

Internal Audit Annual Assurance Report 2018/19

Report by Chief Internal Auditor

1. Purpose of the Report

The purpose of this report is to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2019 which includes the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.

2. Background

The Public Sector Internal Audit Standards (PSIAS) that became effective for local authorities in April 2013 (updated April 2017) requires that:

"The chief audit executive [MLC's Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

The Terms of Reference of the Midlothian Council Audit Committee states:

1. The Audit Committee is a key component of Midlothian Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of the Audit Committee is to provide independent assurance to Elected Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Midlothian Council's governance, risk management and control frameworks, and oversees the financial reporting and annual governance processes. It oversees Internal and External Audit, helping to ensure efficient and effective assurance arrangements are in place.

3. Internal Audit Annual Assurance Report 2018/19

The Internal Audit Annual Assurance Report 2018/19, at Appendix 1, includes the Chief Internal Auditor's independent and objective opinion regarding the adequacy and effectiveness of internal control within Midlothian Council to fulfil the statutory role of Internal Audit, provides details of the Internal Audit activity that supports the opinion and of the performance during the year, and summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards.

The Internal Audit Annual Assurance Report 2018/19 provides assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Single Midlothian Plan and has been used to inform the Annual Governance Statement 2018/19.

4. Report Implications

4.1 Resource

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). Staff resources have been adversely affected during the year, mostly notably due the continued deployment of Internal Audit and Counter Fraud resources to the ongoing activity associated with the Roads Contract Management Investigation. This has had an impact on the delivery of the Internal Audit planned work.

There is a commitment to provide resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) and audit work was undertaken during the year to meet that commitment. A separate annual assurance report will be presented to MIJB Audit and Risk Committee and MIJB to fulfil that role.

4.2 Risk

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 has been risk-based and, where appropriate, has tested the specific Service's management of risk.

Internal Audit provides assurance to Management and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, and to highlight good practice and recommend improvements.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls and governance arrangements.

Delivery of the Internal Audit services in conformance with the PSIAS will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

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 Findings and Recommendations from Internal Audit work during the year assists the Council in improving its performance and outcomes.

4.6 Adopting a Preventative Approach

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

4.7 Involving Communities and Other Stakeholders

The Internal Audit Annual Assurance Report 2018/19 has been presented to the Corporate Management Team (comprising Chief Executive, Directors, and Heads of Service) to outline the key messages of assurance and areas of improvement, and have been advised to take this into account when completing their annual self-evaluation and assurance process for the Council's Annual Governance Statement 2018/19.

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 consider the Internal Audit Annual Assurance Report 2018/19, and assurances contained therein, and to provide any commentary thereon.

Date: 24 April 2019
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