

Notice of Meeting and Agenda



Audit Committee

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

Date: Tuesday, 10 March 2020

Time: 11:00

Executive Director : Place

Contact:

Clerk Name: Janet Ritchie
Clerk Telephone: 0131 271 3158
Clerk Email: janet.ritchie@midlothian.gov.uk

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

4 Minute of Previous Meeting

4.1 Minute of Meeting of 28 January 2020 submitted for approval 3 - 6

4.2 Action Log 7 - 8

5 Public Reports

5.1 Midlothian Council Annual Audit Plan - Report by External Auditors 9 - 42

5.2 Audit Scotland Report City Region and Growth Deals - Report by Head of Major Projects (To Follow)

5.3 Risk Management Update for 1 October 2019 – 31 December 2019 Report by Service Manager - Waste, Risk and Resilience 43 - 74

5.4 Internal Audit Work to February 2020 - Report by Chief Internal Auditor 75 - 84

5.5 Internal Audit Charter - Report by Chief Internal Auditor 85 - 92

5.6 Internal Audit Strategy and Annual Plan 2020-21 - Report by Chief Internal Auditor 93 - 106

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday 26 May 2020 at 11 am

Minute of Meeting

Audit Committee
Tuesday 10 March 2020
Item No: 4.1



Audit Committee

Date	Time	Venue
Tuesday 28 January 2020	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Councillor Smaill (Chair)
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Councillor Alexander (Substitute)
Councillor Cassidy (Substitute)
Peter de Vink (Independent Member)

In attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children, Young People and Partnerships
Mary Smith	Director of Education, Communities and Economy
Gary Fairley	Chief Officer Corporate Solutions
Alison White	Chief Social Work Officer
Grace Scanlin	Ernst and Young, External Auditors
Jill Stacey	Chief Internal Auditor
Mike Broadway	Democratic Services Officer

1. Welcome and Apologies

- 1.1 Apologies were received from Mike Ramsay (Independent Chair), Councillors Baird and Parry, and Stephen Reid, External Auditor, EY.
- 1.2 In the absence of Mike Ramsay, the Independent Chair, Councillor Smaill took the Chair which had previously been agreed at the Audit Committee at its meeting on 3 December 2019.

2. Order of Business

The order of business was as set on the Agenda.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

- 4.1 The minute of 3 December 2019 was submitted and approved as a correct record.
- 4.2 The Action log was submitted and the following agreed:

‘Internal Audit Recommendations’ - To note an update from the Chief Internal Auditor.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Treasury Management and Investment Strategy 2020/21 & Prudential Indicators	Chief Officer Corporate Solutions
Outline of report and summary of discussion		
<p>A draft of the Treasury Management and Investment Strategy 2020/21 & Prudential Indicators report was being presented today to Audit Committee.</p> <p>The report was presented in draft and subject to ongoing work as confirmation had not yet been received of the capital grant settlement figure and it was not therefore possible to finalise the budget position at this time. Notwithstanding this, scrutiny of the key areas/principles could still be carried out by Audit Committee and any comments included in the final report to Council. The purpose of the final report would be to seek the agreement of Council to the Treasury Management and Annual Investment Strategies for 2020/21, the Prudential and Treasury indicators contained therein, and the approach to the statutory repayment of loans fund advances.</p> <p>The Chief Officer Corporate Solutions, having highlighted the main sections contained within the report and confirmed to the Committee that this report was written for Council and presented to the Audit Committee for comments, responded to questions raised by Members of the Committee. In particular, the Committee discussed – the potential benefits from lower borrowing rates; how these could possibly be used to the benefit of the Council; the possibility of</p>		

accelerating the capital programme; the processes for the monitoring of capital projects; and how the Council compared to other Councils with regards borrowing
Decision
The Audit Committee, having commented on this draft report, noted that the final report and strategy would be presented to Council for approval on 11 February 2020.
Action
Chief Officer Corporate Solutions

Report No.	Report Title	Submitted by:
5.2	Internal Audit Work to December 2019	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.</p> <p>The Chief Internal Auditor drew Members' attention to the Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, which was shown in Appendix 1 to the report.</p> <p>The Committee, in discussing the report, acknowledged the progress being made, in particular, that:-</p> <ul style="list-style-type: none"> • Underfunded legislative changes were being picked up through the BTSG as a standing item. • Limited assurance in respect of void timescales was being addressed through more robust monitoring/processing of the turnaround of properties. 		
Decision		
<p>Thereafter, follow further questions to the Officers, the Audit Committee:</p> <ul style="list-style-type: none"> • Noted the final assurance reports issued in the period from 2 November to 31 December 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and • Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work. 		
Action		
Internal Audit		

Report No.	Report Title	Submitted by:
5.3	Audit Scotland Report: Local Government in Scotland: Financial Overview 2018-19 (Audit Scotland, December 2019)	Chief Officer Corporate Solutions
Outline of report and summary of discussion		
<p>There was a report presented to the Audit Committee by the Chief Officer Corporate Solutions providing the Audit Committee with a summary of the Audit Scotland report, 'Local government in Scotland: Financial Overview 2018/19' 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 Chief Officer Corporate Solutions highlighted the key messages contained within the report. Thereafter he responded to questions and comments raised by Members of the Committee.</p> <p>Members of the Committee raised their concerns with regards to the Scottish Government revenue funding not keeping pace with inflation and the impact this would have on services. The impact of the increase in the value of pension liabilities as a result of the impact of the McCloud case.</p>		
Decision		
The Audit Committee noted the Audit Scotland report and the position of Midlothian Council in relation to the report's key messages		

6. Private Reports

No private business was discussed.

7. Date of Next Meeting

The next meeting will be held on Tuesday 10 March 2020 at 11.00 am.

The meeting terminated at 11.52 pm

Actions Log

Audit Committee
Tuesday 10 March 2020
Item No: 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	Internal Audit Recommendations	03/12/2019	Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.	Chief Internal Auditor	June 2020	Two follow-up reports per year to Audit Committee as per approved Internal Audit Annual Plan
2	Treasury Management and Investment Strategy 2020/21 & Prudential Indicators	29/01/2020	That the final report and strategy would be presented to Council for approval on 11 February 2020.	Chief Officer Corporate Solutions	February 2020	Treasury Management Strategy was approved by full Council on 11 February 2020.
3						
4						

Midlothian Council

**Annual Audit Plan
Year ending 31 March 2020**

**Draft for discussion
Audit Committee - 10 March 2020**

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

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

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

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

Complaints

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

1

Executive summary

Our key contacts:

Stephen Reid
Partner
sreid2@uk.ey.com

Grace Scanlin
Senior Manager
grace.scanlin@uk.ey.com

Our independence:

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

Purpose of our plan

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Council (the Council) for the five year period 2016/17 to 2020/21.

This Annual Audit Plan, prepared for the benefit of Council management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2020, the fourth year of our appointment. In preparing this plan, we have updated our understanding of the Council through planning discussions with management, review of relevant documentation and committee reports, and our general understanding of the environment in which the Council is currently operating.

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

After consideration by the Council's Audit Committee, the plan is provided to Audit Scotland and published on their website.

Scope and Responsibilities

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

Financial statement audit

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

- ▶ whether they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the Council and its group as at 31 March 2020, and of the income and expenditure of the Council and its group for the year then ended;
- ▶ whether they have been properly prepared in accordance with the IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

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

Materiality

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

Planning Materiality	Tolerable Error	Nominal amount
£5.5 million	£2.75 million	£250,000
2% of the Council's net expenditure	Materiality at an individual account level	Level that we will report to committee

Based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties. See page 11 for further details.

Wider Scope audit

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

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

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



Audit Risk Dashboard

Key Financial Statement Risks

Significant Risk: Risk of fraud in revenue and expenditure recognition	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Fraud Risk: Misstatement due to fraud or error	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Inherent risks: Valuation of property, plant and equipment	The fair value of property, plant and equipment (PPE) represent significant balances in the Council's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Valuation of pension assets and liabilities	Accounting for the Local Government Pension Scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets at the year end.
Accounting for Public Private Partnerships (PPP)	The Council's PPP in respect of the provision of a residual waste treatment plant at Millerhill, jointly procured with the City of Edinburgh Council became operational in April 2019. We will involve EY specialists in reviewing and considering the accounting treatment for the associated financial models.

Wider Scope Risks

Financial Sustainability: Continuing financial pressures	The 2019/20 budget identified a package of £7.99 million of measures including business transformation and other cost reductions and income generation. The Council's most recent projections outline a shortfall of £2.58 million (32%) against target. There is a risk that any continued failure to deliver savings will increase financial pressures in future years, and result in breaching the minimum level of reserves, set out within the Reserves Strategy.
Financial Management: Fraud and corruption in the procurement function	As an area identified as a risk nationally by Audit Scotland, the effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function will be an area of focus for the 2019/20 audit.

2

Local Government developments

The 2020/21 Scrutiny Plan will be finalised by April 2020 and we will take account of any risks identified in our ongoing planning.

Introduction

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

Scrutiny

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

The 2019/20 programme highlighted that there will be scrutiny over the joint inspection of services for children and young people in need of care and protection, as well as engagement on service quality for services for people who are homeless.

As the appointed auditor of Council we act as the LAN-lead for the Council shared risk assessment.

Political uncertainty

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

- ▶ **EU withdrawal:** the UK formally exited the EU on 31 January 2020, and will be in a transition period until 31 December 2020. During this transition period, the UK will continue to apply EU laws but it will no longer be represented in the EU institutions. The negotiations on the future partnership between the EU and the UK commenced once the UK left the EU.
- ▶ **Scotland Independence Referendum:** there is continued uncertainty regarding whether a Scottish independence referendum will be held in 2020.
- ▶ **Scottish Parliament Elections:** Scottish elections are due to be held on 6 May 2021.

We noted in 2018/19 that the Council's arrangements to prepare for EU withdrawal were appropriate and informed by wider sector involvement. The publication of the Council's medium-term financial strategy seeks to support the Council's resilience and long-term financial sustainability.

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

Accounts Commission Overview

The Accounts Commission (“the Commission”) published their Local government in Scotland: Financial overview 2018/19 report in December 2019. Part 3 of this report focused on the financial outlook facing councils.

The report notes that councils face increasing challenges in meeting changing and growing demands for their services, but income is struggling to keep pace. Although Scottish Government funding to councils has been relatively stable in recent years, since 2013/14 it has fallen in real terms. Funding is forecast to fall further in the medium-term against a backdrop of increasing volatility in public finances, and two-thirds of councils have reduced their general fund reserves over the last three years rather than maintaining or building their reserves.

After several years of tightening budgets, the Commission highlights that councils have already made savings through restructuring and efficiencies. However, transformation in terms of service redesign is required to deal with the further reductions being forecast.

Other key messages included:

- ▶ All councils have medium-term financial plans covering three years or more. Long-term financial planning had not progressed since the prior year;
- ▶ The Scottish Government has made a commitment to set out multi-year budgets which will assist councils with financial planning; and
- ▶ Councils have made preparations for EU withdrawal, but there are many potential implications that cannot be anticipated in financial planning.

The Scottish Budget 2019/20 was approved by the Scottish Parliament in February 2019 and included the following implications for councils:

- ▶ An increase in funding to local government as a result of additional commitments of 2.9% in cash terms from the prior year to £10.1 billion (a 0.9% increase in real terms);
- ▶ An increase in the cap on council tax increases, with twelve of the councils deciding to increase council tax by the full amount (4.8% in cash terms, 3% in real terms).
- ▶ A total funding gap of £0.5 billion (3% of income) was noted within councils’ 2019/20 financial plans. This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. Councils have outlined plans to manage their funding gaps mainly through identified cost savings.

In March 2019, the Accounts Commission published the Local government in Scotland; challenges and performance report 2019. It commented on the increasingly complex, changing and uncertain environment facing local government which places different demands and expectations on them. It is also noted that councils are central to delivering many high-level public sector objectives, such as the integration and care services, and involving citizens more in decisions about public service. The report made recommendations around ensuring forward looking approaches are applied, review of leadership and management capacity and continuation of seeking and implementing innovative ways of working with communities.

Budget setting process 2020/21

The UK Government's budget announcement scheduled for the 6 November 2019 was cancelled due to the timing of the UK general election

As a consequence, the Scottish Government's Cabinet Secretary for Finance, Economy and Fair Work, in consultation with the Convenor of the Finance and Constitution Committee, postponed presentation of the Scottish Government's budget bill which was originally planned for 12 December 2019.

The Scottish Budget for 2020 to 2021 was published on 6 February 2020 with local government receiving a real-terms increase in resource funding, with total overall support given through the settlement of £11.3 billion. COSLA's assessment is that the budget represents a 2% or £205million cut in real terms in revenue funding for Local Government.

The Council approved its budget on 11 February 2020 with a council tax increase of 4.84%. We will consider the Council's approach to budget setting as part of our wider scope work on financial management in 2019/20.

Capital Financing

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016 and replaced the provisions in the Local Government (Scotland) Act 1975 in respect of the loans fund with a prudent approach. The Council has recently completed a review of loans fund advance, supported by external treasury advisors, to propose amendments to the repayment schedule. We will review management's proposed arrangements to ensure they are in line with the agreed legislative position.

The Council has a significant capital works programme, with ambitious plans for development within the education and housing estates. While the Council has secured borrowing based on historically low rates, we note that in October 2019, the Public Works Loan Board (PWLB) raised the cost of borrowing by 1% with immediate effect. We will therefore continue to review the affordability of capital plans as part of our work on financial sustainability.

Impact reporting

As part of 2019/20 wider scope audit work, we will review the Council's arrangements for considering national reports, including evaluating the findings and implementing recommendations as appropriate.

Financial statements: Our approach and significant risks identified

Introduction to section

The Council's Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit Opinion

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

- ▶ whether they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the Council and its group as at 31 March 2020, and of the income and expenditure of the Council and its group for the year then ended;
- ▶ whether they have been properly prepared in accordance with the IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

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

Other Statutory Information

The management commentary and narrative reporting continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council. In February 2020, Audit Scotland published a good practice note aimed at improving the quality of management commentaries across Local Government. We will therefore continue to work with the Finance Team to support the improvement of the financial statements, including narrative disclosures, in 2019/20.

We will work with the Finance Team to support further improvements in the quality of the financial statements .

Audit Approach

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

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements.
- ▶ Reading other information contained in the financial statements, including that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- ▶ Maintaining auditor independence.
- ▶ Substantive tests of detail of transactions and amounts. For 2019/20 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Materiality

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

Materiality Level

Rationale

Planning Materiality £5.5 million	<p>Planning materiality (PM) - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.</p> <p>For planning purposes, materiality for 2019/20 has been set at £5.5 million (2018/19: £4 million). This represents 2% of the Council's prior year gross expenditure on provision of services, excluding IJB gross-up of income and expenditure. We have derived this figure following our assessment of risk factors impacting the Council in 2019/20.</p>
Tolerable Error £2.75 million	<p>Tolerable error (TE) - materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £2.75 million (2018/19: £2 million) which represents 50% of planning materiality. This level reflects our prior year audit experience and audit adjustments arising in the 2018/19 financial statements.</p>
Summary of Audit Differences £250,000	<p>Summary of Audit Differences (SAD) Nominal amount - the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements.</p>

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

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

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

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

Significant Risks

We set out below the significant risks identified for 2019/20, along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit.

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

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

Significant risks identified in the audit relate to the risk of fraud in income and expenditure recognition. We also perform procedures in all audits to respond to the risk of misstatement due to fraud or error caused by management override of controls.

We will report our findings in these areas within our 2019/20 Annual Audit Report.

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

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

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

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

Work we will perform:

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

2. Misstatement due to fraud or error

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

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

Work we will perform:

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

Other areas of focus: Inherent risks

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

1. Valuation of Property, Plant and Equipment

The fair value of PPE and investment properties represent a significant balance in the Council's financial statements (2018/19 PPE totalled £779 million) and is subject to valuation changes, impairment reviews and depreciation charges.

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

In previous years we have identified errors in the Council's valuations. While we noted improvement in 2018/19, this will continue to be an area of increased scrutiny.

Work we will perform:

- ▶ Assess the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Involve EY internal specialists to challenge the work performed by the Council's valuers, where appropriate.
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Review the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- ▶ Test assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- ▶ Examine changes to useful economic lives as a result of the most recent valuation.
- ▶ Test accounting entries have been correctly processed in the financial statements.

2. Valuation of pension assets and liabilities

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

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

The Council's net pension fund deficit is a material balance. At 31 March 2019 this totalled £124.4 million.

Accounting for this scheme involves significant estimation and judgement and the Council engages an actuary to undertake the calculations on their behalf.

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

Work we will perform:

- ▶ Liaise with the auditor of Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council and confirm joint assurances in respect of employer and employee contributions in the year.
- ▶ Assess the work of the actuary (Hymans), including the assumptions they have used by relying on the work of PWC, appointed to consider actuarial assumptions used at the yearend for all Local Government sector bodies, and consider any relevant reviews by the EY actuarial team.
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ Require an updated IAS19 report in July to ensure that there have been no material movement in the value of pension fund assets between the initial IAS19 report, and the signing of the financial statements.

3. Accounting for Public Private Partnerships

The Council has 5 PPP contracts in place, with liabilities amounting to £85 million in 2018/19. Four of the PPPs were operational and recognised in the Council's balance sheet as at 31 March 2019.

The provision of a residual waste treatment plant at Millerhill, jointly procured between the Council and the City of Edinburgh Council.

The contract is for 25 years and we understand that full service commencement was achieved in April 2019.

Work we will perform:

- ▶ Our work will be focussed on the residual waste treatment plant at Millerhill.
- ▶ We will involve an EY specialists in this area to ensure that the proposed accounting treatment by the Council is appropriate.
- ▶ This work will include analysis of the contracts, and review and consideration of the financial model.

Other areas of focus

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21 and work will therefore be necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

Full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- ▶ all leases which need to be accounted for;
- ▶ the costs and lease term which apply to the lease; and
- ▶ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

While we understand that the impact is unlikely to be material for the Council, we will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2019/20 audit.

Other audit considerations

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

Changes to the CIPFA/LAASAC Code for 2019/20

Changes have been made to the CIPFA/LAASAC Code for 2019/20;

- ▶ There is now a revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework).
- ▶ Updated guidance has been issued around the treatment of the Apprenticeship Levy.
- ▶ Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs.
- ▶ Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

We do not currently consider that the above would result in a material impact to the Council. However, it is important that the Council ensures that it performs its own assessment of the impact in advance of preparation of the 2019/20 financial statements. We will assess management's implementation of this guidance as part of the 2019/20 audit.

Other audit responsibilities

Under the terms of our appointment, our role and responsibilities include a number of other assurance activities. These include the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as provision of information to support Audit Scotland national reports and studies.

Anti-money laundering

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

Going Concern - Compliance with ISA 570 Changes

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

We will discuss the detailed implications of the new standard with management during the 2019/20 audit ahead of its application for 2020/21.

Use of specialists

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

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

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

Internal audit

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

Data analytics

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

We have started the process of obtaining the financial data from both the general ledger and payroll system for 2019/20 as part of our interim testing arrangements. We will report the findings of our work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee through the yearend audit reporting process.

Group financial statements

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

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

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

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

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

Other assurance activity

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

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Wider Scope Dimensions: Risk assessment and approach

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

We will include commentary within our Annual Audit Report on how the Council demonstrates improvement against the recommendations included within the 2019 Best Value report.

The Code of Audit Practice sets out the four dimensions that comprise the wider scope audit for the public sector in Scotland. These are: financial sustainability, financial management, governance and transparency and value for money.

Best Value audit approach

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

In August 2019, the Council considered and implemented an action plan to respond to the recommendations within the BVAR. In 2019/20 and beyond, our work will include a follow-up on the findings from the Best Value report and monitoring of the implementation of the improvement actions that the Council has identified. Our annual audit also continues to focus on specific aspects of Best Value over our five year audit appointment (see Exhibit 1, below).

Exhibit 1: Our Best Value work in 2019/20 will focus on financial and service planning

Five year Best Value Audit Coverage					
	2016/17	2017/18	2018/19	2019/20	2020/21
Performance and outcomes					
Improvement					
Leadership, Governance and Scrutiny					
Equal Opportunities					
Partnership Working and Empowering Communities					
Financial and service planning					
Financial governance and resource management					

Strategic Audit Priorities

In undertaking our work in respect of the wider scope audit dimensions, we will integrate our assessment of the Accounts Commission's five Strategic Audit Priorities. Exhibit 2 outlines how the focus areas relate, and will therefore be reported, against the four dimensions.

Exhibit 2: Coverage of the Accounts Commission's Strategic Audit Priorities

	Strategic Audit Priority	Other areas of focus
Financial sustainability	<ul style="list-style-type: none"> ▶ Clear priorities with a focus on outcomes, supported by effective long term planning. ▶ Effective appraisal of options for changing how services are delivered in line with their priorities. 	
Financial management		<ul style="list-style-type: none"> ▶ Financial and service planning
Governance and transparency	<ul style="list-style-type: none"> ▶ Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future. ▶ Empowering local communities and involving them in the design and delivery of local services and planning for their local area. 	
Value for money	<ul style="list-style-type: none"> ▶ Reporting on performance in a way that enhances accountability to citizens and communities, helping them contribute to the delivery of improved outcomes. 	

Our Annual Audit Report will consider each of the Accounts Commission Strategic Audit Priorities within the relevant wider scope dimension.

Audit Scotland - National Study Programme

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission. Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them, which may also include joint studies under the remit of the Auditor General for Scotland, at a committee level and act on them accordingly.

In 2020, Audit Scotland is continuing its programme of performance reports, including reporting around council's use of arm's length organisations, Children and young people's mental health and its annual local government overview report. As appointed auditor we will be required to support in the provision of information from the Council for the preparation of these reports and, where relevant, will report on the Council's performance relative to other authorities.

Financial Sustainability

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

In our 2018/19 Annual Audit Report, we noted that the Council has made significant progress since BVAR fieldwork was completed, including the approval of a Medium Term Financial Strategy in June 2019. The cross party Best Value Steering Group monitors progress against the Strategy, including business transformation savings.

Following the 2020/21 Scottish budget announcement, the Council estimates that the funding gap for 2020/21 is in the region of £3.5 million rising to £9.7 million for 2022/23. As we outline below, we therefore consider that the continuing financial pressures remain a significant risk for the Council.

Continuing financial pressures

The 2019/20 budget identified a package of £7.988 million of measures including transformational and other cost reductions and income generation. The Council's most recent projections outline a shortfall of £2.576 million (32%) against target. There is a risk that any failure to deliver savings will increase financial pressures in future years, and result in the Council breaching the minimum level of reserves set out within its Reserves Strategy. Our work in this area will include:

- ▶ Consideration of the Council's short and medium term financial plans, including the risk assessment of savings options;
- ▶ The effectiveness of recovery plans to address saving shortfalls; and
- ▶ Progress with embedding the medium term financial strategy, including the revenue consequences of the Council's capital planning.

Financial management

The financial management dimension considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively. Other financial management work in 2019/20 will encompass:

- ▶ Best Value work on financial and service planning, including consideration of the piloted Financial and People Dashboard within Children's Services and progress within the implementation across the revised leadership structure.
- ▶ Continuing monitoring of the Council's participation in the National Fraud Initiative, including completion of an audit questionnaire by 28 February 2020.

The consideration of financial management also includes evaluating the Council's arrangements for fraud and corruption. Audit Scotland has identified procurement fraud as a specific risk across the sector in 2019/20.

Prevention and detection of fraud and corruption in the procurement function

The effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function will be an area of focus for the 2019/20 audit. Our work will include:

- ▶ The overall management of the risk of procurement fraud, including internal audit coverage;
- ▶ The appropriateness of policies and controls around the procurement process, including segregation of duties and training to identify risks; and
- ▶ Arrangements to encourage and protect whistle-blowers.

Governance and Transparency

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

In our 2018/19 Annual Audit Report we concluded that the key features of good governance are in place and operating effectively. No significant risks have been identified in relation to this dimension.

Our work for the year will consider:

- ▶ Progress against recommendations from both internal and external audit alongside the Best Value Report, including the Council's arrangements for ensuring these are monitored and reported on a routine basis;
- ▶ Internal audit arrangements during 2019/20, including significant findings identified and the work done to address issues identified;
- ▶ The quality of reporting and information provided to key decision makers, and evidence of effective challenge and scrutiny;
- ▶ Following the public pound arrangements;
- ▶ Implementation of the revised management structure ensuring appropriate transition arrangements were in place; and
- ▶ Progress in developing a revised programme of member training and support.

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Value for money

The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018, which will be implemented in 2019/20.

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

We have not identified a specific significant risk in relation to value for money but we note that the Council is required to meet the requirements of the revised Statutory Performance Information Direction. As 2019/20 will be the first year of the revised direction, we will work with the Council to evaluate the effectiveness and appropriateness of the arrangements to fulfil the requirements.

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Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit and Risk Committee

D - Timing and deliverables of the audit

E - Audit fees

F - Additional audit information

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

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

Financial Statements and related reports

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

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

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

Standards of conduct / prevention and detection of fraud and error

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

Standards of conduct / prevention and detection of fraud and error

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

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

Best Value

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

Appendix B: Independence Report

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

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

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

Appendix C: Required Communications

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

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

Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the Council, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB	<ul style="list-style-type: none"> Onsite fieldwork, documentation and walkthrough of key accounting processes Scoping of wider scope work for year 	Annual Audit Plan	10 March 2020
MAR	<ul style="list-style-type: none"> Review progress of NFI exercise 	Submit NFI Questionnaire	28 February 2020
APR	<ul style="list-style-type: none"> Review of current issues impacting the Council Review of reported frauds 	Quarterly current issue return submission	Quarterly
MAY		Quarterly fraud return submission	Quarterly
JUN	<ul style="list-style-type: none"> Education Maintenance Allowance (EMA) grant claim testing Wider scope work underway 	Certified EMA return	31 July 2020
JUL		Liaison on Best Value Follow up Assessments	30 August 2020
AUG	<ul style="list-style-type: none"> Submit minimum dataset return to Audit Scotland 	Two part return for financial overview	8 May 2020 14 August 2020
SEP	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements Conclude on results of audit procedures Issue opinion on the Council's financial statements 	Whole of Government Accounts assurance statement to NAO (as required)	28 September 2020
OCT		Certify Annual Financial Statements Issue Annual Audit Report	30 September 2020
NOV		Submit minimum dataset return to Audit Scotland	
DEC	<ul style="list-style-type: none"> Completion of Non-Domestic Rates return testing Completion of Housing Benefits claim testing 	Certified Non-Domestic Rates return	9 October 2020
		Certified Housing Benefit subsidy claim	30 November 2020

Appendix E: Audit fees

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

Audit Fees			2019/20	2018/19
	Component of fee:			
	Auditor remuneration - expected fee		£144,550	£141,260
	Additional audit procedures (note 1)		£TBD	£16,090
	Audit Scotland fixed charges:			
	Pooled costs		£14,140	£13,700
	Performance audit and best value		£64,560	£63,730
	Audit support costs		£8,740	£8,870
	Total fee		£TBD	£243,650

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

We have outlined through areas of additional audit focus this year which are likely to have an impact on the expected fee, including around the Council's review of loans fund accounting, PPP accounting, accounting for IFRS 16 and our follow up of findings within the Best Value Assurance Report.

Any fee variation will also depend on the progress made by the Council in addressing the matters raised in the 2018/19 Annual Audit Report and BVAR. Where further additional work is required, fees will be agreed with management and reported to the Audit Committee in our 2019/20 Annual Audit Report.

Factors Likely to Impact Future Audit Fees

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

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

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

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

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

To respond to these factors we have to:

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

Appendix F: Additional audit information

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

Our responsibilities required by auditing standards

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

Purpose and evaluation of materiality

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

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

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

Audit Quality Framework / Annual Audit Quality Report

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

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: [www. https://www.audit-scotland.gov.uk/uploads/docs/report/2019/as_audit_quality_1819.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/as_audit_quality_1819.pdf).

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

https://www.ey.com/en_uk/who-we-are/transparency-report-2019

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Risk Management, Update for 1 October 2019 – 31 December 2019**Report by Chris Lawson, Service Manager – Waste, Risk & Resilience****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 Team with the 2019/20 quarter 3 strategic risk management update, covering the period 1 October 2019 to 31 December 2019.

2 Background

Midlothian Council have taken a range of steps to reduce and manage spend within available budgets, while continuing to deliver key services to our local communities. The Council have operated within the balanced budget set for 2019/20 for the first nine months of this financial year. Work has continued on develop the medium term financial plan, with the purpose of continuing to place the Council's finances on a more secure footing.

Transformational change has, and continues to be vitally important to the Council as it seeks to improve local outcomes against a backdrop of growing demand and reducing resource.

As a consequence of UK election Scottish Government will not publish its budget on 12 December. The Scottish Budget bill is expected to be delayed until sometime in January 2020. Officers are monitoring the position and will update councillors on developments and the implications of these for the 20-21 budget. The continued financial outlook is challenging, with uncertainty associated with future years grant settlements and the economic impact of the UK's exit from the European Union.

The UK stopped being a member of the European Union at 23:00 on 31 January 2020. The UK is now in a transition period up to but not beyond the 31 December 2020 as the UK Government have legislated not to extend the transition period beyond this point. In the period between 31 January 2020 and 31 December 2020 the UK government will be negotiating future relationship with the EU including trade arrangements. There remains a risk of significant change from the current established approaches in many areas. The Council will therefore continue to monitor progress by the UK Government and where necessary will develop suitable approaches to reflect the new settlement position at the end of 2020.

The Council's EU Exit Working Group will reconvene once there is greater clarity on what the new relationship with the EU is likely to mean for local government organisations.

The new emerging risk associated with Coronavirus is being monitored by Midlothian Council. While cases had initially been limited to Asia there are a growing number of cases being reported in Europe. As such the Council have been exploring business continuity matters associated with this in the event the situation in Europe becomes more serious. Midlothian Council will continue to take advice from NHS Public Health.

2.1 Strategic Risk Profile update

The on-going risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan seen as the tool to put the Council's finances on a more stable footing.

Spending within budget will continue to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where its identified as being off target.

The highest risks set out within the strategic risk profile at quarter 3 are associated with the 'Early Years expansion', the 'abuse claims project' the 'Scottish abuse inquiry', Asset Management and the Long term change programme.










2.3 Strategic Risk Profile Summary

The Top Strategic Issues are summarised in table 1.







Top Issues	Likelihood	Impact	Score	Evaluation	
The Change Programme	4	4	16	High	
Financial Stability	3	4	12	Medium	

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

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Early Years Expansion (1140 Hours)	4	5	20	High	
Scottish Child Abuse Inquiry	5	4	20	High	
Scottish Child Abuse Claims Project	4	5	20	High	
Asset management	4	5	20	High	
The Longer Term Change Programme	4	4	16	High	
Information Security	3	5	15	Medium	
Cyber Security	3	5	15	Medium	
Health and Safety	3	5	15	Medium	
Financial Sustainability in future years	3	4	12	Medium	
Growing Council	3	4	12	Medium	
Care at Home	3	4	12	Medium	

Strategic Risks	Likelihood	Impact	Score	Evaluation	
UK decision to leave the EU	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	
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

Council approved the 2020/21 budget as part of the MTFs on 11 Feb 2020. The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.

2.6.2 The Change Programme

The Council had identified a need to carry out a series of bottom up service reviews, this work was proposed to have an initial 3 phases of review in the report to Council, Land Services review is now complete with measures reflected in 2019/20 budget. Waste Services is complete. Roads Services is scheduled to commence. Sport and Leisure review is progressing.

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

2.7 STRATEGIC RISKS – RATED CRITICAL/HIGH

2.7.1 Financial sustainability in future years

Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020. The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.

2.7.2 Growing Council

Midlothian Council was identified in 2018 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.

Capacity available in school as a result of the rising population is causing a risk. The school estate capacity report and pupil intake limit report was presented to council on 12 November 2019. The updated Capital Investment Strategy, of which the learning estate forms part of, was reported to February Council. The multi-disciplinary group are meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider service school estate needs.

2.7.3 Asset Management

This risk reflects the challenges managing the need for increased assets to meet the growth demand against the current financial backdrop of reducing revenue. The Capital and Asset Management Board is putting in place interventions to allow it to more robustly monitor the of capital projects with a value of more than £1m, recognising that slippage in the capital programme weakens the overall financial management.

2.7.4 Scottish child abuse inquiry and Scottish child 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.

SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.

2.7.5 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.

2.7.6 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.

Capacity available in school as a result of the rising population is causing a risk. The school estate capacity report and pupil intake limit report was presented to council on 12 November 2019. In addition the updated learning estate strategy, forming part of the Capital Investment Strategy was report to February Council. The multi-disciplinary group are meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider service school estate needs.

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 Board;
- The Delivering Excellence programme;
- The Transformation Programme;
- The EWiM programme;
- An updated Capital Strategy and Reserves Strategy; and
- Operational savings encompassing financial discipline measures.

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 in 2018 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. Funding has been approved by Scottish government to create a STEM centre of excellence as a replacement for Beeslack High school.

Research is being carried with the University of Edinburgh to establish the impact of new school buildings on educational attainment.

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. Ensuring 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 2019/20 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

Date: 25 February 2020

Report Contact:

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Background Papers: **Appendix 1** Strategic Risks Profile
Quarter 3 2019/20

Strategic Risk Profile

Quarter 3 2019/20




ISSUES .


SRP.IR.02 The Change Programme


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p>Risk cause The pace of change programme not achieving the savings against agreed timescales. The Change Programme does not achieve the projected savings</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework.</p> <p>Risk effect Slow or delayed proposals/savings arising from service redesign, requiring the adoption of recover plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> 1. Change Programme including Delivering Excellence framework which addresses projected budget shortfalls. Got consolidated Change Programme following approval of 2020/21 budget. In arriving at the consolidated programme, we have removed savings proposals which were undeliverable or not able to achieve the savings indicated. 2. Within the 2020/21 budget there is a £400,000 risk adjustment to reduce the impact of shortfall in savings impacting on the general reserve. 3. The 2020/21 budget provides £1.250 million to fund transformation at pace to allow services to resource the capability and capacity to deliver change using existing Delivering Excellence management tools. 4. Action was taken for 2020/21 budget to ensure that the financial impact of change proposals is verified and that evidence is available to support delivery in the prescribed timescales. <p>Financial Strategy. MTFS approved June 2019 and agreement to bring forward an updated MTFS to achieve financial balance through to 2023 before the summer recess 2020. . Leadership from all Elected members Executive Team and Senior Leadership Group. . Appropriated governance in place across the Change Programme.</p>	4	4	


			. Links between Change Programme and Workforce Plans . Resilience planning. -Health and Social Care transformation board monitoring the 12 transformation strands on a monthly basis.			
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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.	Q3 19/20: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	30-June-2020	

SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause 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>Risk event Change Programme and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps</p> <p>Risk effect 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>	Chief Officer Corporate Solutions;	<p>1. There is an approved Capital Strategy and Reserve Strategy in place</p> <p>2. There is an approved budget for 2020/21</p> <p>3. There are arrangements in place to monitor financial performance including quarterly reporting to Council and 6 weekly reporting to BTB through the change dashboards. The Q3 position reported an underspend of £1.081 million.</p> <p>4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>5. 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>	3	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.	Q3 19/20: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	30-June-2020	

SRP.RA-02.04	Financial discipline Delivery of services within approved budget	Q3 19/20: The key message of ensuring robust financial discipline in all areas of the Council has resulted in an improved financial position at the close of quarter 3. The Chief Executive has emphasised the need for much needed control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate.	Chief Executive	31-Mar-2020	
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RISKS .


SRP.RR.01 Financial Sustainability in future years


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p>Risk cause: 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 & 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 Potential Economic shock arising from UK departure from EU Rising customer expectations</p> <p>Risk event: 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>Risk effect: Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> 1. Development of Medium Term Financial Strategy. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Capital and Reserves Strategies in place. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 	3	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.	Q3 19/20: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	30-June-2020	

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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>Risk cause A MTFS that doesn't address the projected 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>Risk event 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>Risk effect 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>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Financial Strategy and Change Programme 2. Leadership from all elected members, Executive Team and Senior Leadership Group. 2. Appropriated governance in place across the Change Programme. 3. Links between Change Programme and Workforce Plans 4. Resilience planning. 5. Senior Leadership Group regularly considering Change Programme and budget position. 6. Capacity to deliver change.</p>	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.	Q3 19/20: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	30-June-2020	

SRP.RA-02.05	Review of the Learning Estate Strategy (LES) and refresh of the capital strategy to reflect the updated LES	<p>Q3 19/20: The reducing capacity available in schools, as a result of the rising population is causing a potential risk. The school estate capacity report and pupil intake limit report was presented to council on 12 November 2019.</p> <p>The multi-disciplinary group are meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider school estate needs.</p>	Executive Director Children, Young People and Partnerships;	28-Feb-2020	
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SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p>Risk cause Current or new legislation applying to Midlothian Council</p> <p>Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect 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>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> 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. Range of external inspection . 6. Local Scrutiny Plan <p>BTSG oversight of new legislation</p>	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.01	Legal & Regulatory Compliance	Q3 19/20: Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social	31-Mar-2020	

			Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place		
SRP.RA-02.06	Resourcing of Regulatory inspection of Children's Service	Q3 19/20: Children's Services have allocated a Service Manager to lead on preparatory work and the duration of the external inspection of the Service to ensure the inspection gives a fair review of Council processes.	Chief Officer Children's Services	31 Mar 2020	


SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<p>Risk cause 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 because of ineffective use of the People Policies particularly Maximising Attendance</p> <p>Risk event 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>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>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.</p> <p>Attendance / Wellbeing 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, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Range of related policies and management guidance. 6. Development of progressive People Policies.</p> <p>Performance 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 sessions commencing in January following publication of the staff survey results.</p>	3	4	


	Risk effect 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		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. Organisational Change 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. Conduct 1. Resolution Policy encourages early intervention in workplace issues. 2. Professional standards and values to be re-enforced in structured format. Communication 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Workforce Strategy	Q3 19/20: Continuing with the delivery of the workforce strategy actions. Internal Audit have reviewed the workforce strategy and assessed that though Council substantive assurance, work will continue through 2019/20 to deliver the recommendations arising from the audit.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Dec-2019	


SRP.RR.06 Information Security



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p>Risk cause General Data Protection Regulation formulated by the European Commission.</p> <p>Risk event The Regulation implemented on 25 May 2018.</p> <p>Risk effect 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 whichever is greater.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> 1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project plan implemented with close report. 6. Public sector cyber security compliance 7. Implementing Scottish Government Cyber Security Action Plan 8. Mandatory e-learning for all employees and elected members. 	3	5	

SRP.RR.07 Care at Home


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p>Risk cause Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity.</p> <p>Risk event Capacity of Community Support outstripped by demand</p> <p>Risk effect There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.</p>	<p>Joint Director Health and Social Work; Head of Adult and Social Care; Head of Primary Care and Older People;</p>	<ol style="list-style-type: none"> 1. Care at Home improvement action plan in place and near compaction 2. Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level 3. New Framework agreement in place with significant improvement in quality from Providers 4. Flow management planning in development to maximise Care at Home capacity going forward 5. Weekly provider meetings in place 6. Additional locum team members recruited to for contingency cover 7. New Leadership model in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place 	3	4	


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>Risk cause 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 & buildings used to deliver services.</p> <p>Risk event 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>Risk effect In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid 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.</p>	Chief Officer Corporate Solutions; Chief Officer Place	<ol style="list-style-type: none"> 1. There is provision in place within the capital plan for investment in the asset base. 2. Asset register 3. Conditional Survey 4. Understanding of future asset needs 5. Asset Strategy: <ul style="list-style-type: none"> . Roads . Land . Fleet . Digital Service Network . Digital Service hardware 6. Capital program - investment in estate. 7. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 8. Introduction of Capital Plan and Asset Management Board 	4	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.02	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	<p>Q3 19/20: Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys. Capital spend works carried out during summer, on-going through quarter 2.</p> <p>Continuing to develop property asset management plans, priority spend on basis of independent surveys.</p>	Chief Officer Place	31-Mar-2020	
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	Q3 19/20: Roads Asset Strategy, work progressing to migrate to version 4. Information to be taken to capital board on future need for next 5 years.	Executive Director Place	31-Mar-2020	

SRP.RR.09 Emergency Planning and Business Continuity Management


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	<p>Risk cause The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g. secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p>	Chief Officer Place	<p><u>Potential</u> sub risks include:- 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations. 04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.</p>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	Q3 19/20: Contingency Improvement Plan drafted and due to be shared with newly formed Risk and Resilience Group ahead of reporting to CMT for approval. Procurement process underway to source technology systems to support the development and interrogation of Business Continuity application during an incident.	Chief Officer Place	31-Mar-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>Risk cause Code of conduct for Members and employees actions falling short of International Standards.</p> <p>Risk event Failure in openness, accountability, clarity.</p> <p>Risk effect Service, partnerships and project outcomes not achieved</p>	Legal Services Manager	<p><u>Potential</u> sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non-compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement.</p>	3	4	

	Non-compliance with conduct standards and reduction in standards in public life					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.10.02	Review of Standing Orders, Scheme of Administration, including delegated authority.	Q3 19/20: The Council have a cross party group reviewing the Standing Orders, Scheme of Administration, including delegated authority within Midlothian Council to ensure they reflect the current needs of the organisation.	Chief Executive	31-Mar-2020	


SRP.RR.11 Corporate Policies and Strategies



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<p>Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p>Risk event Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.</p> <p>Risk effect 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>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	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. Integrated Joint Board (IJB) Plan 9. IJB Strategic needs assessment	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>Risk cause Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information</p> <p>Risk event Persons exploiting opportunities to commit fraud Waste and errors</p> <p>Risk effect 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>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> 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. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy. 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 	3	3	

SRP.RR.13 Climate Change



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<p>Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act</p> <p>Risk event Council Services not responding to the Climate Change Act with sufficient pace.</p> <p>Risk effect Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 1. Statutory requirement to report on compliance with the climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 4. Implementation of provisions of Internal Audit report approved by Audit Committee 1 May 2018. 	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.0 1	Climate change reporting	Q3 19/20: The Council Statutory report to Scottish Ministers on Public Body Climate Change Duties 2018/19 will be reported to Cabinet before the end of November. A Climate Change Strategy and Action plan proposal will be reported to CMT in November 2019.	Executive Director Children, Young People and Partnerships;	31-Dec-2019	
SRP.RA.13.0 2	Climate Change Strategy	Q3 19/20: The Council declared a climate emergency at its meeting in December 2019. The Council are developing a new Climate Change Strategy in response to the impacts associated with climate change and the organisations ability to impact the same.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	30-Jun-2020	

SRP.RR.14.1 Scottish Child Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	<p>Risk Cause: Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p>Risk Event: The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported.</p>	Chief Officer Children's Services;	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting 	5	4	


	<p>The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed.</p> <p>Risk Effect: If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse. We have request an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted.</p>		<p>the Council's historic recordkeeping policies, such as retention schedules.</p> <p>3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry.</p> <p>The Project Team have established a Project Plan covering:</p> <p>4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims.</p> <p>5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims.</p> <p>6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council.</p> <p>7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 1	Implementation of Project Plan	Q3 19/20: A project team in place with project Plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan.	Chief Officer Children's Services;	31-Mar-2020	
SRP.RA.14.0 2	Foster Care Case Study	Q3 19/20: In August 2019 all 32 Local Authorities received a Section 21 in relation to 'Foster Care Case Study'. This is a significant piece of work which spans from 1930 to date requesting information around funding of foster carers, legal status/responsibility/ethos, children's background experience who were placed in foster care/ information on foster carers and the culture of the organisation. There is on-going liaison with other local authorities and legal services around progressing this request which is due in January 2020.	Chief Officer Children's Services;	31-Apr-2020	

SRP.RR.14.2 Scottish Child Abuse Claims Project

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	Risk Cause: Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The	Chief Officer Children's Services;	1. Agreed further update to Council to keep them abreast of the current situation and potential implications around staffing and future financial costs.	4	5	

	<p>Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964)</p> <p>Risk Event: Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims.</p> <p>Risk Effect: There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims</p>		<p>2. The Qualified One Way Costs Shifting (QOCS) is a change in legislation that will mean we cannot recover costs unless the pursuer has made a fraudulent claim or has been 'manifestly unreasonable' This basically takes away all risk for pursuers so if they lose they won't have to worry about paying the Council's costs. At the time of writing there remains no date for implementation of this piece of legislation.</p> <p>SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.2-3	Assess need to make financial provision	Q2 19/20: Assess the ongoing financial impact of compensation/redress. Compensation/redress scheme has been developed and the funding of claims is understood an assessment on the potential financial impact should be carried out, supported by the Council's finance team.	Chief Officer Children's Services;	31-Mar-2020	

SRP.RR.16 Growing Council


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p>Risk cause 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>Risk event 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>Risk effect</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate	<p>1. Local development plan and supplementary guidance on developer contributions.</p> <p>2. Services planning future service provision on the basis of anticipated service demands</p> <p>3. The change programme</p> <p>4. Learning Estate Strategy</p> <p>5. Capital Strategy</p> <p>6. Housing Strategy</p> <p>7. Joint needs assessment used to develop - IJB Strategic Plan</p> <p>8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage</p>	3	4	


	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.	Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 9. City deal provides the opportunity to support inclusive growth.			
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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>Risk cause UK vote to leave the European Union</p> <p>Risk event UK leaving the European Union</p> <p>Risk effect The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. 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>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>01 – EU Exit Working Group</p> <p>02 – Taking a risk management approach to identifying and assessing anticipated impacts</p> <p>03 – Working with a range of national and local bodies to inform preparatory arrangements.</p> <p>04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>	3	4	

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	<p>Risk cause Failing to identify and rectify non-compliance with Health and Safety regulations.</p> <p>Risk event Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements.</p> <p>Risk effect Serious injury of ill health impact on employees and or service users. Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. Statutory health and safety - duty of care over services users and employees not met. Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter) Significant financial penalties from Criminal Prosecution.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>01 - Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations 02 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 03 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 04 – Comprehensive training programme in place to support those with responsibility for managing health and safety.</p>	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.2-1	Development of Health, Safety and Wellbeing Strategy and review of Health and Safety Policy	<p>Q3 19/20: Midlothian Council have developed a Health safety and Wellbeing Strategy which was approved by CMT on 30 October 2019. The Strategy reflects the on-going work to fully embed the key principles of a successful health and safety management system, while reflecting the priorities set by the regulator in this are for the coming years. As a result of the recent changes to the Senor Management Structure, the health and safety team have reviewed the Council's Health and Safety Policy, this was presented to CMT on 29 January 2020 and was approved.</p>	Service Manager Waste, Risk and Resilience	31-Mar-2020	

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>Risk cause 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>Risk event 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>Risk effect 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 Potential for additional unfunded request to place 4 year olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.</p>	Executive Director Children, Young People and Partnerships; Chief Officer Place	<ol style="list-style-type: none"> 1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy 	4	5	


SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p>Risk Cause: Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p>Risk Event: 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>Risk Effect: Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint	<ol style="list-style-type: none"> 1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Employing an Information Governance and Security Lead 6. Implementing Scottish Government Cyber Security Action Plan 	3	5	


	<p>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>	<p>Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>				
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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.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 1. Shawfair Development Group. 2. Legal agreement with developers to secure developer contributions (Section 75) 3. Plan for entire community: 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools 	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.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 1. Monitored by Economic development. 2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, 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. 3. Timely submission of bids for approval by the Blueprint Group 4. Close monitoring of approved funded projects. 5. Borders rail subgroup Chaired by Midlothian Council Chief Executive. 	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.	Executive Director Children, Young People and Partnerships;	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.A 1	A702 Trunk Road Improvements	Q3 19/20: 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.	Executive Director Children, Young People and Partnerships;	31-Mar-2020	

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.	Executive Director Children, Young People and Partnerships;	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; Executive Director Children, Young People and Partnerships;	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>	<p>Executive Director Place; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</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. .	Executive Director Children, Young People and Partnerships;	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. A701 High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	Q3 19/20: Funding approved by Scottish government to create a STEM centre as a replacement for Beeslack High school. Research is being carried out with the University of Edinburgh to establish the impact of new school buildings on educational attainment.	Executive Director Children, Young People and Partnerships;	31-Aug-2023	

**Internal Audit Work to February 2020
Report by Chief Internal Auditor****1. Purpose of the Report**

The purpose of this report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

2. Progress Report

- 2.1 The Internal Audit Annual Plan 2019/20 was approved by the Audit Committee on 12 March 2019. Internal Audit has carried out the following work in the period from 1 January to 20 February 2020 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 2.2 The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.
- 2.3 Internal Audit issued final assurance reports on the following subjects:
- Procurement and Management of Contracts
 - Change and Transformation Programme
 - Business Planning, Budget Setting and Monitoring
- 2.4 An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Internal Audit Assurance Work in Progress

- 2.5 Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2019/20 consists of the following:

Audit Area	Audit Stage
Leisure Management Booking System	Drafting the Report
Community Engagement	Drafting the Report
ICT Operational Processes	Drafting the Report
Capital Investment	Testing underway
Workforce Planning	Testing underway
Information Governance (Records Management)	Testing underway
Automated Invoice Payments	Planning underway

Internal Audit Consultancy and Other Work

- 2.6 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, Learning Estate Strategy Board, and Information Management Group.
 - Monitored publication of Audit Scotland reports and co-ordinated submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.
 - Attended and provided support for the Serious and Organised Crime Group (Principal Internal Auditor).
 - Consultation on development of Audit Plan 2020/21.

Recommendations

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

High: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Medium: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

2.7 The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	9
Medium	6
Low	0
Sub-total reported this period	15
Previously reported	33
Total	48
Recommendations agreed with action plan	48
Not agreed; risk accepted	0
Total	48

3. Report Implications

3.1 Resource

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

3.2 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. At the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. During each audit engagement the management of risk has been tested.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

3.3 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

3.4 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

3.5 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.

3.6 Adopting a Preventative Approach

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

3.7 Involving Communities and Other Stakeholders

This report has been presented to the Corporate Management Team (comprising Chief Executive, Executive Directors and Chief Officers) to outline the key messages of assurance and areas of improvement. Directors, Chief Officers, Heads of Service and Managers relevant to the area audited have agreed the final Internal Audit reports as set out in the relevant Executive Summary within Appendix 1.

3.8 Ensuring Equalities

There are no equalities issues with regard to this report.

3.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

3.10 IT Issues

There are no IT issues with regard to this report.

4. Recommendations

The Audit Committee is asked to:

- a) Note the final assurance reports issued in the period from 1 January to 20 February 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and
- b) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

Date: 20 February 2020
Report Authors: Jill Stacey, Chief Internal Auditor
E-Mail: Jill.Stacey@midlothian.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Procurement and Management of Contracts</p> <p>Category: Assurance - Risk</p> <p>Date issued: 3 December 2019 Draft; 06 February 2020 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to review the high level controls and governance arrangements surrounding the Procurement and Management of Contracts.</p> <p>Midlothian Council's Procurement Strategy for 2018 to 2023 states that: as a procuring / contracting authority Midlothian has five strategic themes: Economic Benefits, Social Benefits, Environmental Benefits, Commercial Efficiency, and Contract and Supplier Management. It outlines the central role of the Procurement function in supporting the Council to achieve its strategic priorities within a constrained financial envelope. Midlothian Council delivers contracts in excess of £100m every year, therefore it is important that robust processes and procedures are in place to protect the Council and public against criminal activity.</p> <p>The Council's Procurement team is centralised within Corporate Solutions (formerly FISS) and is managed in the interim by the Legal Services Manager. The Construction team within Property & Facilities Management undertake their own procurement exercises.</p> <p>Internal Audit considers that the level of assurance we are able to give is Limited Assurance. The Procurement team has undergone a significant turnover of staff over the past year and lacks the capacity and resilience to deliver its strategic priorities. There are a number of contracts that have expired and have not been retendered, there are delays undertaking tender exercises, and there is a lack of oversight of other areas undertaking tender exercises. There is no system in place to manage contracts from cradle to grave and no dedicated contract monitoring resource. There is a lack of formal reporting of any contract monitoring undertaken by Services and the Procurement team does not have oversight of this.</p> <p>Any issues arising have been communicated directly to relevant Service Management as they were identified. However some of these are still ongoing as part of the Corporate Fraud activity on contract management compliance.</p>	3	3	0	<p>Management have agreed the factual accuracy of the report, accepted the report findings, and agreed the implementation of the Internal Audit recommendations.</p> <p>CMT has discussed the report and supported the recommended improvements, encouraging their implementation as a matter of urgency.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Procurement and Management of Contracts (cont'd)	<p>We made the following recommendations:</p> <ul style="list-style-type: none"> Plans for the future delivery of the Procurement function should be urgently implemented to ensure there is sufficient capacity to deliver an effective and efficient service. This should include suitable resource to oversee all procurement and contract management activities undertaken across the Council. (High) Contracts that have expired should be urgently retendered to ensure that the Council is obtaining best value. (High) Regular meetings with Procurement to discuss service delivery strategy, new areas of spend, contracts that have / are due to expire, current service provision including any off contract spend and supplier performance (mirroring the Commissioning and Contracts meetings held by the Health and Social Care Directorate) should be held by all Directorates. (High) Contract and supplier management processes require to be strengthened across the Council. This should include ensuring that there is a contracts management system to manage contracts from cradle to grave, ensuring there is dedicated resource to monitor and manage contractors and ensuring that there are sufficient performance measures built into every contract to allow for adequate monitoring. (Medium) The improvement actions arising from the Scotland Excel PCIP assessments, the Council's self-evaluation, and audit recommendations should be progressed. (Medium) A Quality Assurance arrangement should be developed and implemented as a matter of urgency to ensure the necessary improvement actions are being implemented and to continuously improve this service area. (Medium) 				<p>Progress has already been made on their implementation, as set out below:</p> <p>Discussions have been held with other Councils to engage suitable resource to oversee current procurement activity through shared services or other routes.</p> <p>Work is underway to identify and re-tender expired contracts which includes the use of Non-Competitive Action authorisations in the short-term.</p> <p>Regular meetings between Services and Procurement are being held.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Change and Transformation Programme</p> <p>Category: Assurance - Risk</p> <p>Date issued: 09 January 2020 Draft; 12 February 2020 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to review progress made with the implementation of improvements to ensure that the governance and accountability arrangements for transformation are effective.</p> <p>Since our previous report considerable work has been undertaken to improve processes for delivering the transformation programme, though this will take time to embed before benefits are fully realised.</p> <p>The Chief Executive, supported by Senior Officers, is providing the impetus for change in order for the Council to deliver quality services on a financially sustainable basis. The Medium Term Financial Strategy (MTFS) is an important step but is yet to fully address budget gaps in later years.</p> <p>Governance arrangements are in place to monitor the delivery of the various initiatives within the transformation programme, but their efficiency and effectiveness could be further improved.</p> <p>Neither the Business Transformation Board (BTB) nor Business Transformation Steering Group (BTSG) have been adequately sighted on the planning behind the delivery of all savings. The quality of planning is variable; the majority ranging from no implementation plan in place to outline plans requiring further work. Some Service areas have fully engaged with Finance allowing for their much closer involvement; others have not and consequently the financial efficacy of those plans is unclear.</p> <p>For the 2019/20 year further progress is being made but concerns exist over delivering all savings and in particular efficiency savings. Savings are not sufficiently ambitious and are not suitably cross cutting.</p> <p>At present savings are listed as proposals in multiple programmes, including the old Delivering Excellence Programme, the Resource Allocation Programme, and MTFS, which incorporate a large number of predominantly low value, single service cost cutting proposals partly due to carry forward of non-delivery of prior year savings.</p> <p>The approach to consolidating the various programmes for monitoring and reporting purposes by Directorate is known as the Dashboard which is evolving. Dashboards are aligned to the quarterly budget monitoring and do not present information in a sufficiently concise format.</p> <p>The four recommendations made in our previous report are shown as 100% complete based upon the development and approval of the MTFS.</p>	5	1	0	<p>Management have agreed the factual accuracy of the report, accepted the report findings and agreed the implementation of the Internal Audit recommendations.</p> <p>CMT have discussed the report and supported the recommended improvements.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Change and Transformation Programme (cont'd)	<p>Internal Audit is able to give Limited assurance (Risk, control, and governance systems have some satisfactory aspects; however, there are some significant issues likely to undermine the achievement of objectives). Subsequent to the completion of audit fieldwork, action has been taken to improve further governance, scrutiny, focus and reporting arrangements. We consider that action taken to date together with prompt and full implementation of the recommendations set out below will significantly improve the effectiveness of governance and accountability arrangements:</p> <ul style="list-style-type: none"> • Governance structures for the Change and Transformation Programme should be fully defined. The roles and responsibilities of both the BTB and BTSG require clear definition through up to date terms of reference which set out the relationship between the BTB and BTSG. (Medium) • Governance exercised by BTSG should be more strategic and provide better political steer. It should also provide greater challenge when approving proposals for delivering transformation for onward approval by Council. (High) • BTB and BTSG should now concentrate on the programme for later years and manage the programme for the current year as far as possible on an exception basis. (High) • Service areas should place greater emphasis on developing truly ambitious initiatives which will transform the way that services are delivered. As transformational changes may have long lead times this work should be undertaken at the earliest opportunity. Each Directorate should have a change Board to develop savings proposals and implementation plans, and monitor their delivery (High) • BTB should call in underlying plans for existing higher value proposals and assess how robust/realistic those plans are in terms of delivery. Where Finance have already completed an assessment BTB should have due regard to their findings and undertake further enquiry where appropriate. In future where a proposal has significant financial implications BTB should review the planning documentation and satisfy themselves as to the viability of the initiative before allowing admission to the programme. (High) • All savings should be consolidated within a single programme under the Medium Term Financial Strategy by Service by Directorate. (High) 				<p>Progress has already been made on their implementation, as set out below:</p> <p>Revised terms of reference will be presented to BTB and BTSG in February 2020.</p> <p>Focus on future year's implementation plans is underway.</p> <p>Building on the areas where positive transformation has taken place.</p> <p>Work has already commenced on consolidating this into one programme.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Business Planning, Budget Setting and Monitoring</p> <p>Category: Assurance - Risk</p> <p>Date issued: 09 January 2020 Draft; 20 February 2020 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to evaluate the implementation of improvements to ensure that budgets set for 2019/20 are sustainable and based on realistic plans which are subjected to appropriate scrutiny and challenge.</p> <p>Since our previous report work is ongoing to improve processes for budgetary control, though this will take time to embed before benefits are fully realised. Action has been taken to attempt to stabilise the Council's financial position; driven by the Chief Executive supported by Senior Officers and the Financial Services team. Positive steps taken include:</p> <ul style="list-style-type: none"> • setting a balanced budget for 2019/20 and beyond which does not further deplete the General Fund Balance; • provision of clarity on budget holders' accountability and responsibility to manage within set budgets and not overspend as part of good financial discipline; • improved scrutiny of quarterly financial outcomes for directorates through meetings between the Directors, Heads of Service and the Chief Executive; • development of a Medium Term Financial Strategy and Reserves Strategy; and • five of the seven recommendations made in our previous report have been implemented whilst two remain incomplete. <p>Some improvements have been made to Budget monitoring and reporting processes. There is evidence of improved engagement between the Financial Services team and Budget Holders. Work is underway to address the issues associated with feeder systems and business processes which impact on the completeness of the information available on which to prepare projections.</p> <p>We completed our audit fieldwork in November 2019 and our report reflects our findings at that time. Internal Audit considers that the level of assurance we are able to give is Limited Assurance relating to budgets set for 2019/20 and associated monitoring and reporting processes. Risk, control, and governance systems have some satisfactory aspects. Some improvements have been made in the last 9 months as noted above though further improvements are required.</p>	1	2	0	<p>Management have agreed the factual accuracy of the report, accepted the report findings and agreed the implementation of the Internal Audit recommendations.</p> <p>CMT have discussed the report and supported the recommended improvements.</p> <p>The proposed Internal Audit planned for 2020/21 on Business Planning, Budget Setting and Monitoring will be scheduled early in the year to cover business and financial planning processes for 2020/21 which will be used by Management to inform the processes for 2021/22.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Business Planning, Budget Setting and Monitoring (cont'd)	<p>Concurrent with and subsequent to audit fieldwork relating to budget sets for 2019/20, further work is ongoing by Management to improve budgetary control through the financial planning process for 2020/21. We consider that ongoing work together with prompt and full implementation of the two remaining previous recommendations and the further three recommendations set out below will improve the effectiveness of budget setting, budget monitoring and reporting processes:</p> <ul style="list-style-type: none"> • A risk assessment should be carried out in conjunction with the review of the Reserves Strategy of elements that could potentially call on uncommitted reserves. (High) • The Financial Services team should review budget monitoring reporting at other local authorities of a similar size to Midlothian. Opportunities exist to present reports in more detail and with greater clarity for users than are currently produced; a fuller explanation of the reasons and implications of revisions to budgets during the year would be helpful to aid all stakeholders in their understanding of the budget position. (Medium) • As the position with savings will need to be assessed as part of the quarterly budget monitoring, reporting progress with the achievement of savings targets should be integrated into the budget monitoring reports and then reused for reporting to BTB and BTSG. (Medium) 				<p>Progress has already been made on their implementation, as set out below:</p> <p>In finalising the 2020/21 budget a risk adjustment of £0.4m (approx. 10% of savings) has been included to partly mitigate any shortfall in savings impacting directly on the reserves position.</p> <p>An examination of other authorities' reports is being undertaken with the aim to incorporate any improvements in 2020/21 Q1 report.</p> <p>A refreshed approach to BTB dashboards is currently being rolled out with information fully integrated to reflect the budgeted savings and be consistent with information reported in financial monitoring reports.</p>

**Internal Audit Charter
Report by the Chief Internal Auditor****1 Purpose of Report**

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

2 Background

- 2.1** The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 2.2** The Midlothian Council Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 (amended 2017), along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice.
- 2.3** In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Internal Auditor at Midlothian Council (Scottish Borders Council’s Chief Officer Audit & Risk shared post) must periodically review the Internal Audit Charter and present it to ‘senior management’ (Corporate Management Team) and the ‘board’ (Audit Committee) for approval.
- 2.4** The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity’s position within the organisation, including the nature of the Chief Audit Executive’s functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

- 2.5** Within the PSIAS a Public Sector requirement states the Internal Audit Charter must also:
- define the terms 'board' and 'senior management' for the purposes of Internal Audit activity;
 - cover the arrangements for appropriate resourcing;
 - define the role of Internal Audit in any fraud-related work; and
 - include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.

3 Report Implications

The authority for Internal Audit to operate in Midlothian Council is contained in the Council's Local Code of Corporate Governance, Standing Orders, and Financial Regulations. This Internal Audit Charter expands upon that framework.

The Terms of Reference i.e. Charter for the Internal Audit function was last presented to the Audit Committee for approval on 13 March 2018. The previous Charter has been updated to align with the updated Internal Audit Strategy, specifically within the section Audit Resources and Work Prioritisation.

The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2020/21 that sets out the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions. It also sets out the Council's assurance framework within which Internal Audit operates.

3.1 Resource

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 Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and for Midlothian Health and Social Care Integration Joint Board.

3.2 Risk

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

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

- Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and

irregularities. These are not fixed but evolve as the Council changes.

- Checking that these governance arrangements and internal controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. (The above are known as the first and second lines of defence.)
- Engaging with Internal Audit (the third line of defence) 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.

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 Key Priorities within the Single Midlothian Plan

This report does not relate directly to the key priorities within the Single Midlothian Plan, though indirectly Internal Audit assists Management to fulfil their responsibilities to achieve agreed objectives.

3.5 Impact on Performance and Outcomes

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

3.6 Adopting a Preventative Approach

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

3.7 Involving Communities and Other Stakeholders

There are no communities or other stakeholder issues with regard to this report. The Council's External Auditors, EY, have been consulted on the Internal Audit Charter.

3.8 Ensuring Equalities

There are no equalities issues with regard to this report. The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance

3.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

3.10 IT Issues

There are no IT issues with regard to this report.

4 Summary

The Internal Audit Charter has been updated to reflect changes following a self-assessment. Approval of the Internal Audit Charter at Appendix 1 to this report will ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

5 Recommendations

The Audit Committee is invited to:

- note the changes outlined in this report;
- approve the revised Internal Audit Charter shown at Appendix 1; and
- note that the Internal Audit Charter will be reviewed annually.

Date 12 February 2020

Report Contacts:

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Background Papers:

Public Sector Internal Audit Standards (2017)

INTERNAL AUDIT CHARTER

INTRODUCTION

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

Midlothian Council has adopted the definition of Internal Auditing as given in the PSIAS:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.¹

OBJECTIVES OF INTERNAL AUDIT

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

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

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

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

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

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

POSITION OF INTERNAL AUDIT WITHIN MIDLOTHIAN COUNCIL

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

The CAE within Midlothian Council (the shared Chief Internal Auditor) has full access to those charged with governance, specifically the Elected Members and the Corporate Management Team. The CAE has free and unfettered access to the Chair of each organisation’s ‘board’ to discuss any matters the members or auditors believe should be raised privately.

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

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

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

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

RIGHTS OF ACCESS

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

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

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

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

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

SCOPE OF INTERNAL AUDIT ACTIVITY

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

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

Internal Audit's work covers:

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

AUDIT RESOURCES AND WORK PRIORITISATION

The CAE will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of qualifications, knowledge, skills and other competencies needed to perform the plan such as compliance with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on the trust placed in its objective assurance about risk management, internal control and governance. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

The Midlothian Council Internal Audit Annual Plan as approved by the Audit Committee will be the main determinant of the relative priority to be placed on each part of the work of Internal Audit, with an Internal Audit Annual Plan specific to the MIJB being approved and monitored by its 'senior management' and 'board' (MIJB Audit and Risk Committee). The CAE will determine the actual deployment of available resources covering the range and breadth of audit areas which are integral to the assurance process across the activities of Midlothian Council and MIJB in order to provide the statutory annual internal audit opinion to each organisation's 'senior management' and 'board'. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of each organisation.

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

The Plan will have within it the provision of resources for Internal Audit 'critical friend' consultancy that are valued by Management to support them in delivering innovation, change and transformation though this allocation will reflect what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.

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

NON-AUDIT ACTIVITIES

The Internal Audit service will preserve its independence and objectivity by: ensuring that staff are free from any conflicts of interest when undertaking assurance audits; and there is clarity on duties undertaken during audit consultancy engagements.

APPROVAL

The Internal Audit Charter was reported to and approved by the Midlothian Council Audit Committee at its meeting on *10 March 2020* and shall be subject to regular review by the CAE and the Audit Committee.

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
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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 the statutory annual assurance and audit opinion on the adequacy of each organisation's risk management, internal control and governance arrangements to the relevant organisation's senior management and board/audit committee;
 - carrying out all other objectives contained in Internal Audit's Charter; and
 - adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to their strategic priorities.

2. STRATEGY OBJECTIVES

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

3. ASSURANCE FRAMEWORK

- 3.1. It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. These are known as the first and second lines of defence. Internal Audit, as the third line of defence, is the review function which will provide independent assurance on the effectiveness of the first and second lines of defence, challenge current practices, recommend best practice and improvements to lead to a strengthening of the control environment and management of risks, thus assisting the organisation in achieving its objectives.
- 3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of systems in place to mitigate those risks.
- 3.3. The assurance framework comprises assurances from within the organisation (from Management and compliance functions, and independent and objective assurance from Internal Audit) and from external providers of assurance. Examples of the latter include the Accounts Commission, External Audit (EY - 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 technology to support service delivery, and digital change and transformation to improve operations is a key part of the vision for each organisation. Arrangements in place are underpinned by the overarching framework of the ICT security policy designed to ensure that computer systems are secure, reliable and conform to nationally agreed standards, and by the ICT Strategy linked to Corporate Priorities designed to support effective and modern service delivery and to meet service objectives.

5. APPROACH TO PERIODIC PLANNING

- 5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2020/21 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce the statutory annual assurance and audit opinion for each organisation.
- 5.2. As part of the Internal Audit planning process it was necessary to consider each organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation's goals, as follows:
 - Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage;
 - Corporate 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. This is of particular importance during a period of change and transformation as each organisation responds to new legislation or service delivery arrangements that might affect plans, priorities and resources.

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

- 6.1. The Internal Audit staff resources comprise Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 0.42 FTE Other Audit Resources), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), and 50% of Fraud and Audit Officers (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. The Available Days has been amended to reflect the Internal Audit resources after consideration of annual leave, public holidays, sickness absence (estimated), learning and development, management and administration.

- 6.2. It is estimated that around 87% 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 4% of Available Days will be utilised on *consultancy* activities which support Management in delivering innovation, change and transformation. Management seek this value added activity during this unprecedented period of change for Local Government though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.
- 6.4. It is estimated that around 9% of Available Days will be spent on the provision of Internal Audit services to *Midlothian Health and Social Care Integration Joint Board*. This reflects MLC's contribution of support resources as governance arrangements have changed in response to statutory partnership working for the provision of health and social care integration.

7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

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

7.5. *Other* work will include:

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

8. MONITORING THE WORK OF INTERNAL AUDIT

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

Ref	Category	Audit	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 Cyclical	Income Collection	30	Review the collection of income and the Council's compliance with the Payments Card Industry Standards. The audit will include a review of the Parent-pay system, rechargeable repairs, car parking and licensing.
3.	Assurance Cyclical	Fleet Management	30	Review the asset management planning and maintenance of the Council's fleet ensuring that fleet repairs and replacement decisions represent value for money. Include a review of the controls over fuel management.
4.	Assurance Cyclical	Property Maintenance	30	Review of the in-house building maintenance team undertaking repairs to the Council's housing and non-housing buildings. This will include a review of jobs from creation through to billing.
5.	Assurance Cyclical	Roads Maintenance Service	30	Review of the Roads Maintenance service including both capital and revenue jobs ensuring that the service is complying with the relevant code of practice / risk based inspection regime.
6.	Assurance Cyclical	Council Tax	30	Review the adequacy of controls over the Council Tax System with coverage limited to liability, billing and collection.

Ref	Category	Audit	Number of Days	Commentary
7.	Assurance Cyclical	Information Governance	20	Continual audit approach to review the information governance framework including roles and responsibilities, policy development and implementation, specifically on information security.
8.	Assurance Cyclical	Schools	30	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments (sample of 2 High Schools and 2 Primary Schools), to complement the assurance received from Education Scotland arising from their inspection programme of schools.
9.	Assurance Cyclical	Homelessness	30	Review of controls in place to ensure the achievement of statutory obligations for the Homelessness service, including a focus on prevention and support.
10.	Assurance Cyclical	Social Housing Rents	30	Review the management arrangements and the adequacy of controls over the collection of Council house and garage rents, as part of the housing revenue account.
11.	Assurance Cyclical	Trading Standards	30	Review the business practices and ways of working within Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed.
12.	Assurance Cyclical	DSM Budgets	30	Review the processes in place to assess whether the DSM budgets set for 2020/21 are sustainable and based on realistic plans for schools and that appropriate scrutiny is undertaken to enable service delivery within approved budget.

Ref	Category	Audit	Number of Days	Commentary
13.	Assurance Risk Based	Change and Transformation Programme	20	Continual audit approach to monitor implementation of improvements to the governance and accountability arrangements for the change and transformation programme.
14.	Assurance Risk Based	Business Planning, Budget Setting and Monitoring	20	Continual audit approach to monitor implementation of improvements to ensure that 2020/21 budgets are based on realistic plans and monitoring reports enable service delivery within approved budget.
15.	Assurance Risk Based	Procurement and Management of Contracts	20	Continual audit approach to monitor the implementation of improvements recommended and quality assurance arrangements.
16.	Assurance Risk Based	Workforce Planning	20	Review the Service workforce planning processes to provide skills, knowledge and competency requirements for service delivery.
17.	Assurance Risk Based	Passenger Transport	30	Review over the governance, controls, costs and management of passenger transport services across the Council including end to end processes for client and provider.
18.	Assurance Risk Based	Learning and Physical Disabilities Services	30	Review governance and accountability arrangements in place and partnership working to ensure obligations are met to deliver services.
19.	Assurance Risk Based	Capital Investment	20	Continual audit approach to assess compliance with established good practice by Accounts Commission with a specific focus on monitoring and scrutiny of delivery of capital programme/projects.
20.	Assurance Risk Based	School Excursions	30	Assess what policies and procedures are in place to ensure the inclusion and safety of children on excursions.
21.	Assurance Risk Based	Early Years	30	Review of the Council's progress with delivering the expansion in early learning and childcare to 1140 hours and the allocation of the capital funding received to deliver the additional capacity required.

Ref	Category	Activity	Number of Days	Commentary
22.	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.
23.	Consultancy	Consultancy	30	In its 'critical friend' role provide: an independent view and challenge of a sample of programmes and projects (including Learning Estate Strategy, Business Transformation Board, Information Management Group); and an objective assessment of self-evaluation arrangements.
24.	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.
25.	Other	MLC Audit Committee Self-Assessment	5	Provide assistance to Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance.
26.	Other	MLC 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.
27.	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.
28.	Other	Help Desk Enquiry system	22	Provide guidance and advice to Management and Staff on internal controls. Manage any enquiries received through the whistle-blowing facilities offered by the Council.
29.	Other	MLC Administration of Audit Scotland Reports	2	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.

Ref	Category	Activity	Number of Days	Commentary
30.	Other	Risk Management and SOC Groups	5	Attend and provide support to the Risk Management Group and the Serious and Organised Crime Group.
31.	Other	MLC Attendance at Boards / Committees	10	Prepare for and attend Audit Committee meetings and other Boards/Committees as relevant.
32.	Other	MLC Audit Planning for 2021/22	10	Renew risk assessment, develop and consult on proposed coverage within the Internal Audit Annual Plan 2021/22.
33.	Non-MLC	Midlothian Health and Social Care Integration Joint Board	70	Audit reviews and support to be determined and agreed by the Midlothian Health and Social Care Integration Joint Board Audit and Risk Committee for review of the adequacy of the IJB's arrangements for risk management, governance and internal control for delegated resources.
Total			794	

