach to reshaping, supporting and developing a workforce appropriate to the Council's values and vision.</p> <p>The Workforce Strategy forms the framework within which Service Workforce Plans are produced. These plans in turn form the basis for the development of detailed action plans.</p> <p>The Workforce Strategy recognises the Transformation Programme, although in doing so becomes compromised by the limited progress with transforming the way in which the Council delivers services to the community.</p> <p>Adult Social Care develops its Workforce Plans within a separate framework known as the Midlothian Health and Social Care Partnership Workforce Framework. The function of the Framework is very similar to that of the Council's Strategy but is produced taking into account the priorities and roles of both the Council and NHS Lothian in delivering integrated health and social care. The Framework however leads to the direct production of action plans.</p> <p>In their 2017/18 report the Council's external auditors, EY, highlighted that the Council continues to face acute financial pressures. This will inevitably shift priorities of both the Council and the IJB and require the Workforce Strategy and associated Service Workforce Plans to be reviewed to ensure they properly fit with those revised priorities.</p>	<p>Good, subject to update in alignment with business and financial planning processes.</p>	<p>5.1</p>

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
<p>4.2 Service Workforce plans are not in place to articulate the strategy resulting in the strategy not being delivered or delivered late, impacting on the Council's ability to deliver Services and financial sustainability thus requiring further reductions which may impact on the residents of Midlothian, reduce staff morale and cause reputational damage to the Council.</p>	<p>Midlothian Council Workforce Plans for each Service area are in place which analyse current and future requirements and set out actions to address identified gaps to meet Council priorities and objectives.</p>	<p><b>Midlothian Council Workforce plans</b></p> <p>We confirmed that Workforce Plans for the period 2017-2022 were in place for all Service areas other than two: one Service was not able to provide any plans; one other provided an action plan only.</p> <p>Workforce plans examined were prepared using data for 2016/17 and in a format developed by Scottish Government. We conducted a high level review of Service and Action Plans and found the following common themes:</p> <ul style="list-style-type: none"> <li>• analysis of the existing workforce was generally comprehensive;</li> <li>• analysis of future workforce requirements and how this related to the Council's strategic objectives including financial priorities is generally poor and therefore compromises meaningful gap analysis in most cases;</li> <li>• gap closing strategies relating to recruitment, selection, training and retention are not articulated in any detail, if at all;</li> <li>• performance measures are not consistently meaningful and targets for evaluation of performance not set.</li> </ul> <p>We also noted that there is no formal process for monitoring the delivery of Service workforce plans.</p>	<p>Satisfactory, subject to alignment of workforce planning with business and financial planning processes.</p>	<p>5.2 5.3 5.4</p>

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
<p>4.3 Service Workforce plans are not in place to articulate the strategy resulting in the strategy not being delivered or delivered late, impacting on the Council's ability to deliver services and so financial sustainability and requiring further reductions which may impact on the residents of Midlothian, reduce staff morale and cause reputational damage to the Council and the IJB.</p>	<p>Midlothian Health and Social Care Partnership Workforce Plans for each Service area are in place which analyse current and future requirements and set out actions to address identified gaps to meet MIJB strategic priorities and objectives.</p>	<p><b>Midlothian Health and Social Care Partnership Action Plans</b></p> <p>Action plans are in place for many but not all areas of Adult Social Care within scope of the Midlothian Health and Social Care Partnership (H&amp;SCP) under the strategic direction of the Midlothian Integration Joint Board.</p> <p>We found that Action Plans for the Recovery Hub (Mental Health, Substance Misuse and Criminal Justice) Services, Learning Disability Services, Care Home services and Primary Care Services are expected to be completed by end March 2019.</p> <p>We also noted that a full report on the current H&amp;SCP workforce profile from Midlothian Council and NHS Lothian has not been received and workforce planning cannot be completed without this information.</p> <p>Our observations relating to completed H&amp;SCP Action Plans is similar to those of the Council's Workforce Plans and Action Plans.</p> <p>Discussions are underway between Chief Internal Auditor and Officers of the Midlothian Integration Joint Board (MIJB) regarding Internal Audit work on workforce development within health and social care partnership requiring assurance from Internal Auditors of both Midlothian Council and NHS Lothian. This is subject to separate Internal Audit Plans and Reports presented to the MIJB.</p>	<p>Satisfactory subject to alignment of workforce planning with business and financial planning processes to those of Health and Social Care Integration.</p>	<p>5.2 5.3 5.4 For Council Services in scope of Midlothian H&amp;SCP</p>

## 5 Recommendations

Rec. No	Recommendation	Rating	Management Response	Responsibility and Timescale
5.1	The Council's Workforce Strategy and associated Service Workforce Plans should be reviewed in order to ensure they properly fit with the revised priorities arising from the Council's acute financial pressures as reflected in financial, business and transformation plans.	<b>High</b>	A review of the Council's Workforce Strategy is underway and will be finalised and reported to Council once the Medium Term Financial Strategy (MTFS) has been approved.	Head of Finance and ISS 1/10/19 (Council)
5.2	Revision to Service Workforce Plans and Action Plans are also required for reasons set out in recommendation 5.1 and further work is required in the following areas: <ul style="list-style-type: none"> <li>analysis of future workforce requirements and how this related to the Council's strategic objectives including financial priorities;</li> <li>gap analysis and gap closing strategies; and</li> <li>performance measures and target setting for evaluation of success in delivering the Workforce Plan.</li> </ul>	<b>High</b>	Service Workforce plans will be updated to reflect the MTFS which is to be presented to Council before the Summer recess (2019). It is expected that this work can be finalised once the MTFS has been approved by Council.	Heads of Service 1/10/19
5.3	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.	<b>Medium</b>	This can be considered in parallel to the review of the Workforce Strategy as set out in the action for recommendation 5.1.	As above for 5.1
5.4	Workforce planning processes should be aligned with business and financial planning processes, through timetabling of similar activity in the planning and review cycle and closer working of HR Business Partners with performance and finance colleagues to support Directors and Service Managers.	<b>Medium</b>	See action for recommendations 5.1 and 5.2.	As above for 5.1 and 5.2

## Overall Audit Opinion level and 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 might 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.

## Recommendation Ratings

Recommendations in Internal Audit Reports are suggested changes to existing procedures or processes, to improve the controls or to introduce controls where none exist. The rating of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The ratings are:

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. The risk should be added by Management to the relevant Risk Register for control and monitoring purposes and included in the relevant Head of Service Annual 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 the attention of Senior Management.
Other	Minor administrative weaknesses posing little risk of error, fraud, financial loss or reputational damage.

The Action Plans in Internal Audit Reports address only Recommendations rated High, Medium or Low. Outwith the Internal Audit Report, we inform Service Management about Other Minor matters to improve internal control and governance.

The recommendations will be input to Pentana performance system to assist with Management tracking of implementation. If responsible owners are unable to achieve the standard timescales for actions please notify the Chief Internal Auditor with the reason for the delay in implementation and the revised timescales to assist with the implementation and follow-up of these recommendations to improve internal control and governance.

**Jill Stacey**  
Chief Internal Auditor





**Chief Internal Auditor  
Jill Stacey**

Audit Committee  
Tuesday 12 March 2019  
Item No: 5.4

**Auditor: James Polanski, Ext 5646**

## **Final Internal Audit Report**

**to**

- Chief Executive
  - Directors
- Heads of Service,
- Legal Services Manager
- Information Governance/Security Services Lead

**on**

**Information Governance Framework and GDPR**

**22 February 2019**

## 1 Introduction

- 1.1 The purpose of this audit was to review the Council's Information Governance Framework including roles and responsibilities, policy development, and implementation. This included a review of the Council's compliance with the requirements of the General Data Protection Regulations (GDPR).
- 1.2 The Data Protection Act 2018 (DPA) covers the use of personal data within the scope of the General Data Protection Regulation (GDPR) and beyond it. Amongst other provisions, it repeals and replaces the Data Protection Act 1998, incorporates the GDPR into UK law, lays the ground for free-flow of data between the United Kingdom and the European Union after the UK's withdrawal from the EU, sets out permitted exemptions under the GDPR, and sets out the duties and powers of the UK's Information Commissioner's Office (ICO).
- 1.3 The Data Protection Act 2018 was given Royal Assent on 23 May 2018, and GDPR came into force from 25 May 2018.
- 1.4 GDPR provides individuals with more power and control over their personal data by strengthening and unifying data protection for all EU individuals with more rights and control over how their personal data is handled by organisations such as the Council.

## 2 Audit Scope

- 2.1 The scope of this audit was to examine and evaluate the following areas:
  - the information governance policies and procedures established by the Council; and
  - the controls in place to monitor compliance with the Council's information governance policies and procedures.

## 3 Management Summary

### Information Governance Policies

- 3.1 The GDPR requires organisations to demonstrate how they comply with the principles. Midlothian Council has an approved Privacy Policy in place (approved by CMT November 2017). The principles of GDPR are adequately outlined in the policy, as are the roles and responsibilities of the Council and key staff members.
- 3.2 The GDPR requires that all public authorities appoint a Data Protection Officer (DPO), an officer with responsibility for the organisation's data protection compliance. In May 2018, CMT appointed the Legal Services Manager to act as the DPO on a short term basis until a full time DPO is appointed, with the Principal Solicitors as Depute DPOs to ensure business continuity and resilience in the absence of the DPO. At the time of reporting, interviews for the DPO role had been undertaken in late January 2019, and the DPO will soon be appointed.
- 3.3 It is mandatory for the Council to register with the ICO and pay the associated data protection fee. This was verified through review of the ICO register and the payment made to ICO through review of the record in the Council's finance system.

- 3.4 The Council has an Information Security Policy in place, available on the Council's Intranet, and it has been recently updated for GDPR. No issues were noted with the policy. Additionally, comprehensive written procedures and guidance documents are easily accessible on the Council's Intranet Information Management page. The procedures cover many information management topics.
- 3.5 Article 5(1)(e) of the GDPR requires that data is kept in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data is processed. The Council has a comprehensive data retention schedule in place that is easily accessible for all employees. Within the register it includes the reasoning for the retention of the data (business requirement, legal, or best practice), and no issues were noted with the time period or reasoning as described. An approved Records Management Policy is in place, available on the Council's Intranet Business Services page, and the policy has been updated for GDPR. Records Management will be subject to a separate review on Information Governance next year.
- 3.6 Further work is required to prepare the Individual Rights Policy (referenced to as an appendix within the Privacy Policy), which would define individual's rights in further detail and how the Council manages these rights, including Subject Access Requests which are referred to later in this report. The Privacy Policy also refers to an Open Data Strategy as an appendix. It is understood that this area of work is outstanding to address how to make public service and commercial data openly available for everyone to use and republish as they wish. Furthermore the Council does not yet have a Data Quality policy which provides an overarching, corporate approach to the management of data quality to support decision making, and helps demonstrate the accountability principle of the GDPR.

### **Information Asset Register and Data Protection Impact Assessments**

- 3.7 Article 30 of GDPR requires that each controller shall maintain a record of processing activities under its responsibility. Compliance with this Article is achieved through an Information Asset Register (IAR). The GDPR Project Team developed the IAR template and guidance on how to complete the IAR, and provided support to Services for completion of the IARs. Review of the template noted it covered the mandatory requirements of Article 30, and this can be further developed over time to go into the level of detail described by ICO as 'best practice'.
- 3.8 The Council has acquired a system called OneTrust to record details of all the Council's information assets. This software will allow Services to periodically update their register, and email reminders can be sent directly to the relevant officers. Review of the Council's IARs identified that almost all Services had completed their IAR, with 3 minor exceptions.
- 3.9 It was noted that further work is required in establishing if the information sharing agreements documented in the IAR have been updated for GDPR, and if additional information sharing agreements are required for any gaps identified through the Services' completion of the IAR, as well as quality assurance of IAR responses (legal basis).
- 3.10 GDPR has introduced a legal requirement to carry out a data protection impact assessment (DPIA) for any type of processing that is likely to result in a high risk to the rights and freedoms of individuals. DPIAs help organisations identify the most effective way to comply with data protection obligations (privacy by design) and meet individuals' expectations of privacy. DPIA guidance and a template have been published on the Council's Intranet Information Management page, and training has been provided to relevant officers. The template and guidance was reviewed and no issues were noted.
- 3.11 The activity is work in progress with the intention for Managers to record DPIA completion via self-service through the OneTrust Information Asset Register as the central register of DPIAs.

## **Privacy Notices and Forms**

- 3.12 In accordance with GDPR Article 13, where personal data relating to a data subject is collected, the Council uses privacy notices to: explain the purposes of processing; the legal basis for processing; the data subjects rights in relation to their personal data held by the Council; whether the data will be shared with any other parties; whether there is any automated decision making or profiling using the personal data; the retention period; and the contact details of the Data Protection Officer, responsible for monitoring the Council's compliance with Data Protection legislation.
- 3.13 The GDPR project team, through the IAR process, helped Services develop Privacy Notices that adequately describe their activities. A sample of 10 Privacy Notices were reviewed as part of this audit, and no issues were noted. A sample of 20 paper forms and 15 online forms were selected to check whether they included the relevant Data Protection Act 2018 wording which identified that not all had been appropriately updated. Discussion with the Performance Officers identified that work has been underway to ensure that Service's forms are being updated to include the relevant privacy notice wording.

## **Freedom of Information Requests and Subject Access Requests**

- 3.14 The public are entitled to make requests for information held by the Council under the Freedom of Information (Scotland) Act 2002 (FOI). The Council has an FOI system in place with nominated, trained, FOI contacts who take forward the FOI requests. Comprehensive guidance documents for this are available on the Council's Intranet FOI page.
- 3.15 The Council's process on Subject Access Requests (SAR) was discussed with the three directorate Performance Officers as part of this audit. It was noted that the Performance Officers were knowledgeable of the requirements of the SAR process, and no issues were noted.
- 3.16 Metrics on FOIs and SARs are reported to the IMG and CMT on a regular basis for monitoring of the Council's compliance in meeting the statutory response times and taking action as appropriate. These are important indicators, as continued late responses could result in a fine from ICO. There has been a noticeable increase in the volume of SARs received by the Council, which presents a challenge due to complexity of some of the requests and response timescales. It is noted that some Councils publicly report on their performance in responding to SARs and FOIs within the statutory response times, a practice not currently adopted by Midlothian Council.

## **Data Breaches**

- 3.17 The GDPR introduces a duty on all organisations to report certain types of personal data breach to the relevant supervisory authority. This must be done within 72 hours of becoming aware of the breach, where feasible. The IMG has established a procedure for reporting data breaches and reviewing security incidents. Any lessons learned and ICO recommendations, where relevant, are considered and implemented as appropriate.
- 3.18 The importance of reporting Data Breaches to the IMG contacts has been highlighted to staff through the mandatory training, Management, and periodic notifications from the IMG via email and the staff magazine. The Data Breach procedure was reviewed, and no issues were noted with the procedure.

## Training

- 3.19 Staff training is an essential part of GDPR compliance. Staff training reduces the risk of errors, inconsistencies, and data breaches. Additionally, it helps demonstrate compliance with GDPR (the Accountability Principle).
- 3.20 Prior to the introduction of GDPR, the Council arranged training sessions for second and third tier managers and other key staff to ensure that they are aware of GDPR's requirements and to assess the impact this would have on their Services. A mandatory GDPR training module has been made available to all staff on the LearnPro e-learning system. Additionally, measures have been taken to ensure employees who do not have access to a computer complete the training module. The ICO expects organisations to evidence a 95% completion rate.
- 3.21 The take-up of the training module (including employees who do not have access to a computer) as at 31/01/2019 is as follows:

Directorate	Percentage Complete
Elected Members	20.00%
Education, Communities and Economy	74.22%
Health and Social Care	72.83%
Resources	52.10%
Total	65.49%

- 3.22 Completion rates for the GDPR mandatory training are reported to the IMG and CMT on a regular basis, and reminders have been issued to staff by Management to encourage completion across the Directorates.
- 3.23 Officers have advised that further specialist GDPR training will be rolled out in 2019 to ensure all employees are appropriately trained and further demonstrate compliance with GDPR.

## Compliance Monitoring

- 3.24 The Council has an Information Management Group (IMG) in place, with an appropriate Terms of Reference. The remit of the IMG is to identify and maintain high quality information assets and to share these assets in accordance with current data protection legislation and best practice. It was noted that the IMG meets regularly, appropriately reviews and monitors the Council's activities relating to data and data protection, and periodically reports the findings of the Group, including progress with implementing the requirements of the GDPR, to Senior Management.
- 3.25 The ICO controller's checklist recommends that organisations should establish a formal process of self-assessing compliance with GDPR (section 3.1 of the controller's checklist). This includes testing measures within the policies to provide assurances about their continued effectiveness. The Council does not yet have a formal self-assessment process in place, but is understood from discussion with Management that this will be introduced once the new DPO is in post.

## Assurance Opinion

- 3.26 We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, scope for improvement as current arrangements could undermine the achievement of objectives. This includes, ensuring that there is adequate quality assurance work carried out on the Information Asset Register and evaluation of Service responses, review of all Information Sharing Agreements to ensure compliance with GDPR and sufficiency of the agreements, further roll out of GDPR training, and ensuring all relevant forms have been updated for GDPR. Management actions are underway to address areas of known risk, as has been recently reported to the Corporate Management Team.
- 3.27 Further best practice improvements were identified in this review such as ensuring completion of policies supporting the Privacy Policy (Individual Rights Policy, Data Quality Policy, and Open Data Strategy), implementation of a data protection self-assessment process as recommended by ICO, and improvements in reporting of SARs and FOIs.
- 3.28 In light of this review and the Council's Internal Audit Strategy reference to its 'critical friend' role, it is proposed that an Internal Auditor joins the Council's Information Management Group as a virtual member and attends meetings quarterly, as this will allow monitoring of completion of any improvement actions being progressed by Management as part of continuous auditing.
- 3.29 The Internal Audit function conforms with the professional standards as set out in the Public Sector Internal Audit Standards (2017), including the production of this report to communicate the results of the review. We would like to thank those officers who assisted us during our review.

## **Internal Audit Strategy and Annual Plan 2019/20**

### **Report by Chief Internal Auditor**

#### **1. Purpose of the Report**

The purpose of this report is to gain approval to the proposed Internal Audit Strategy and Annual Plan 2019/20 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.

#### **2. Background**

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.

#### **3. Internal Audit Strategy**

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.”

The Internal Audit Strategy at Appendix 1 outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance to the relevant organisation’s senior management and board/audit committee.

#### 4. Internal Audit Annual Plan 2019/20

The Midlothian Council Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017). 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.”

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.”

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.”

The Internal Audit Annual Plan 2019/20 developed by the Shared Chief Internal Auditor is presented at Appendix 2. The proposed reviews have been grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. There is a brief commentary for each activity.

It is envisaged that 2019/20 will continue to be year of change for the Council, therefore the Internal Audit Annual Plan 2019/20 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.

## 4. Report Implications

### 4.1 Resource

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). There is currently a staff resource of 5.64 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 0.42 FTE Other Audit Resources), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), all of whom are CCAB/CIIA professionally qualified experienced auditors, plus Fraud and Audit Officer (2.0 FTE) all of whom are qualified experienced fraud investigators. After deduction for personal and public holidays, unplanned absence, learning and development, management and administration this equates to a total of 1,005 days available for Internal Audit and Corporate Fraud activity.

There is a commitment to provide 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.

### 4.2 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 areas 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 and service risk registers 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. Each Internal Audit assignment will be risk-based and, where appropriate, will test the specific Service's management of risk.

### 4.3 Single Midlothian Plan

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

#### **4.4 Key Priorities within the Single Midlothian Plan**

Midlothian Council and its Community Planning Partners include 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

#### **4.5 Impact on Performance and Outcomes**

The Internal Audit plan assists the Council in improving its performance and outcomes.

#### **4.6 Adopting a Preventative Approach**

Specific audits within the 2019/20 plan will include assessments on when a preventative approach can be adopted.

#### **4.7 Involving Communities and Other Stakeholders**

The proposed coverage specific to Service areas within the Internal Audit Annual Plan 2019/20 has been discussed with Directors and Heads of Service at Directorate Management Team meetings, and the proposed Internal Audit Annual Plan 2019/20 has been discussed with the Corporate Management Team. The plan has also been passed to Midlothian Council's External Auditors, EY, for comment, prior to submission to the Audit Committee for their approval.

#### **4.8 Ensuring Equalities**

There are no equalities issues with regard to this report.

#### **4.9 Supporting Sustainable Development**

There are no sustainability issues with regard to this report.

#### **4.10 IT Issues**

There are no IT issues with regard to this report.

### **5. Recommendations**

The Audit Committee is therefore asked to approve the Internal Audit Strategy (Appendix 1) and Annual Plan 2019/20 (Appendix 2).

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**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 an 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 the strategic priorities of each organisation and providing the required assurance.

**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, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines of defence. Internal Audit, as the third line of defence, is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and management of risks, therefore 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 independent and objective assurance from Internal Audit) and from external providers of assurance. Examples of the latter include the Accounts Commission, External Audit (EY - 5 year appointment 2016/17 to 2020/21 inclusive - 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 management of risk.
- 4.2. The organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Head of Finance and Integrated Service Support (MLC) and Chief Financial 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 computer systems to support service delivery, change and transformation through electronic service delivery 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 2019/20 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce an Internal Audit annual opinion.
- 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 and Service Risk Registers were checked to confirm coverage on key 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.

#### **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; 0.42 FTE Other Audit Resources), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), all of whom are CCAB/CIIA professionally qualified experienced auditors, plus Fraud and Audit Officer (2.0 FTE) all of whom are qualified experienced fraud investigators. The Available Days has been amended to reflect the Internal Audit resources after consideration of personal and public holidays, unplanned absence, learning and development, management and administration.

- 6.2. It is estimated that around 57% of Available Days will be spent on *assurance, legislative and other compliance, and other* 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.
- 6.3. An estimate of around 6% 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.
- 6.4. It is estimated that around 7% 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.
- 6.5. It is estimated that around 30% of Available Days will be spent on the provision of Corporate Counter Fraud services to support Management discharge their responsibilities for managing the risk of fraud, theft and corruption.

## **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 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.

7.6. *Counter Fraud* work will include compliance testing of fraud, theft or corruption prevention and detection controls in place with a particular focus on contracts with third parties, data matches to identify and respond to potential fraud (including data sharing with Audit Scotland for the National Fraud Initiative as part of the wider assurance framework on counter fraud and crime controls), and ensuring the counter fraud policy and strategy are fit for purpose for the Council in tackling fraud.

## **8. MONITORING THE WORK OF INTERNAL AUDIT**

- 8.1. Internal Audit finalised work and progress updates on implementation by Management of relevant Audit recommendations will be reported periodically during the year to the relevant organisation's Management and Audit Committee/Board.
- 8.2. 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.
- 8.3. The Internal Audit Annual Assurance Report for each organisation will provide the required opinion statement on the levels of assurance based on audit findings over the year.
- 8.4. 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.

## Internal Audit Activity

Ref	Category	Audit	Number of Days	Commentary
1.	Assurance Cyclical	Annual Assessment of Internal Control and Governance	20	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 based on key elements in the Local Code of Corporate Governance.
2.	Assurance Risk Based	Change and Transformation Programme	30	Continual audit approach to monitor implementation of improvements to the governance and accountability arrangements for the change and transformation programme including processes for benefit (financial and other) identification, tracking and realisation.
3.	Assurance Risk Based	Business Planning, Budget Setting and Monitoring	25	Evaluate the implementation of improvements to ensure that budgets set for 2019/20 are sustainable and based on realistic plans, and that appropriate scrutiny and challenge is undertaken on revenue budget monitoring reports to enable service delivery within approved budget.
4.	Assurance Cyclical	Attendance Management	20	Assess the controls in place to manage sickness absence across the Council, including compliance with policy and procedures, which underpin the effective use of resources.
5.	Assurance Risk Based	Workforce Planning	30	Review the Service workforce planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives, and to address issues such as recruitment and retention.

Ref	Category	Audit	Number of Days	Commentary
6.	Assurance Risk Based	Procurement and Management of Contracts	35	Review the processes and internal controls relating to the three main areas of the end-to-end procurement journey to ensure these adequately address the key risks, and test a sample of contracts from across the Council's Services to assess compliance with the procurement framework and adequacy of Management's contract monitoring arrangements.
7.	Assurance Risk Based	Automated invoice payments	20	Assess the authorisation controls, including segregation of duties, and security controls over payments.
8.	Assurance Risk Based	Leisure Management Booking System	10	Evaluate the income management controls on Leisure Management online booking systems to ensure income is accurately collected.
9.	Assurance Cyclical	Social Care Income Charging, Billing and Collection	25	Review the mechanisms in place to raise charges for Social Care clients in a timely manner and the process of collection and recovery of those charges, including the reliance upon various elements, namely: Care Plan, Funding, Contract, and Financial Assessment.
10.	Assurance Carried Forward	Community Engagement	30	Monitor implementation of any improvement actions arising from the Best Value Assurance Review 2019 on systems and procedures in place to assist the Council to engage with and communicate to the community in setting, delivering and reporting on its vision, priorities and plans.
11.	Assurance Carried Forward	ICT Operational Processes	30	Evaluate the change / incident / problem management operational controls to ensure they are designed appropriately and that all parties are adhering to them.  Assess response to Audit Scotland report May 2017 "Principles for a digital future: Lessons learned from public sector ICT projects"

Ref	Category	Audit	Number of Days	Commentary
12.	Assurance Risk Based	Information Governance	30	Continual audit approach to review the Information Governance framework including roles and responsibilities, policy development and implementation, specifically on the theme of Records Management i.e. Plan and actions to comply with good practice.
13.	Assurance Cyclical	Asset Registers	20	Review of systems, processes and controls that are in place to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities.
14.	Assurance Risk Based	Capital Investment	30	Continual audit approach to assess compliance with established good practice by Accounts Commission - strategic asset management plans; governance of capital investment; capital planning; review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme/projects.
15.	Assurance Carried Forward	Commercial Rents	25	Assess internal financial controls and governance arrangements linked to Corporate priorities, including estate management.
16.	Assurance Carried Forward	Business Gateway	15	Assess achievement of targets and transparency of reporting to elected members.
17.	Assurance Cyclical	Environmental Health	20	Review the business practices and ways of working within Environmental Health to ensure that regulatory obligations are met and risks are appropriately managed.

Ref	Category	Activity	Number of Days	Commentary
18.	Legislative and Other 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.
19.	Consultancy	Consultancy	60	Support Management in delivering innovation and transformational change and add value by influencing and offering ways to ensure adequate governance, risk management and internal controls. In its 'critical friend' role provide: an independent view and challenge of a sample of programmes and projects (including Learning Estate Strategy, and Early Years implementation); and an objective assessment of self-evaluation arrangements and improvements that underpin the provision of Best Value.
20.	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.
21.	Other	Audit Committee Self-Assessment	5	Provide assistance to Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance.
22.	Other	Recommendation Follow Up Reviews	30	Undertake 2 reviews: the first assesses performance against closing Audit Actions by the agreed due date; and the second includes a sample check on the adequacy of new internal controls for Audit Actions flagged as closed.
23.	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.

Ref	Category	Activity	Number of Days	Commentary
24.	Other	Help Desk Enquiry system	31	Provide guidance and advice to Management and Staff on internal controls. Manage any enquiries received through the whistle-blowing facilities offered by the Council.
25.	Other	Administration of Audit Scotland Reports	4	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.
26.	Other	Support for the Risk Management and Integrity Groups	15	Attend and provide support to the Risk Management Group and the Integrity Group.
27.	Other	Attendance at Boards / Committees	10	Prepare for and attend Audit Committee meetings and other Boards/Committees as relevant.
28.	Other	Audit Planning for 2020/21	10	Renew risk assessment, develop and consult on proposed coverage within the Internal Audit Annual Plan 2020/21.
29.	Non-MLC	Audit reviews and support for the Midlothian Integration Joint Board	70	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 IJB's arrangements for risk management, governance and internal control for delegated resources.
Internal Audit Total			700	

## Corporate Fraud Activity

Ref	Category	Activity	Number of Days	Commentary
1.	Compliance	Licensing	20	Testing of Licensing controls.
2.	Compliance	Contract Management	110	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.
3.	Compliance	Corporate Fraud Enquiries	55	Respond to whistleblowing notifications.
4.	Data Match	Council Tax Reduction Scheme, Discounts and Exemptions	30	Compliance testing of Council Tax Reduction Scheme, Discounts and Exemptions to determine whether these reductions are claimed legitimately.
5.	Data Match	National Fraud Initiative	75	Co-ordinate the NFI exercise across Council services, review and investigate data matches, and periodically produce reports for the Audit Committee on the outcomes.
6.	Other	Corporate Fraud Policy and Strategy	5	Review and update, as required, the Council's counter fraud policy statement and approach to managing the risk of fraud.
7.	Other	Fraud Awareness Training	10	Develop and deliver fraud awareness training modules (either face-to-face or via e-learning) to Management and Staff.
Corporate Fraud Total			305	