

Internal Audit Strategy and Annual Plan 2025/26**Report by Duncan Stainbank, Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is invited to:

- a) Note the changes to the Internal Audit Strategy outlined in section 4 of this report;
- b) Note the outline of the Internal Audit planning process outlined in section 5 of this report;
- c) Approve the Internal Audit Strategy (Appendix 1); and
- d) Approve the Internal Audit Annual Plan 2025/26 (Appendix 2).

2 Purpose of Report/Executive Summary

The purpose of this report is to gain approval from the Audit Committee to the proposed Internal Audit Strategy and Annual Plan 2025/26 to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and Midlothian Integration Joint Board (MIJB).

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

The Internal Audit Annual Plan 2025/26 at Appendix 2 has been developed by the shared Chief Internal Auditor and the Principal Internal Auditor. It sets out the proposed range and breadth of audit activity within the audit programme of work to enable the Chief Internal Auditor to prepare the independent and objective audit opinions for Midlothian Council and the MIJB. A separate Internal Audit Annual Plan 2025/26 for the MIJB will be presented to its Audit and Risk Committee. Key components of the audit planning process include a clear understanding of each organisation's functions, associated risks, and assurance framework.

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3 Background

- 3.1** The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the Global Internal Audit Standards (GIAS) as adjusted by the UK Public Sector Application note.
- 3.2** The Midlothian Council Internal Audit function is planning to follow the professional standards as set out in the Global Internal Audit Standards (GIAS) as adjusted by the UK Public Sector Application note, from the 1 April 2025, where resources allow. In accordance with GIAS to develop an effective internal audit strategy and plan, the chief audit executive must understand the organization's governance, risk management, and control processes.
- 3.3** GIAS also requires that the chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board (the Audit Committee acting on behalf of the Council), senior management, and other key stakeholders, including Audit Scotland and the Midlothian Public.
- 3.4** Internal Audit resources and services are also provided by Midlothian Council's Internal Audit team to the Midlothian Health and Social Care Integration Joint Board (MIJB), including the appointed MIJB Chief Internal Auditor. The Internal Audit Charter and Strategy are applicable to each organisation.

4 Internal Audit Strategy

- 4.1** GIAS Standard 9.2 Internal Audit Strategy states, that; "the chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders."
- 4.2** The Chief Internal Auditor (CAE) and the Principal Internal Auditor have developed the Internal Audit Strategy at Appendix 1. It outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with GIAS. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and the Midlothian Health and Social Care Integration Joint Board (MIJB).
- 4.4** The Internal Audit Strategy:
- Outlines the assurance framework, providing clarity of the respective responsibilities of Management for designing and monitoring governance and control systems and of the role of Internal Audit in providing independent assurance thereon;
 - States how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual Internal Audit opinion statement;

- Describes the approach to the development of the risk based Internal Audit annual plan;
- Sets out the relative allocation of Internal Audit resources;
- Outlines how the Internal Audit programme of work will be delivered to add value; and
- Describes the monitoring and reporting of Internal Audit findings from its work and progress with its plans to the relevant organisation's audit committee/board.

5 Internal Audit Annual Plan 2025/26

5.1 The key standards within the GIAS relating to the Internal Audit Plan is Standard 9.4 Internal Audit Plan, which states the following: The chief audit executive must create an internal audit plan that supports the achievement of the organization's objectives. The chief audit executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.

5.2 GIAS Standard 9.4 also states that; The internal audit plan must:

- Consider the internal audit mandate and the full range of agreed-to internal audit services.
- Specify internal audit services that support the evaluation and improvement of the organization's governance, risk management, and control processes.
- Consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs, and other high-risk areas.
- Identify the necessary human, financial, and technological resources necessary to complete the plan.
- Be dynamic and updated timely in response to changes in the organization's business, risks operations, programs, systems, controls, and organizational culture.

5.3 GIAS Standard 9.5 Coordination and Reliance states that, "The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers. If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board." The audit plan has been developed with coordination and reliance on the work of Audit Scotland as the appointed external auditor, specifically in relation to work on transformation covering many of the key identified Council risks. However, Coordination and reliance on other assurance providers including Education Scotland, Care Commission, health and safety inspectorate, has not been possible for the 2025/26 plan. Full compliance with this element of the standards has not been completed as Midlothian Council does not have a full assurance map.

- 5.4** The Chief Internal Auditor (CAE) and the Principal Internal Auditor have developed the Internal Audit Annual Plan 2025/26 at Appendix 2, based on the Internal Audit staff resources set out in 6.1. It sets out the proposed range and breadth of audit activity to be undertaken to provide the independent and objective audit opinions to Midlothian Council and the MIJB.
- 5.5** As part of the Internal Audit planning process, it was necessary to consider each organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation's goals, as follows:
- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe which has been significantly revised and realigned by the Principal Internal Auditor to reflect the current strategic and operational management arrangements and approach to service delivery to ensure appropriate coverage;
 - The Strategic Risk Profile was checked to confirm coverage on key strategic risks, as reliance is placed on the risk assessments carried out by the Risk Owners taking account of the risk ratings and mitigations; and
 - The chief internal Auditor completed their own service specific risk assessments where service risk registers were not mature enough to place reliance on.
 - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.6** It is envisaged that 2025/26 will continue to be a year of change for the Council and other partner organisations. Therefore, the Internal Audit Annual Plan 2025/26 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 Corporate Management Team and the Audit Committee for approval.
- 5.7** The Non-MLC days reflect the Council's partnership working commitment to provide Internal Audit resource and services to the Midlothian Health and Social Care Integration Joint Board (MIJB). A separate Internal Audit Annual Plan 2025/26 will be presented to the MIJB Audit and Risk Committee for approval.

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

6.1 Resource

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

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

The Internal Audit staff resource totalling 3.22 FTE comprises Chief Internal Auditor (0.5 FTE), Principal Internal Auditor (0.72 FTE) and Internal Auditor (2.0 FTE). Each member of the current Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (Including knowledge of GIAS and the Seven Principles of Public Life) needed to deliver the Plan. After deduction for estimated annual leave, public holidays, absence including staff turnover, learning and development, and management and supervision, this equates to a total of 511 days available for Internal Audit activity (2024/25 plan 522 days).

6.2 Digital

There are no digital implications arising from this report.

6.3 Risk

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit activity for inclusion within the plan. As in previous years, to capture potential areas of risk and uncertainty more fully, reference has been made to the Strategic Risk Profile and key stakeholders have been consulted to make an appropriate assessment of service level risks.

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

- Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These are not fixed but evolve as the Council changes.
- Checking that these governance arrangements and internal controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. (The above are known as the first and second lines.)
- Engaging with Internal Audit (the third line) in a positive way to achieve shared goals for robust internal control and governance,

best value and improvement, and ensuring that Internal Audit can properly fulfil its role.

- Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

6.4 Ensuring Equalities

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance with Global Internal Audit Standards.

6.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives. These objectives have been considered and reviewed against each internal audit assignment within the plan.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

A.4 Delivering Best Value

The purpose of the internal audit function is to strengthen Midlothian Council's & Midlothian Integration Joint Board's ability to create, protect, and sustain best value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

A.5 Involving Communities and Other Stakeholders

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

The Council Management Team has been consulted on the Internal Audit resources, risk-based audit approach and the resultant planned Internal Audit coverage to ensure it will provide assurance on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities. External Audit plans have been taken into account in completing the planning process.

A.6 Impact on Performance and Outcomes

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

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

A.7 Adopting a Preventative Approach

A full review of the Internal Audit Service compliance with GIAS is currently underway to ensure that the service is compliant with legislative and regulatory requirements as well as best governance practice in the public sector.

Specific audits within the 2025/26 plan will include assessments on when a preventative approach can be adopted by the Council.

A.8 Supporting Sustainable Development

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