

Internal Audit Strategy and Annual Plan 2020/21 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 2020/21 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 2020/21

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 2020/21 developed by the 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 review area.

It is envisaged that 2020/21 will continue to be year of change for the Council, therefore the Internal Audit Annual Plan 2020/21 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 4.64 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), 50% of 2 Fraud and Audit Officer (1.0 FTE) with a mix of qualifications, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to perform the plan. After deduction for annual leave, public holidays, sickness absence (estimated), learning and development, management and administration this equates to a total of 794 days available for Internal Audit activity.

The Revenue Financial Plans which were approved by the Council on 11 February 2020 do not yet fully reflect this arrangement and resources, though discussions have been held with the Financial Services Manager and it was agreed that steps will be undertaken to address this as part of the revenue budget monitoring process 2020/21.

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

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

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit 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.

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 2020/21 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 2020/21 has been discussed with Executive Directors and Chief Officers/Heads of Service at Directorate Management Team meetings, and the proposed Internal Audit Annual Plan 2020/21 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 2020/21 (Appendix 2).

Date: 13 February 2020
Report Authors: Jill Stacey, Chief Internal Auditor
E-Mail: Jill.Stacey@midlothian.gov.uk