Notice of Meeting and Agenda

Midlothian

Audit Committee

Venue: **Virtual Meeting,**

Date: **Monday, 14 March 2022**

Time: **14:00**

Executive Director : Place

Contact:

Clerk Name: Democratic Services
Clerk Telephone:
Clerk Email: democratic.services@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 25 January 2022 submitted for Approval 3 - 8

4.2 Audit Action Log 9 - 10

5 Public Reports

5.1 Internal Audit Work to February 2022 - Chief Internal Auditor 11 - 30

5.2 Risk Management Report Q3 Update 2021_22_- Chief Officer Place 31 - 64

5.3 Audit Committee Annual, End of Term Report 2021-22 - Chair of Audit Committee 65 - 84

5.4 External Annual Audit Plan - EY, External Auditors 85 - 118

5.5 Risk Management Strategy - Chief Officer Place 119 - 130

5.6 Counter Fraud Annual Plan 2022-23 - Chief Internal Auditor 131 - 136

5.7 Internal Audit Charter - Chief Internal Auditor 137 - 146

5.8 Internal Audit Strategy and Annual Plan 2022-23 - Chief Internal Auditor 147 - 162

6 Private Reports

No items for discussion

7 Date of Next Meeting

To be confirmed

Minute of Meeting

Audit Committee
Monday 14 March 2022
Item No: 4.1

Audit Committee

Date	Time	Venue
Tuesday 25 January 2022	11.00 am	Virtual Meeting by MS Teams

Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Milligan
Councillor Muirhead
Councillor Parry
Councillor Smaill
Peter de Vink (Independent Member)

In attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Morag Barrow	Joint Director Health and Social Care
Gary Fairley	Chief Officer Corporate Solutions
Derek Oliver	Chief Officer Place
Jill Stacey	Chief Internal Auditor
Colin McCabe	Quality Improvement Manager (Digital Learning)
Stephen Reid	External Auditor, E.Y.
Alan Turpie	Legal Services Manager
Gary Thompson	Senior Accountant, Corporate Finance, Projects & Treasury
Myra Forsyth	Continuous Improvement Manager
Mike Broadway	Democratic Services Officer

1. Welcome and Apologies for Absence

The Chair, Mike Ramsay welcomed everyone to the meeting. Apologies for absence were intimated on behalf of Councillor Hardie.

2. Order of Business

It was noted the order of business was as per the agenda previously circulated.

3. Declarations of interest

No declarations of interest were intimated at this stage of the proceedings.

4. Minutes of Previous Meetings

4.1 The minutes of the meeting of 7 December 2021 were submitted and approved as a correct record having been proposed by Councillor Muirhead seconded by Councillor Cassidy.

4.2 The Action log was submitted and having received updates on the various action points detailed therein, the Committee agreed as follows:-

(i) to close off as complete those action points addressed at either the December 2021 meeting or on today's agenda; and

(ii) that the remaining actions be updated accordingly.

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Treasury Management and Investment Strategy 2022-23 & Prudential Indicators	Chief Officer Corporate Solutions

Outline of report and summary of discussion

The purpose of this report was to present a draft copy of the Treasury Management and Investment Strategy 2022/23 & Prudential Indicators report which was due to be considered by Council on 15 February 2022 to the Audit Committee for scrutiny in accordance with the Treasury Management Code of Practice.

The report explained that the purpose of the report to Council would be to provide an update on the implementation of the Council's Treasury Management & Investment Strategy (TMIS) 2021/22, and to make recommendations to facilitate consideration of the 2022/23 Strategy, specifically the TMIS for 2022/23, the 2021 update to the Prudential and Treasury Management Codes, the Prudential and Treasury indicators contained therein, and the approach to the statutory repayment of loans fund advances. Any revisions arising from consideration of the draft Report by the Audit Committee would be incorporated into the final version of the report prior to its submission to Council on 15 February 2022.

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 and comments raised by Members of the Committee. In particular, the Committee discussed – how the potential cost of carry of borrowing was calculated; the importance of training for Members not just on Treasury Management but on all Audit related matters; the return on current deposits; and the processes for valuing the Council's assets.

Decision

The Audit Committee, having commented on the draft report:-

(a) noted that the report and strategy would be presented to Council for approval on 15 February 2022; and

(b) noted that training for Audit Committee members would be addressed as part of the elected Member training package being put in place for delivery following the Local Government elections in May.

Action

a) Chief Officer Corporate Solutions b) Continuous Improvement Manager

Report No.	Report Title	Presented by:
5.2	Internal Audit Work to December 2021	Chief Internal Auditor

Outline of report and summary of discussion

The purpose of this report was to provide 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.

The Chief Internal Auditor outlined the main sections contained within the report and responded to questions and comments raised by Members. With regards those relating to remote/hybrid working arrangements, which was an area of particular interest to Members in light of recent announcements from the First Minister, the Chief Officer Corporate Solutions updated the Committee on the current position.

Decision

The Committee:-

(a) noted the Executive Summaries of the final Internal Audit assurance reports issued;

(b) noted the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and

(c) acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

Action

Chief Internal Auditor

Report No.	Report Title	Presented by:
5.3	Counter Fraud Controls Assessment	Executive Director Place

Outline of presentation and summary of discussion

With reference to paragraph 5.4 of the Minutes of 22 June 2020, there was submitted a report the purpose of which was to make the Audit Committee aware of the findings and necessary actions arising from the Integrity Group's assessment of counter fraud controls.

The Executive Director Place in presenting the report to the Committee highlighting that the Integrity Group had recently received progress updates from each of the Action Owners, along with further information on additional practices that had been introduced since the counter fraud controls assessment carried out during 2020/21; the output from this review was included within the Action Plan appended to the report. The Audit Committee acknowledged the work carried out by the Integrity Group to ensure controls continued to be effective in mitigating fraud risks across the Council.

Decision

The Committee:

(a) Acknowledged the findings from the Integrity Group's assessment of counter fraud controls 2021/22 in response to fraud risks; and

(b) Endorsed the necessary actions to enhance the Council's resilience to fraud, as summarised in the Action Plan appended to the report.

Action

Executive Director Place

Report No.	Report Title	Presented by:
5.4	External Audit Annual Report to Members and the Controller of Audit for the year ended 31 March 2021 – Update on recommendations	Chief Officer Corporate Solutions

Outline of presentation and summary of discussion

With reference to paragraph 5.1 of the Minutes of 28 September 2021, there was submitted a report the purpose of which was to provide the Committee with an update on the implementation and progress of the recommendations which were set out in the External Auditor's report for the year ended 31 March 2021.

The Chief Officer Corporate Solutions, in presenting the report highlighted the progress with implementation of the four recommendations made in the 2020/21 Annual Report.

Decision

The Committee noted the update on the recommendations which were set out in the External Auditor's report for the year ended 31 March 2021.

Action

Chief Officer Corporate Solutions

Report No.	Report Title	Presented by:
5.5	Shared Internal Audit Services and Proposed Way Forward 2022-23	Chief Executive

Outline of report and summary of discussion

The purpose of this report was to set out an evaluation associated with the provision of Internal Audit services and propose a way forward from 2022/23 onwards.

The report provided details of the wider options for joint working that had been explored and the evaluation of the shared Internal Audit services arrangement, the operating environment for which had changed significantly since its inception. The report proposed a way forward for 2022/23 onwards for the mutual opt out of the Shared Internal Audit Services at the end of 2021/22 and progression towards a permanent staff resourcing of the Internal Audit team to maintain Internal Audit FTE staffing from 2022/23 onwards at the current level (2021/22 - 775 days).

Having heard from the Chief Executive, who in presenting the report, acknowledged the challenges presented by these changes and sought to reassure Members that the necesaary arrangements to ensure the transition would be as seamless as possible were already being put in place.

Decision

The Committee:-

(a) Noted the wider options of joint working that had been explored since the 12 month pilot shared Internal Audit services arrangement and the evaluation associated with the provision of Internal Audit services; and

(b) Noted that the Council's Corporate Management Team had endorsed the proposal to mutual opt out of the Shared Internal Audit Services at the end of 2021/22, and progress to a permanent staff resourcing of the Internal Audit to ensure provision of Internal Audit services to, and delivery of the Internal Audit Annual Plans for both Midlothian Council and the Midlothian IJB.

Action

Chief Executive/Chief Internal Auditor

Report No.	Report Title	Submitted by:
5.6	Accounts Commission Report Community Empowerment: Covid-19 Update	Chief Internal Auditor

Outline of report and summary of discussion
The purpose of this report was to provide the Committee with a summary of the Accounts Commission report, ‘Community Empowerment – Covid-19 Update’ published on 28 October 2021 and the Council’s position in relation to the consideration being given to the report’s findings; a link to the full report was provided in the report. The Chief Internal Auditor briefly highlighted some of the key messages contained within the report and thereafter responded to questions and comments raised by Members of the Committee.
Decision
The Committee:- (a) Noted the Accounts Commission report ‘Community Empowerment: Covid-19 Update’; and (b) Noted that the Council’s Corporate Management Team on 12 January 2022 had agreed to consider the report’s content in full to learn from good practice and new ways of working which had emerged in response to Covid-19 and use this to help shape the Council’s medium-term strategic plans and approach to supporting and empowering communities.
Action
Chief Internal Auditor

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

To be confirmed.

The meeting terminated at 12.12 pm

Audit Committee
Tuesday 14 March 2022
Item No: 4.2

Action Log

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	**Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy**	22/06/2020	Agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy	Chief Officer Place	March 2022	Findings from Q1 2021/22 Internal Audit review of Risk Management were presented on 7 December 2021. Risk Management Policy and Strategy review and revisions underway.
2	**Property Maintenance**	04/05/2021	BTSG report to be circulated to members of the Audit Committee when completed.	Executive Director Place	March 2022	The report will be presented to the Business Transformation Steering Group in January 2022 and if appropriate thereafter referred to the next Audit Committee meeting.
3	**Treasury Management and Investment Strategy 2022-23 & Prudential Indicators**	25/01/2022	Training for Audit Committee members	Continuous Improvement Manager	May/June 2022	To be addressed as part of the elected Member training package being put in place for delivery following the May Local Government elections.

Internal Audit Work to February 2022

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

a) Consider the Executive Summaries of the final Internal Audit assurance reports issued;

b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and

c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

2 Purpose of Report/Executive Summary

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.

The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out work 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.

An 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, is shown in Appendix 1.

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.

Date 7 March 2022

Report Contact:
Jill Stacey Tel No
jill.stacey@midlothian.gov.uk

3 Progress Report

3.1 The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out the following work in the period from 1 January to 25 February 2022 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.

3.2 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.

3.3 Internal Audit issued final assurance reports on the following subjects:

- Early Learning and Childcare Expansion
- Scottish Welfare Fund
- Business Continuity Framework
- ICT and Cyber Security
- Waste and Recycling Services
- Housing Allocations
- Sustainable Environment

3.4 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

3.5 Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2021/22 consists of the following:

Audit Area	Audit Stage
Information Governance	Continuous audit
Learning and Physical Disabilities Services	Testing underway
Capital Investment	Testing underway
Adult Social Care Contract Monitoring	Assignment Issued

Internal Audit Consultancy and Other Work

3.6 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:

a) Completed the work on the Destination Hillend capital project in line with the scope of the Internal Audit review commissioned by Midlothian Council at its June 2021 meeting.

b) In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, Information Management Group, and Cyber Defence Group.

c) Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums and meetings. This has included the Chief Internal Auditor joining CIIA Local Authority Forum and webinars on the topics of Risk Appetite and the Annual Audit Opinion, and Fraud Risk Assessment to share good practice and to keep knowledge of new Internal Audit developments up to date.

Recommendations

3.7 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.

3.8 The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	7
Medium	10
Low	12
Sub-total reported this period	**29**
Previously reported	28
Total	**57**

Recommendations agreed with action plan	57
Not agreed; risk accepted	0
Total	**57**

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

4.1 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.

4.2 Digital

There are no digital implications arising from this report.

4.3 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.

4.4 Ensuring Equalities

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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within 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 independent and objective assurance about risk management, internal control and governance.

4.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The 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."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council’s own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council’s best value duties.

A.5 Involving Communities and Other Stakeholders

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management relevant to the areas audited have agreed the final Internal Audit assurance reports as set out in the relevant Executive Summary within Appendix 1.

A.6 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year are designed to assist the Council in improving its performance and outcomes.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Good governance is important to enable Midlothian Council to achieve its objectives.

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Early Learning and Childcare Expansion Category: Assurance – Risk (concurrent Strategic Risks: Early Years Expansion (1140 hours) and Growing Council) Date issued: 16 December 2021 Draft; 25 February 2022 Final Level of Assurance: Substantial (for the funding reporting requirements and the response to the Audit Scotland reports) and Limited (for future plans to ensure that capacity is available in line with forecasted need and the capital plans in place to deliver the remaining infrastructure projects).	The purpose of this assurance audit was to review the Council's future plans for delivering the expansion in early learning and childcare to 1140 hours and the remaining allocation of the capital funding received to deliver the additional capacity required. The Children & Young People (Scotland) Act 2014 increased the number of hours of free early learning and childcare from 475 hours per year to 600 hours and introduced an entitlement for eligible 2 year olds in 2014. This entitlement was increased to 1,140 hours from August 2021 (initially planned for August 2020 but delayed due to the Coronavirus pandemic). As at December 2021 the Council, along with the Council's Partner Providers, continues to be able to meet the Council's statutory duty to deliver 1,140 hours of ELC to children in Midlothian. Internal Audit considers that the level of assurance is: Substantial for the funding reporting requirements, the response to the Audit Scotland reports, the plans to ensure that capacity is available in line with short-term need and the capital plans in place to deliver the remaining infrastructure projects; and Limited specifically on the projections against future capacity in place at the time of the audit and full utilisation of all of the 1,140 hours capital grant by the current deadline date set by Scottish Government. Education are currently undertaking a major review of the existing child/pupil projection model to provide assurance that projected need is in line with allocated budget. Although plans are in place to deliver the remaining infrastructure projects, £12.8m of capital grant (from a total of £19.4m) had not been spent by 31 March 2021 and as at period 6, 2021 there had been minimal capital spend. Use of the remaining grant within the required deadline set by the Scottish Government (31 March 2023 for £10.5m of the £12.8m) is at risk if there are further delays to projects. There are a number of significant projects which are at design stage and currently one of the significant projects is out to tender. It was discussed with Management that many of these delays were due to the ongoing review of the Learning Estate Strategy, staff resources spent dealing with pandemic-related issues which are ongoing, delays in tendering, and construction delays. Areas of potential risk include: the ELC staffing model requiring further refinement; risk management; recording and monitoring of the uptake of hours within the SEEMiS system; and a lack of formal post-implementation reviews of expansion projects.	1	3	3	Management Response: In general the findings are accurate and the recommendations are accepted with actions underway and resources deployed to implement the improvements; however, for context this is a complex programme involving multiple teams and strategies to achieve national policy outcomes with capital investment as a key enabler, concurrent with the ongoing pandemic response and significant population growth. Management have been in regular contact with the Scottish Futures Trust to appraise them of reasons for delays and rationale for changes.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Early Learning and Childcare Expansion (cont'd)	Internal Audit made the following recommendations: • Review the modelling used for projections to develop more accurate projections of pupil roll. The projection model should compare against future planned capacity to provide assurance that the Council can continue to deliver its statutory duty. (Medium) • The ELC staffing model should specify the requirements in terms of FTE and include all types of staffing roles used (e.g. Learning Assistants). Information on future plans for the ELC workforce and the partner provider rate changes should be provided to Financial Services to enable the costs to be modelled. (Medium) • Data recorded in NAMS should detail the weekly number of hours of uptake for Local Authority settings for each pupil. (Low) • Early Years should establish adequate risk management processes in line with the Council's Risk Management Policy and review if more formalised performance indicators could be developed for the service covering the core business. (Low) • Progress the remaining projects in the Early Years plan at speed to minimise the risk of losing the 1,140 hours capital funding. The capital plan held by Financial Services should be updated to ensure it accurately reflects the planned works that are proceeding. Management should clarify with the Scottish Government the acceptability of the 'front-loading' approach and if there is scope for any further extension on the use of the capital grant. (High) • Develop lessons processes for expansion projects, including that all settings delivered meet the design guide standards. This includes projects funded by the capital grant awarded to partner providers. (Medium) • Surveys should be formally reported on in full so the results are available to parents. As part of the response to the survey, the service should set out any changes they intend to make to take into account parental preferences. (Low)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Scottish Welfare Fund Category: Assurance – Risk Date issued: 23 December 2021 Draft; 26 January 2022 Final Level of Assurance: Substantial	The purpose of the audit was to assess the adequacy of the operational processes in place to administer the payment of Crisis Grants and Community Care Grants for the Scottish Welfare Fund (SWF) and that they are effective, appropriate and consistent. The Scottish Welfare Fund (SWF) implemented in 2013 is a national scheme which provides a safety net for some of Scotland's most vulnerable people. The SWF is locally delivered in partnership with the Scottish Government. Crisis Grants can be awarded to meet expenses that have arisen as a result of an emergency or disaster in order to avoid serious damage or serious risk to the health or safety of the applicant or their family; and to individuals who earn less than the Real Living Wage and will lose income as a result of self-isolation during the pandemic. A Community Care Grant can be provided where help is needed to establish or maintain a settled home, or to support individuals and families facing exceptional pressure. The total budget 2021/22 was £717,303. Revenues Services adapted quickly to working from home due to Covid-19 and maintained a high level of service in processing the increasing number of SWF applications, including self-isolation support grants which peaked in the summer of 2021 (Delta variant) and again in December 2021 (Omicron variant). Despite the increase in demand, processing times for crisis grants have continued to meet or exceed statutory deadlines. Internal Audit considers that the level of assurance is substantial. Local procedures are in place and Scottish Government guidance was followed for the majority of cases tested. Internal Audit made the following recommendations: • Management should remind staff of the evidence requirements for self-isolation grants that should be obtained. (Low) • An up to date Non Competitive Action (NCA) form should be completed for the provision of household goods for fulfilment of Community Care Grant applications to the SWF. Sufficient quotes should be obtained for specialised items not provided by NCA / Scotland Excel contract. (Low)	0	0	2	Management have accepted the factual accuracy of the report and its findings and have agreed to implement recommendations by June 2022.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Business Continuity Framework Category: Assurance – Risk Date issued: 14 February 2022 Draft; 4 March 2022 Final Level of Assurance: Limited	The purpose of this assurance audit was at a high level to review the process for setting, testing, reviewing and updating Business Continuity Plans (including ICT disaster recovery strategies and plans) to ensure the delivery of business critical services across the Council, that they are aligned with requirements and that they are fit for purpose. The Covid pandemic has been pervasive, simultaneously impacting employees, suppliers and customers and for a duration previously not considered a possibility. The impact of the Covid pandemic has meant that the Council has been forced to work in ways that are significantly different than before. The Covid pandemic responses, which exhibits elements of Business Continuity, has successfully navigated the Council through this very serious crisis and demonstrated the ability to adapt and innovate in extreme circumstances. Our audit is focussed on the Business Continuity Management System (BCMS) and not on responses to the pandemic. A Business Continuity Management Policy is in place and published on the Council's intranet but it is old (2017) and requires review and updating. The Business Continuity function that supports all Managers across Council Services to apply its business continuity management policy lacks sufficient resource to effectively manage and maintain up to date and robust Business Continuity Plans (BCPs) and prevent critical single points of failure. The Council does not presently use a BCMS system and there is a lack of effective central administration and oversight of Business Continuity Plans. BCMS software has been procured and is currently being configured. Ultimately the system will ensure modern up to date BCPs with a good level of consistency and will also allow for central oversight of plans. It cannot be demonstrated that BCPs are in place for all critical services, infrastructure and applications, how old those plans are, whether plans in place are robust and aligned with service delivery requirements or continue to be fit for purpose. It is possible that some plans may contain single points of failure. The response to the Covid pandemic has changed the ways of working beyond that which current BCPs could reasonably have envisaged. Some changes are likely to be permanent and most plans will require revision to reflect these changes.	2	0	0	Management have accepted the factual accuracy of the report and its findings and have agreed to implement recommendations. Actions are commencing immediately to progress improvements. Management Responses included the reference to note CMT's approval of the new Contingency Management System.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Business Continuity Framework (cont'd)	In recent years, in part due to staff resource capacity, there has been no formal provision of training for Service Managers to equip them with the necessary competence to apply the business continuity policy and practices and to develop and maintain their BCPs. An ICT Business Continuity Plan is in place which identifies critical infrastructure and applications, but does not specify the order of recovery. Further, BCPs for recovering individual systems are out of date. A programme of testing has not been developed to validate over time the effectiveness of Business Continuity Plans and solutions. There have been no testing exercises of plans undertaken for at least five years (at least three for ICT) and consequently any necessary changes and improvements to business continuity processes have not been identified. Lessons learned from the Covid pandemic response do however provide some opportunity to make changes and improvements. Internal Audit considers the level of assurance is Limited. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives. Internal Audit made the following recommendations: • Up to date Business Continuity Plans should be created within the new BCMS and a programme of testing should be developed to validate those plans. Testing should be undertaken in accordance with the testing programme. (High) • The IT Business Continuity Test Strategy, ICT Business Continuity plan and the Business Continuity Management Policy should be reviewed and refreshed. Annual IT test plans should be developed and followed to ensure all plans are exercised over time. (High)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Sustainable Environment Category: Assurance – Risk Date issued: 15 February 2022 Draft; 4 March 2022 Final Level of Assurance: Limited (governance arrangements); Substantial (strategy, annual declaration and Council decisions taking into account sustainability / net zero implications)	The purpose of this assurance audit was to at a high level assess the Council's progress with the development of new governance arrangements and action plans to meet obligations regarding sustainable environmental programmes, including corporate and social responsibilities such as climate change. The Climate Change (Scotland) Act 2009 set economy-wide (not organisational) emissions reduction targets. Midlothian Council has unilaterally decided to make the Council's activities net carbon zero by 2030. Midlothian Council has made a good start when considering its own emissions in the context of demographic trends. In August 2020, the Council published a Climate change strategy and associated action plan: *Scotland's Changing Climate – Midlothian's Climate Change Strategy* response to the Council's declaration of a climate change emergency in December 2019 which clearly sets out the Council's vision and objectives. We found that a significant number of targets in the Action Plan have not been achieved and that progress with delivery of the plan is not routinely monitored. In addition some actions need updating and reassigning following departure of some employees. A Climate change risk assessment was produced in March 2021 based on the 2017 Climate Change Risk Assessment Summary for Scotland and provides a risk rated review of the action plan. The Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 requires local authorities and other major public bodies to report to Scottish Ministers in November each year in respect of the preceding financial year on what they have done to comply with their duties. The report was submitted on time and in the required format following authorisation by Cabinet at their meeting of 19 October 2021. Sustainability / net zero implications are taken into account as part of the Council's decision making process. The comprehensiveness of completion of section A.8 Supporting Sustainable Development is inconsistent across directorates. Notwithstanding, during the course of our work we observed some excellent examples of where carbon neutrality clearly has been carefully considered and had influenced action taken.	2	2	2	Management have accepted the factual accuracy of the report and its findings and have agreed to implement recommendations. Management Responses included the reference to note the two very important projects (the Passivhaus developments now underway and the Waste to Energy plant) which show Midlothian Council's commitment to delivering carbon neutral approaches.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Sustainable Environment (Cont'd)	Internal Audit considers that the level of assurance is Limited in respect of governance arrangements and Substantial in relation to strategy, annual declaration and Council decisions taking into account sustainability / net zero implications. Internal Audit made the following recommendations to ensure a well-managed Council-wide approach to meeting the strategic objective of reducing the impact of climate change, and to encourage attitudinal change amongst citizens of Midlothian: • Credible offset schemes should be identified and developed. (High) • In the coming years, the Council should significantly increase education and messaging efforts in order to persuade people and businesses to modify their behaviour by raising awareness of climate change and suggesting adaptations. (Medium) • The Council has produced a large number of strategies which are designed to address a wide range of issues and which are not directly climate change related. As these strategies are articulated or refreshed the climate change implications of those strategies should be reassessed and greater emphasis given as appropriate. (Low) • The benefits of subjecting information contained in the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 report to external validation or peer review should be considered and if assessed as beneficial, arrangements put in place. (Low) • To ensure a consistent focus on sustainability matters in reports for decision by Council, an aide memoire / toolkit should be developed to assist report writers in identifying key implications. (Medium) • A Terms of Reference and membership of the Carbon Neutral by 2030 Board should be agreed with meetings commencing as soon as possible. (High)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Waste and Recycling Services Category: Assurance – Risk Date issued: 21 February 2022 Draft; 4 March 2022 Final Level of Assurance: Substantial	The purpose of this assurance audit was to ensure there are adequate financial and operational controls in place for the effective delivery of waste collection and recycling services including plans to achieve Zero Waste targets. A clear strategic direction has not been established to achieve Waste and Recycling services' contribution towards the Council's obligations concerning zero waste, the need for which is recognised in the Climate Change Strategy *Scotland's Changing Climate – Midlothian's Climate Change Strategy*, although there are excellent examples of action which is taking the Council towards zero waste targets. Budget monitoring procedures are accurate, relevant and timely and meet the needs of service management who receive information on a four weekly basis, actively scrutinise budget monitoring reports and contribute towards refinement of forecasts for the remainder of the year. Performance monitoring and benchmarking is undertaken to maintain and improve performance. There is an opportunity to further develop performance monitoring for the collection side of the service. Benchmarking is provided through the LGBF which is also available to the residents of Midlothian. Arrangements are in place which enable monitoring of contracts with third parties. Suppliers are required to provide specified data on a monthly basis although monthly contract meetings do not take place between the supplier and service management. Instead any issues are raised on an ad hoc basis as necessary. The replacement cycle for refuse collection vehicles may not currently be optimised to deliver value for money. Internal Audit considers that the level of assurance is Substantial. Largely satisfactory risk, control, and governance systems are in place.	0	3	0	Management have accepted the factual accuracy of the report and its findings and have agreed to implement recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Waste and Recycling Services (cont’d)	Internal Audit made the following recommendations which are designed to improve the efficacy of governance arrangements to achieve objectives: • The Waste and Recycling Service should develop a Waste Management and Recycling Strategy, which sets out how zero waste targets are to be achieved, in accordance with the Climate Change Strategy. (Medium) • The benefits of having performance data on various aspects of the waste collection process should be considered and if judged to be beneficial, performance targets should be set and monitored through the use of appropriate performance indicators. (Medium) • The replacement cycle for refuse vehicles should be revaluated and changed if analysis indicates that an alternative replacement cycle offers lower total cost of ownership and better value for money. (Medium)				

<table>
<tr><th rowspan="2">Report</th><th rowspan="2">Summary of key findings and recommendations</th><th colspan="3">Recommendations</th><th rowspan="2">Status</th></tr>
<tr><th>H</th><th>M</th><th>L</th></tr>
<tr>
<td>Subject: Housing Allocations
Category: Assurance – Risk
Date issued: 24 February 2022 Draft; 4 March 2022 Final
Level of Assurance: Substantial (Policy, procedures, process, management information and reporting); Limited (audit trail of application supporting documentation)</td>
<td>The purpose of this assurance audit was to assess the policies and procedures and practices in place to ensure the Council allocates housing in accordance with the Housing (Scotland) Act 1987 as amended by the Housing (Scotland) Act 2001, the Housing (Scotland) Act 2014, other relevant legislation and statutory guidance, and good practice available from the Scottish Government, the Scottish Housing Regulator and the Chartered Institute of Housing.
The Council has over 7,000 properties of various sizes and types. There were 4,183 active housing applicants (3,506 on General Needs List and 677 on Homeless List)@14 February 2022. The Housing Allocations Policy sets out a lettings target of 60% of allocations to be made to the Homeless Group and 40% of allocations to be made to the General Needs Group.
<table>
<tr><th></th><th>Homeless Group applicants</th><th>General Needs applicants</th><th>Total lets</th></tr>
<tr><td>2020/21</td><td>204 (54.3%)</td><td>172 (45.7%)</td><td>376</td></tr>
<tr><td>2021/22 to 31 January 2022</td><td>193 (57.3%)</td><td>144 (42.7%)</td><td>337</td></tr>
</table>
The Housing Allocations process is supported by the Capita housing system. This system maintains a record of all Council housing stock including details of the house type, number of bedrooms, location, the applicant's housing application reference number, the applicant's points circumstances, and the Council's live waiting list. Relevant documentation supporting the Council's housing allocations process including the scanned Housing Applications, Tenancy Agreements, Pre-tenancy Checks, Allocation Checklists, and application shortlisting documentation are stored electronically in the D360 document management system.
Internal Audit considers that the level of assurance is Substantial over the Council's Housing Allocations Policy, procedures, management information and reporting arrangements, and aspects of the Housing Allocations process, including control over the housing list, allocation of points, management review arrangements, and documentation of bypass reasons (where supporting documentation was available in the D360 system). Assurance is Limited on the audit trail of application supporting documentation including the verification of applicant identity.</td>
<td>1</td><td>1</td><td>5</td>
<td>Management have accepted the factual accuracy of the report and its findings and have agreed to implement recommendations by June 2022.</td>
</tr>
</table>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Housing Allocations (cont'd)	Internal Audit made the following recommendations: • The next update to the Housing Allocations Policy should more clearly define the outcomes of the Housing Allocations Policy and monitoring arrangements to ensure those outcomes are achieved; the Consultation Report should be published and made available to the public in full prior to finalisation of the Housing Allocations Policy; and reasonable preference groups should make clear those required by the Act and any additional groups set out in the Council's policy. (Low) • Current gaps in written procedures should be addressed so there is clarity and consistency going forward. (Low) • The current approach to obtaining proof of identity and overcrowding evidence should be reviewed and relevant evidence should be photographed and uploaded to the D360 system to minimise the risk of tenancy fraud. (Medium) • Housing Services should to carry out a review of how information is stored in D360, named to ensure that the file is named something easily recognisable, and to ensure that the missing documentation is primarily down to scanning issues and the appropriate checks / documents have been completed. Where possible, missing documentation should be located and added to D360. Shortlisting documentation and proof of identity documentation should be uploaded by Housing Officers directly to ensure that the documentation is always saved and uploaded to the correct place every time. (High) • Management should recommence the Housing Applications review process. (Low) • Where an application has been cancelled Management should ensure that a letter documenting the cancellation has been submitted to the applicant in all cases. (Low) • Retention rules in the D360 system should be reviewed to ensure data is held for no longer than is required in compliance with the Council's retention schedule. (Low)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: ICT and Cyber Security Category: Assurance – Risk Date issued: 25 February 2022 Draft; 4 March 2022 Final Level of Assurance: Substantial (ICT policies, guidance, training, risk management; physical, environmental, operational, and system enforced ICT security controls; backup systems; and ICT and cyber security controls over the Council's network: and Limited (ICT business continuity and disaster recovery arrangements, and the current level of resources available to support cyber-security).	The purpose of this assurance audit was to assess the ICT and cyber security arrangements associated with the Council's network and Digital Services' support towards the ICT and cyber security arrangements of the Council, including policy and guidelines, physical and operational controls, business continuity and disaster recovery arrangements, and third party access. This includes a review of Public Sector Network (PSN) requirements, Cyber Essentials Plus requirements, and the Council's response to the published reports by the Scottish Environmental Protection Agency (SEPA) on their recent cyber-attack. ICT and cyber security controls are essential for organisations such as local authorities. The impact of a successful cyber-attack can be devastating on an organisation in terms of the loss of the ability to deliver services, the time taken for the organisation to recover, and the costs of recovery. Recent successful cyber-attacks on the Scottish Environmental Protection Agency (SEPA), Hackney Council, and Redcar and Cleveland Council have highlighted the impact these can have, their potential frequency, and that they can happen to organisations with reasonably well established ICT controls. Aspects of Midlothian's ICT control arrangements are externally reviewed twice annually through the Public Sector Network (PSN) review and the Cyber Essentials review. Midlothian achieved PSN compliance and Cyber Essentials Plus compliance in 2021, and is on track to achieve Cyber Essentials Plus Compliance in 2022. The PSN review will be later in the year, around June/July 2022. The Council has established a wide range of ICT controls and cyber defence arrangements including physical security over the Council assets and asset monitoring arrangements, local backups and cloud backups of Council data, user access controls applied to digital assets, password standards including two factor authentication, anti-virus software, modern firewalls with intrusion detection implemented, email filtering controls, web-filtering controls, vulnerability scanning software, a log event monitoring system implemented, a system to ensure significant changes to systems are risk assessed and authorised, and controls established to monitor third party access to the Council's network.	1	1	0	Management have accepted the factual accuracy of the report and its findings and have agreed to implement recommendations. Actions are commencing immediately to progress improvements, and an Action Plan with agreed prioritisation of actions and timescales is scheduled to be presented to CMT by April 2022.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: ICT and Cyber Security (cont'd)	In 2021/22 Digital Services has taken forward a number of actions to further improve the Council's security arrangements. Digital Services have recently undertaken a review of the actions identified as part of the SEPA cyber-attack from the publically available audit reports. A number of significant actions have been highlighted by Digital Services which would help further improve the Council's cyber-security arrangements although this is likely to involve significantly more resource to implement. Internal Audit considers the level of assurance is: Substantial (ICT policies, guidance, training, risk management; physical, environmental, operational, and system enforced ICT security controls; backup systems; and ICT and cyber security controls over the Council's network); and Limited (ICT business continuity and disaster recovery arrangement, and the current level of resources available to support cyber-security). An ICT Business Continuity Plan is in place which identifies critical infrastructure and applications, but does not specify the order of recovery. Business Continuity Plans for recovering individual systems are out of date and there is no annual programme for business continuity and disaster recovery testing. This was raised in the recently concluded Business Continuity audit and a recommendation made to enable improvements. Internal Audit made the following recommendations: • A formal cyber defence action plan should be prepared with agreed actions, prioritisation of actions and timescales. Cost and benefit analysis of proposed risk mitigation measures outlined in the SEPA GAP analysis and Cyber Defence Risk Analysis should be undertaken as part of the action plan. It should be presented for approval to either CMT or the Digital First Strategic Board as the action plan and mitigation measures impact all Council services. (High) • The level of resources to support the Council's cyber defence arrangements should be reviewed, taking into account the range of projects currently being delivered by Digital Services. Senior Management should be made aware at appropriate intervals of the level of vacancies and cover arrangements within Digital Services to assess the dependency risk for delivery of the Digital transformation projects concurrent with cyber defence arrangements. (Medium)				

Audit Committee
Monday 14 March 2022
Item No: 5.2

Title of Report Risk Management Update, Quarter 3 2021/22

Report by Derek Oliver, Chief Officer - Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- note the current risk landscape and organisational response to the most significant risks in Quarter 3 2021/22.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Audit Committee with an update on the risk responses Midlothian Council has implemented during Quarter 3 2021/22 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks.

Date 14 February 2022

Report Contact:
Derek Oliver, Chief Officer – Place
derek.oliver@midlothian.gov.uk

3 Q3 Risk Management overview

3.1 Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 3 2021/22 whilst operating within a series of government directed constraints and transition through Protection Levels, in response to a global pandemic.

Despite indications in Quarter 1 of potential EU-Exit linked impacts on wider supply chains and logistics sector, there continues to be no negative experience or forecasted impact on Council operational service delivery.

Quarter 2 required the Council to maintain its ongoing control of risk associated with COVID 19 as the country transitioned through the Protection levels.

Quarter 3 (Oct-December 2021) saw the emergence of the Omicron COVID 19 variant, the re-introduction of longer isolation periods and increased protective measures, several storms and inclement weather. Together these circumstances posed significant risk for the Council to continue to deliver its services, in particular over the festive holiday period, and a series of mitigations were applied to ensure that our communities were supported and continued to be safe during this time.

The Council continues to manage and review risks recorded within the Strategic Risk Profile. The work required to maintain the necessary corporate oversight over the broader strategic landscape continues through the refreshed Risk and Resilience Chief Officer's group and CMT.

3.2 UK Exit from EU

Quarter 1 2021/22 saw forecasts of workforce and supply chain issues but they were not yet experienced locally by the Council. With the likelihood and impacts that these would have on Council operations increasing, the risk evaluation of EU Exit was increased from Low Risk in Q4 2020/21 to Medium Risk in Quarter 1 2021/22. The incidence of impacts have again not been experienced in Quarters 2 or 3, although with concurrent risks attributed to supply chain delays and material costs, the Medium Risk score remains at this time.

In Q3, the Performance, Review and Scrutiny Committee agreed to establish an EU Exit Sub Committee to have additional scrutiny on EU Exit emerging issues. At its first meeting on 24 January 2022, the Sub Committee was provided with an update report by the Chief Officer – Place on the current position and impacts for Midlothian that have been identified to date. The Sub Committee were also asked to note that the Council's internal EU Exit Working Group has been merged into the Risk and Resilience Group, and that the EU Exit Working Group would be reconvened as and when new and relevant post EU Exit issues emerge.

3.3 Financial Stability

This report covers activity during Q3, which is the period from **October 2021 – December 2021.** Members will be aware that further work has been carried out in early 2022, however for the purposes of this retrospective report, this is not included in this update.

The ongoing risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan demonstrating the Council's financial stability. There is an approved budget for 2021/22, and services are being delivered within the totality of that budget. Spending within budget continues to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where it is identified as being off target.

Work continues to develop a balanced budget for 2022/23. The revised grant settlement for 2022/23 represents a £251m real terms reduction in core spending power nationally which when combined with the underlying budget gap for 2022/23, addressed through one off measures, points to significant financial challenges which will need to be addressed after the May 2022 elections. In parallel, work continues to bring forward the next iteration of the MTFS, for consideration for and by the term of the next Council.

Due to the severity of the financial outlook demonstrated by the underlying budget gap and revised grant settlement, the risk evaluation for the strategic issues of 'the change programme' and 'financial sustainability' and the strategic risks of 'financial stability in future years' and the 'long term change programme' have increased from Medium Risk in Q2 2021/22 to High Risk in Q3 2021/22.

3.4 Strategic Risk Profile Summary

The highest risks set out within the strategic risk profile at Quarter 3 are associated with climate change, early year's expansion, Scottish child abuse enquiry, and the previous mentioned increase in risk evaluation of the financial sustainability and change programme risks.

The Strategic Issues for the Council are summarised in table 1:

Issues	Likelihood	Impact	Score	Evaluation Q3		Q2 21/22
COVID 19	5	5	25	Critical	⯃	Critical
The Change Programme	4	5	20	High	▲	Medium
Financial Stability	4	5	20	High	▲	Medium

The Strategic Risks for the Council are summarised in tabled 2:

Strategic Risks	Likelihood	Impact	Score	Evaluation Q3		Q2 21/22
Climate change	5	5	25	Critical	🛑	Medium
Early Years Expansion (1140 Hours)	4	5	20	High	🔺	High
Scottish Child Abuse Inquiry	4	5	20	High	🔺	High
The Long Term Change Programme	4	5	20	High	🔺	Medium
Financial Sustainability in future years	4	5	20	High	🔺	Medium
Asset Management	3	5	15	Medium	⚠	Medium
Scottish Child Abuse Claims Project	3	5	15	Medium	⚠	Medium
Information Security	3	5	15	Medium	⚠	Medium
Cyber Security	3	5	15	Medium	⚠	Medium
Health and Safety	3	5	15	Medium	⚠	Medium
UK decision to leave the EU	~~3~~	~~4~~	12	Medium	⚠	Medium
Growing Council	3	4	12	Medium	⚠	Medium
Care at Home	3	4	12	Medium	⚠	Medium
Governance and standards	3	4	12	Medium	⚠	Medium
Employee performance	3	4	12	Medium	⚠	Medium
Emergency planning and business continuity	3	4	12	Medium	⚠	Medium
Legal and Regulatory compliance	3	3	9	Medium	⚠	Medium
Internal control environment	3	3	9	Medium	⚠	Medium
Corporate policies and strategies	2	3	6	Low	✓	Low

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

Strategic Opportunities	Likelihood	Impact	Score	Evaluation Q3		Q2 21/22
City Deal	5	5	25	Critical	🛑	Critical
Creating a World Class Education System	4	5	20	High	🔺	High
Shawfair	5	4	20	High	🔺	High
Easter Bush – Penicuik	5	4	20	High	🔺	High

3.5 STRATEGIC ISSUE – RATED CRITICAL AND HIGH

3.5.1 COVID-19

During Quarter 3, Midlothian saw the emergence of the Omicron variant, which triggered a return to some previous protective measures, including the re-introduction of a 10 day isolation period for close contacts, increased regular testing and restrictions for the business sector, as well as an acceleration of the COVID-19 booster programme in advance of the New Year.

The risks associated with this change were significant in terms of service delivery and on employees and service users. Despite a vaccination programme in place, the virus impact remains significant, together with the various variants and risks associated with the re-opening of sectors. This risk evaluation continues to remain High.

3.5.2 The Change Programme

There are 8 strategic boards overseen by the Business Transformation Board to drive transformation at pace and achieve positive outcomes. Boards are progressing and are subject to scrutiny through 'deep dive' sessions, financial challenges of the underlying budget gap pose a significant challenge for benefits realisation. This has resulted in the evaluation of this issue increasing from Medium in Q2 to High in Q3. Work is progressing to develop the Medium Term Financial Strategy which will inform the delivery of this transformation programme.

3.5.3 Financial Stability

Scottish Government grant settlements fall short of the resources needed to sustain core services. The revised grant settlement for 2022/23 represents a £251m real terms reduction in core spending power nationally which when combined with the underlying budget gap for 2022/23, addressed through one off measures, points to significant financial challenges which will need to be addressed after the May 2022 elections.

This core funding shortfall, combined with inflation pressures, pay awards and demographic pressures arising from a continued increasing ageing population of over 75's, increasing population of 0-15 age group and at a time when there are rising customer expectations poses a significant challenge for the Council. This has resulted in the evaluation of this issue increasing from Medium in Q2 to High in Q3.

3.6 STRATEGIC RISKS – RATED CRITICAL/HIGH

3.6.1 Climate Change

The Council developed a Climate Change Action Plan part of its Climate Change Strategy approved by Council in August 2020, as well as making the commitment to achieve Carbon Neutral by 2030. The Carbon Neutral by 2030 strategic board is developing the overall cross Council response to the Council's statutory requirements. There are a range of projects underway which will contribute to the overall ambition but development of the programme and these projects is identifying that there is a significant financial investment that is required to be made to retrofit buildings, fleet replacement and change working practices. The current financial resource and staffing capacity across the Council is insufficient and poses a critical risk to delivery. This is also impacted by the financial sustainability challenge that is articulated in this report. The programme continues to be developed, however whilst this is ongoing, the risk evaluation has been increased from Medium in Q2 to Critical in Q3.

3.6.2 Early Years Expansion (1140 Hours)

Following the Scottish Government’s decision to increase the number of free early learning and childcare hours to 1140, the Council has continued to plan with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in estate 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.

The funding distribution to apply this Government policy is subject to ongoing monitoring, with the Council seeking to influence the proposed funding distribution beyond 2021/22 to ensure deliverability of this policy. In Q3, the Council have continued with the current distribution for 2022/23 though nationally the quantum was reduced by £23.9m of which £8.9m was earmarked for deferral pilots. This reduction and the shift to a distribution formula in 2022/23 resulted in a reduction for funding for the Council of £882k. This has required revision to ELC budget. Work is ongoing, though the ELC Finance working group to collect spend information to support the assessment of the quantum for 2023/24 onwards. This risk evaluation continues to remain High.

3.6.3 Scottish child abuse inquiry

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.

Legislation to create a scheme for survivors of historical child abuse in care in Scotland to apply for financial redress payments of up to £100,000, as well as access to apology and support, has been passed by the Scottish Parliament. The Redress for Survivors (Historical Child Abuse in Care) (Scotland) Bill. Survivors will be able to apply for a fixed rate redress payment of £10,000, or an individually assessed redress payment which will involve a more detailed examination of their experience. The individually assessed redress payment levels are set at £20,000, £40,000, £60,000, £80,000 or £100,000. Financial contributions are being sought by the Scottish Government from those involved in the care of the children at the time they were abused and COSLA has already offered to contribute £100 million to the scheme. This risk evaluation continues to remain High.

3.7 STRATEGIC OPPORTUNITIES

3.8.1 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. Projects continue to be progressed with realisation of regional enhancements and connectivity. In Q3 the chairing of the City Deal programme was formally handed over from Fife Council to Midlothian Council for the 2022 calendar year.

3.8.2 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.

3.8.3 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.

3.8.4 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.

3.8.5 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.

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

4.1 Resource

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

4.2 Digital

None.

4.3 Risk

The risks reported in this report are understood with the Council able to demonstrate the current risk controls and actions being taken in response to these.

The report provides an overview of the significant risks faced by the Council during Quarter 3 2021/22 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.

4.4 Ensuring Equalities

There are no direct equalities issues arising from this report.

4.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Strategic Risk Profile (Quarter 3 2021/22)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

This report provides an overview of the Strategic Risk profile of Midlothian Council at a defined point in time. The issues, risks and opportunities affecting or supporting delivery of the council priorities are set out within the Strategic risk profile

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The Council's commitment to best value and securing continuous improvement can best be delivered when decisions are made against a backdrop of understanding the risks and opportunities before an organisation. This report seeks to provide assurance that the current risk environment is understood and that Midlothian Council is taking appropriate action in response to those identified risks.

A.5 Involving Communities and Other Stakeholders

This Strategic Risk Profile report has been compiled with input from a range of internal key stakeholders.

A.6 Impact on Performance and Outcomes

This report seeks to provide an overview of the challenging risk environment within which the Council is operating at this time. Being in a risk aware position helps to inform current and future decision making, with the intention of enhancing decision making and the associated performance and outcomes which flow from well informed decision making.

A.7 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.

A.8 Supporting Sustainable Development

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

Strategic Risk Profile

ISSUES .

SRP.IR.10 COVID 19

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	**Risk cause:** COVID 19 Virus **Risk event:** Virus evident in all communities with rates of positive infection increasing. In a Sottish setting the focus on increase is within the central belt. **Risk effect:** Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission. Delivery of services making use of remote working solutions as far as possible. National lockdown measures to limit and control spread, impact on income generating services. Rapid pace of guidance change following government announcements and expectation of quick changes to service delivery in line with new controls.	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. CIMT established to take the strategic approach to managing the response to COVID 19 and stands ready to be re-initiated at any time. 2. Employees directed to work from home where possible, follow Scottish Government guidance and MC remote working by default policy. From 31 January as per the SG guidance the Council is transitioning staff teams to hybrid working. 3. COVID-19 guidance monitored and continually revised then issued to Adult Services, children's services, education and CLL around how they would continue to maintain contact with children and young people who were deemed to be at risk. 4. Keeping employees briefed and supported through the Chief Executive's weekly staff briefings; Communications weekly email and routine HR updates. (e-mailed to all employees through combination of work and personal e-mail addresses). Includes Wellbeing advice, guidance and support and signposting to PAM and EAP providers. 5. Promotion of digital tools to support employees and prevent employees becoming isolated. 6. Council website kept up-to date, providing details of which services were operating and any changes on how to access services. 7. A range of interventions, including digital equipment and tools such as MS Teams put in place to support remote and hybrid working 8. Following safe working guidance issued by Scottish Government relevant to sectors. 9. Economic Recovery Strategy 10. Support for Test and Protect 11. School and workplace based COVID risk assessments continually reviewed to support the identification and control of risk (and personal risk assessments where required) 12. Community Asymptomatic Testing Site operational and distribution of Lateral Flow and PCR testing devices undertaken by Protective Services	5	5	🛑

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.10.17	Risk assessment/Guidance on protective measures	**Q3 21/22**: Estate Safety & Maintenance Groups continue to monitor COVID-19 risks and implement appropriate mitigating actions	Chief Officer Place	30-Sep-2021	✅
SRP.IA.10.18	4,000 mobile devices issued to support home learning	**Q2 21/22:** 3,300 devices have now been returned and reorganised in preparation to be re-deployed as part of the Equipped for Learning. The Equipped for Learning programme will see these 3,300 plus new devices deployed to all Midlothian pupils (14,000 approx total).	Chief Officer Corporate Solutions; Executive Director	31-Mar-2022	▶

		700 devices remain with young people to support digital inclusion and remote learning. These devices will be swapped out on deployment day to ensure those young people have the exactly the same device model as their peers.	Children, Young People and Partnerships		
SRP.IA.10.19	Community Testing and Lateral Flow Test Kits distribution	**Q3 21/22:** The asymptomatic Testing Site and the Outreach Programme to distribute lateral flow test devices continues to operate throughout Midlothian area. In excess of 173k COVID-19 LFD kits distributed. The Mobile testing unit has been procured with delivery anticipated in Q4.	Chief Officer Place	31-Mar-2022	▶

SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	**Risk cause** The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation. **Risk event** Delayed progress or non-achievement of outcomes and benefits. **Risk effect** Slow or delayed financial benefits arising from service redesign, requiring the adoption of recovery plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.	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. Strategic Boards in place reporting to the Business Transformation Board covering range of transformation strands: Capital Strategy; Carbon Neutral by 2030; Digital First; Economic Renewal; Education Recovery; HSCP Transformation; Hub & Spoke Place Based Solutions; Remote Working. 2. Deep Dive sessions commenced in December 2021 to support the work of the Boards and assess pace and scale of progress with aim of driving transformation 3. Secured financial balance for 2021/22 via corporate solution with similar approach adopted for 2022/23 budget. While this avoids the need for further service reductions in 2022/23 the underlying budget gap (the gap between recurring expenditure and income) highlights the very significant challenge for 2023/24 and beyond which will require fundamental decisions about what services, beyond those which are statutory can be provided "Mini Budgets" progressed in 2020/21 and in 2021/22 that removed non-deliverable legacy savings targets given focus on response to and recovery from pandemic. 4. Financial monitoring reports and work of the FM CMT evidence continued financial sustainability, in so far as services are delivered within the overall budget in year. 5. Recognition of and actions progressing, to develop the next iteration of the MTFS covering the term of the next Council.	4	5	▲

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 21/22:** A Medium Term Financial Strategy, 2022/23 budget update was provided to Council on 14 December 2021, setting out an update on various aspects of the 2022/23 budget, The MTFS updates to BTSG and to Council are aimed at supporting BTSG making recommendations to Council on 15 February 2022 in respect of the budget and Council tax levels. In parallel work continues to bring forward the next iteration of the MTFS, for the term of the next Council, for consideration after the May 2022 election. Though the severity of the financial outlook demonstrated by the underlying budget gap point to the severity of the service cuts ahead.	Chief Officer Corporate Solutions	31-Aug-2022	▶

SRP.IR.07 Financial Sustainability

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	**Risk cause** Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations. **Risk event** Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps **Risk effect** Inadequate government funding makes securing balanced budgets challenging. It turn erodes the Council's ability to deliver services to the community and potentially means that resources available fall short of those the Council assess as required to meet its statutory obligations. Whilst transformation activity can help reshape services and ensure best value in the delivery of services it is not a solution to continued erosion of core funding.	Chief Officer Corporate Solutions;	1. There is an approved Capital Strategy and Reserve Strategy in place 2. There is an approved budget for 2021/22 , services are being delivered within the totality of that budget and work continues to develop a balanced budget for 2022/23 3. There are effective arrangements in place to monitor financial performance including quarterly reporting to Council with draft reports considered at a dedicated CMT session each quarter to bring greater focus. 4. Directorates have budget boards in place to monitor and agree actions for those items which are identified as needing specific attention or present a risk to the financial position of services. 5. Strategic Boards in place and BTB focus and attention on driving transformation to support future years financial sustainability 6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 7. 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. 8. Chief Executive continues to emphasise the need for effective financial control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate. The revised grant settlement for 2022/23 still represents a £251m real terms cut in core spending power nationally which when combined with the underlying budget gap for 2022/23, addressed through one off measures, points to significant financial challenges which will need to be addressed after the May 2022 elections	4	5	⚠

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 21/22:** A Medium Term Financial Strategy, 2022/23 budget update was provided to Council on 14 December 2021, setting out an update on various aspects of the 2022/23 budget, The MTFS updates to BTSG and to Council are aimed at supporting BTSG making recommendations to Council on 15 February 2022 in respect of the budget and Council tax levels. In parallel work continues to bring forward the next iteration of the MTFS, for the term of the next Council, for consideration after the May 2022 election. Though the severity of the financial outlook demonstrated by the underlying budget gap point to the severity of the service cuts ahead.	Chief Officer Corporate Solutions	31-Aug-2022	▶

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	**Risk cause:** Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations Policy decisions by UK & Scottish Governments which are not fully funded. Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service. Future year pay award settlements. **Risk event:** Real terms reduction in core grant settlements. Policies decisions at Government level not fully funded to Council's. Implementation of a National Care Service and impact on grant settlements 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. Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery. **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	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. 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. 7. Strategic Boards in place to drive transformation in line with the Route Map through and out of the Pandemic	4	5	⚠

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 21/22:** A Medium Term Financial Strategy, 2022/23 budget update was provided to Council on 14 December 2021, setting out an update on various aspects of the 2022/23 budget, The MTFS updates to BTSG and to Council are aimed at supporting BTSG making recommendations to Council on 15 February 2022 in respect of the budget and Council tax levels.	Chief Officer Corporate Solutions	31-Aug-2022	▶

		In parallel work continues to bring forward the next iteration of the MTFS, for the term of the next Council, for consideration after the May 2022 election. Though the severity of the financial outlook demonstrated by the underlying budget gap point to the severity of the service cuts ahead. Quarterly financial monitoring report identify that services are being delivered within the totality of the budget and so reserves position being maintained.			

SRP.RR.02 The Long Term Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	**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 **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 **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	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. Preparation of budget projections for the term of the next Council and service options which identify what can /cannot be delivered within the resources available. This will need to be considered, and decisions made by members as soon as possible after the May 2022 elections Medium Term Financial Strategy and Route Map 2. Leadership from all Elected Members, Executive Team and Senior Leadership Group. 3. Appropriate governance in place across the BTB Strategic Boards 4. Resilience planning. 5. Capacity to deliver change.	4	5	⚠

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 21/22:** A Medium Term Financial Strategy, 2022/23 budget update was provided to Council on 14 December 2021, setting out an update on various aspects of the 2022/23 budget, The MTFS updates to BTSG and to Council are aimed at supporting BTSG making recommendations to Council on 15 February 2022 in respect of the budget and Council tax levels. In parallel work continues to bring forward the next iteration of the MTFS, for the term of the next Council, for consideration after the May 2022 election.	Chief Officer Corporate Solutions	31-Aug-2022	▶

		Though the severity of the financial outlook demonstrated by the underlying budget gap point to the severity of the service cuts ahead. Quarterly financial monitoring report identify that services are being delivered within the totality of the budget and so reserves position being maintained.			

SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	**Risk cause** Current or new legislation applying to Midlothian Council **Risk event** Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements. **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.	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. 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 BTSG oversight of new legislation	3	3	⚠

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.01	Legal & Regulatory Compliance	**Q3 21/22:** Chief Officers and Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive; (Joint Director Midlothian Health and Social Care Partnership)	31-Mar-2022	▶
SRP.RA.03.02	Rights of the Child Bill	**Q3 21/22:** Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government’s new bill on the rights of the child is expected to	All Directors	31 March 2022	▶

		have far reaching implications for public bodies. With guidance beginning to be disseminated from the Scottish Government, the Council is continuing to monitor and plan.			
SRP.RA.03.03	National Care Service	**Q2 21/22:** Response to SG consultation on the creation of a National Care Service for Scotland.	Joint Director Health and Social Work	31-Mar-2022	▶
SRP.RA.03.04	The Health Protection (Coronavirus) (Requirements) (Scotland) Regulations 2021 (as amended)	**Q3 21/22:** Coronavirus restrictions further reduced. Guidance introduced on minimising exposure to and requirement to take measures to minimise incidence and spread of Coronavirus imposed on a person carrying on a business or providing a service.	Chief Executive	31-Mar-2022	▶
SRP.RA.03.05	Standing Orders	**Q3 21/22:** Structural reviews within the Midlothian Council resulting in the Standing Orders being outdated. Authorised Officers within Regulatory Services may be open to challenge in relation to statutory enforcement work on grounds of delegated authority. Statutory enforcement work including the service of Statutory Notices, Fixed Penalties and Court proceedings may require to be withdrawn resulting in reputational damage and or financial penalty (e.g. case costs awarded against the LA) There is a Standing Orders Working Group reviewing SOs in advance of the new administration. Work to continue to ensure that these issues are included within this work programme.	Chief Executive; Executive Director Place; Chief Officer Place Legal Services Manager	31-May-2022	▶

SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	**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 **Risk event** Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers	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	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. **Attendance / Wellbeing** 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 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. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers. **Performance** 1. 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. Continued re-enforcement of all People Policies involving various communication methods.	3	4	⚠

	Poor employee performance will stifle transformational change **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		4. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc. **Organisational Change** 1. Policy for Organisational Change includes strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment. **Conduct** 1. Resolution Policy encourages early intervention of workplace issues. 2. Professional standards and values build into the induction process and management development programme. **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.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans	**Q2 21/22**: Directorate Service Reviews underway, with implementation across Q3/4. CYPP Business Support Team service review completed. Digital Learning & Inclusion team service review completed. Early Years' Service Review ongoing and central education team review ongoing.	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-Mar-2022	▶
SRP.RA.02.06	Workforce wellbeing	**Q2 21/22:** New EAP provider appointed to ensure highest level of service provided to staff. Embedding of the new Employee Health and Wellbeing Strategy. Partnership status obtained with See Me mental health charity. Roll out of mental health awareness training**.**	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social	31-Mar-2022	▶

			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.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	**Risk cause** General Data Protection Regulation formulated by the European Commission. **Risk event** The Regulation implemented on 25 May 2018. **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.	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. 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. 9. Data sharing arrangements on contracts being reviewed to ensure consistency in terms of health and social care contracts.	3	5	▲

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.02	Cyber Security	**Q2 21/22:** Midlothian Council cyber security independently validated in 2021 by achieving Cyber Essentials Plus certification in February and PSN compliance certification in July. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan). Additional measures have been taken to protect backup data by storing copies away from the Council's network to keep them safe. All admin passwords have been or in the process of being encrypted and secured and the Council has	Chief Officer Corporate Solutions	31-Mar-2022	▶

		invested in the latest anti-virus software. Action plan being prepared in response to the publication of reports by SEPA following the cyber attach experienced by them.				

SRP.RR.07 Care at Home

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	**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. **Risk event** Capacity of Community Support outstripped by demand **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.	Joint Director Health and Social Work; Head of Adult and Social Care; Head of Primary Care and Older People	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 hone support in place	3	4	⚠

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.07.01	Independent review of adult and social care	**Q3 21/22:** The NCS consultation has happened and currently the results are being analysed by an independent company. Once this piece of work is concluded SG will advise us of the next steps. There were 1300 responses from a wide range of individuals and organisations.	Joint Director Health and Social Work	31-Mar-2022	▶

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	**Risk cause** Many of the assets the Council own by their nature are in a position of ongoing deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & buildings used to deliver services. **Risk event**	Chief Officer Corporate Solutions; Chief Officer Place	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: . Roads . Land	3	5	⚠

	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. **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.		. Fleet . Digital Service Network . Digital Service hardware 6. Capital program - investment in estate. 7. Ongoing monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 8. Established Capital Plan and Asset Management Board			

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.	**Q3 21/22:** Programme of work agreed to progress for building condition surveys on a phased approach, over a three year period.	Chief Officer Place	31-Mar-2022	▶
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	**Q3 21/22:** Asset Management System being scoped for procurement.	Chief Officer Place	31-Mar-2022	▶
SRP.RA.08.05	School Estate Strategy	**Q2 21/22:** Revision of existing Learning Estate Strategy and agreement from Capital Project Board to progress with projects. Including replacement of Beeslack HS, Mayfield and St Luke's Primaries and Refurbishment of Penicuik High as part of the LEIP programme	Executive Director Children, Young People and Partnerships	31-Mar-2022	▶

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	**Risk cause** The Council not preparing or timeously reviewing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents **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. **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	Chief Officer Place	Potential 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, - Risk and Resilience 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 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.	3	4	△

	Not able to respond to a major emergency in the community Fatal Accident Inquiries		05 – Care for People Group meeting 6 weekly to continue support for Communities in response to COVID – 19 to establish and co-ordinate support for people on a multi-agency basis. 06 – Care for People Group: Afghan Resettlement support programme			

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 21/22:** CMT approved the recruitment of 1FTE Contingency Planning Officer PO (Fixed term) to add resilience and capacity to the current team. Recruitment concluded and appointment made (0.6FTE)	Chief Officer Place	31-Mar-2022	▶
SRP.RA.09.03	Business Continuity System	**Q3 21/22:** System currently being populated ahead of roll out to all services. A small number of Council services engaged to test and validate operational functionality Project governance to be reviewed prior to full rollout (to be overseen through the Customer Service Platform Board)	Executive Director Place Chief Officer Place	31-Mar-2022	▶

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	**Risk cause** Code of conduct for Members and employees actions falling short of International Standards. **Risk event** Failure in openness, accountability, clarity. **Risk effect** Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	Legal Services Manager	Potential 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. 05 Standing Orders 06 Scheme of Administration 07 Scheme of Delegation	3	4	⚠

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.10.01	Corporate Governance	**Q2 21/22:** Annual Assurance Statement**;** People Policies; and Standing Orders subject to review process	Chief Executive; Executive Director Place	31-Mar-2022	▶

SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	**Risk cause** Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective. **Risk event**	Chief Executive; Executive Director Children, Young People and Partnerships;	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.	2	3	✓

	Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities. **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.	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	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 10. Midlothian Local Development Plan 2017 – the Council's corporate spatial strategy.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.02	Accessibility Strategy	**Q2 21/22:** Education working with Property colleagues to refresh building data including information on building accessibility. Once work is complete, a work stream will be progressed to ensure Council compliance.	Executive Director Children, Young People and Partnerships Chief Officer Place	30 June 2022	▶
SRP.RA.11.03	Neighbourhood Services	**Q3 21/22:** Neighbourhood Services Strategic Framework established. Neighbourhood Services Cross Party Working Group meets regularly. Progress reported regularly through BTB Hub and Spoke programme.	Chief Officer Place	31-Mar-2022	▶
SRP.RA.11.04	Remote Working	**Q3 21/22:** Scottish Government revised guidance for workplaces to adopt hybrid working/return to the office from 31 Jan 2022. Services reviewing working practices and implementing hybrid working plans on a pilot/phased approach across the organisation.	Chief Officer Corporate Solutions	31-Mar-2022	▶
SRP.RA.11.05	Antisocial Behaviour Policy	**Q3 21/22:** Working with partners to review and implement a revised whole systems Policy, led by Protective Services/Community Safety/Housing.	Chief Officer Place	31-Mar-2022	▶
SRP.RR.11.01	Parental Engagement Strategy	**Q2 21/22:** Parental Learner Liaison Officer is appointed and is now in post. The new officer is now taking forward our revised Parental Engagement Strategy and preparing to carry out the national parental engagement survey, looking at examples of Parental Engagement Strategies from around Scotland. Working to have a final draft written in the period from Jan- April, based on consultation with families. Also beginning a consultation process with stakeholders looking to create a draft Accessibility policy in January.	Executive Director Children, Young People and Partnerships	30-Apr-2022	▶

SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	**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 **Risk event** Persons exploiting opportunities to commit fraud Waste and errors Changing risk landscape associated with remote working solutions. **Risk effect** Waste and loss Risks over managed with risk controls costing more than the potential loss being managed. Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance	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. 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 (subject to review) 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 7. Implemented changes to business processes and procedures to maintain and enhance internal control. 8. Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement. 9. Continue remind staff of secondary employment/outside interests and gifts & hospitality 10. Digital induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to organisation. 11. Management Development Programme, delivered in partnership with Edinburgh College, provides reinforcement of organisational regulatory obligations.	3	3	▲

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.12.02	Risk Management Policy and Strategy	**Q3 21/22:** Risk management approach presented to Audit Committee. Refresh of the Risk and Resilience Chief Officer's group to oversee corporate risk.		31-Mar-2022	▶
SRP.RA.12.03	Corporate Integrity	**Q1 21/22:** The Integrity Group continues to meet to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime), maintaining 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.		31-Mar-2022	▶

SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	**Risk cause** Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act. **Risk event**	Executive Director Place	1. Statutory requirement to report on compliance with climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change Strategy and action plan 4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress. 5. Resilience Seminars	5	5	⬣

	Council Services not responding to the Climate Change Act with sufficient pace. **Risk effect** Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.03	Recruitment of Climate Change Officer	**Q2 21/22:** Review of the new Planning, Sustainable Growth & Investment service, with the creation of a dedicated Climate Change & Biodiversity team, established within the structure, incorporating the new Climate Change Officer post.	Chief Officer Place	31-Mar-2022	▶
SRP.RA.13.04	Delivery of the BTB Board Carbon Neutral by 2030	**Q3 21/22:** Carbon Management Plan requires to be reviewed and resourced adequately. There is a requirement for a cross Council approach to achieve carbon neutral by 2030. Work is underway in discrete areas to contribute to achievement of the ambition, but financial resource and staffing is required to develop an overarching engagement and action plan.	Chief Officer Place	31-Mar-2030	▶

SRP.RR.14.1 Scottish Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	**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. **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. 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.	Chief Officer Children's Services;	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. The Inquiry Team have established a Project Plan covering: 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 the Council's historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry.	4	5	🔴

	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. To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system.		The Project Team have established a Project Plan covering: 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council. 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. 8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. 9. Processes and 2 experienced staff in place and to date have been able to respond to every request from the SCAI team.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.03	Foster Care and Residential Care File Review	**Q1 20/21**: File reading continues around foster care and residential care.	Chief Officer Children's Services;	31-Mar-2022	▶

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 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	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. 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'	3	5	⚠

	limitation regime will have retrospective effect (up to including 1964) **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. **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		This basically takes away all risk for pursuers so if the they lose they won't have to worry about paying the Councils costs. At the time of writing there remains no date for implementation of this piece of legislation. 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. 3. Scottish Governments Redress Scheme – awaiting the scheme to come into force. Legislation to establish the Redress Scheme has been passed by Parliament.			

Related Action Code	**Related Action**	**Related action latest note**	Managed By	**Due Date**	**Status**

SRP.RR.16 Growing Council

Risk Code	**Risk Identification**	**Managed by**	**Risk Control Measures**	**Likelihood**	**Impact**	**Risk Evaluation**
SRP.RR.16	**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. **Risk event**	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care;	1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Strategy Strategy 6. Housing Strategy	3	4	⚠

	Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups. **Risk effect** 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.	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	7. Joint needs assessment used to develop - IJB Strategic Plan 8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 9. City deal provides the opportunity to support inclusive growth.			

Related Action Code	**Related Action**	**Related action latest note**	Managed By	**Due Date**	**Status**
SRP.RA.16.01	Capital Programme	**Q3 21/22:** Recruitment of 5 Senior Project Managers concluded. CMT approval of the rationale report for restructure to ensure Development has the appropriate capacity to deliver the capital programme. Consultation commencing early 2022.	Executive Director Place; Head of Development	31-Oct-2022	▶

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	**Risk cause** UK vote to leave the European Union **Risk event** UK leaving the European Union **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.	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	01 – Risk and Resilience Group 02 – Taking a risk management approach to identifying and assessing anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.	3	4	⚠

Related Action Code	**Related Action**	**Related action latest note**	Managed By	**Due Date**	**Status**

SRP.RA.17.1-1	EU Exit Working Group	**Q3 21/22:** PRS Sub-Committee considered a Brexit Impact study prepared by the Chief Officer – Place. Report being commissioned to explore concurrent risk impacts of Brexit and Covid on Midlothian, to inform a revised Economic Recovery Strategy.	Place Performance Officer	31-Mar-2022	✓

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	**Risk cause** Failing to identify and rectify non-compliance with Health and Safety regulations. **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. **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.	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 – Health Safety and Wellbeing Strategy 2 -Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations (Revised 2021) 3 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety. 6 - Guidance and Risk assessment templates to support COVID 19 response. 7 – Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy. 8 - New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance.	3	5	⚠

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.01	Delivery of Health, Safety and Wellbeing Strategy	**Q3 21/22:** CMT approved the recruitment of 1FTE Senior Risk, Health & Safety Advisor and 2FTE Risk, Health & Safety Advisors to add resilience and capacity to the current team. Recruitment underway.	Chief Officer Place	31 March 2022	▶
SRP.RA.19.07	H&S audit across all Council estate	**Q3 21/22:** Protective Services and Property Service are progressing a Health and Safety building audit across the full Council estate. This is expected to be	Chief Officer Place	30-Jun-2022	▶

		delivered in Q4 and then a risk based assessment of the findings and associated action plan will be developed.				

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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	**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. **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. **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.	Executive Director Children, Young People and Partnerships; Chief Officer Place	1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy 4. School Roll Projections will be reviewed and updated	4	5	▲

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.20.01	1140 future years funding	**Q3 21/22:** Continuation of current distribution for 2022/23 though nationally the quantum was reduced by £23.9m of which £8.9m was earmarked for deferral pilots. This reduction and the shift to a distribution formula in 2022/23 resulted in a reduction for funding for the Council if £882k. This has required revision to ELC budget. Work is ongoing, though the ELC Finance working group to collect spend information to support the assessment of the quantum for 2023/24 onwards. Associated risk due to possible increase in the sustainable rate to be paid to partner providers.	Chief Officer Corporate Solutions	31-Mar-2022	▶

SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	**Risk Cause:** Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices	Chief Executive; Executive Director Children, Young People and Partnerships;	1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification	3	5	▲

	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. **Risk Effect:** Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.	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	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			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.02	Cyber Security	**Q2 21/22:** Midlothian Council cyber security independently validated in 2021 by achieving Cyber Essentials Plus certification in February and PSN compliance certification in July. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan). Additional measures have been taken to protect backup data by storing copies away from the Council's network to keep them safe. All admin passwords have been or in the process of being encrypted and secured and the Council has invested in the latest anti-virus software. Action plan being prepared in response to the publication of reports by SEPA following the cyber attach experienced by them.	Chief Officer Corporate Solutions	31-Mar-2022	▶

OPPORTUNITIES .

SRP.OP.01 Shawfair

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The delivery of a new sustainable low carbon community at Shawfair.	Executive Director Place	1. Shawfair Landowners Group meets quarterly. 2. Legal agreement with developers to secure developer contributions (Section 75) towards infrastructure. 3. Approved masterplan and design guide for the 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 8. Public Transport infrastructure including railway station. 9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall)	5	4	⚠

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.01.02	Energy Service Agreement	**Q1 21/22**: LCTIP subsidy to the energy from waste heat generation.	Executive Director Place	31-Mar-2022	▶

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.A2	A701/A702 Trunk Road Improvements	**Q1 21/22:** Project progress to STAG (Transport Appraisal).	Executive Director Place	31-March 2021	▶

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.	Chief Executive; Executive Director Place, Chief Officer Place, Chief Officer Corporate Solutions	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.	5	5	🛑

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.04.02	Realisation of outcomes of respective workstreams	**Q3 21/22:** For the 2022 calendar year Midlothian is the chair of the CRD programme (annual rotation across the six Local Authorities).	Executive Director Place	31-Mar-2022	▶

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. Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets 4. Accelerating our ambition – Digital Strategy 5. Review of Digital team to support Digital Centre for Excellence	4	5	⚠

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	**Q2 21/22** CIVTECH research project progressing well in partnership with University of Edinburgh and SFT. Ongoing dialogue with the University of Edinburgh and Edinburgh College in relation to the new centre of excellence.	Executive Director Children, Young People and Partnerships	31-Aug-2023	▶

Audit Committee
Monday 14 March 2022
Item No: 5.3

Audit Committee Annual / End of Term Report 2021/22

Report by Chair of the Audit Committee

Report for Decision

1 Recommendations

The Audit Committee is asked to approve the Audit Committee Annual / End of Term Report 2021/22 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3), and agrees that the Audit Committee Annual / End of Term Report 2021/22 should be presented to the Council.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Members with the Audit Committee Annual / End of Term Report 2021/22, which sets out how the Audit Committee has performed against its remit and the effectiveness of the Audit Committee in meeting its purpose based on the annual self-assessments of the Committee against best practice, and provides assurances to the Council.

It is important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) includes the production of an annual report on the performance of the Audit Committee for submission to the Council. The Audit Committee Annual / End of Term Report 2021/22 is appended to this report as Appendix 1 for consideration. Midlothian Council continues to adopt this best practice.

Date 25 January 2022

Report Contact on behalf of the Chair of the Audit Committee:
Jill Stacey Tel No
jill.stacey@midlothian.gov.uk

3 Background

3.1 It is important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition (hereinafter referred to as CIPFA Audit Committees Guidance). It incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police which sets out CIPFA's view of the role and functions of an Audit Committee.

3.3 The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.

4 Audit Committee Annual / End of Term Report 2021/22 and Self-Assessments

4.1 The Audit Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during an Informal Session on 25 January 2022 facilitated by the Chief Internal Auditor. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration.

4.2 The outcome of the self-assessments was a medium degree of performance against the good practice principles and a medium degree of effectiveness. Improvements were identified focussing on activity to improve its effectiveness in fulfilling its role. In summary these are:

- Utilise the CIPFA Skills and Knowledge toolkit.
- Obtain feedback on its performance from a range of Executive Directors and others who interact with the Committee.
- Review and scrutinise the Risk Management Policy and Strategy on a regular basis.
- Continue to rely on the knowledge of those members appointed to other Committees on which the Audit Committee places reliance.
- Continue to ensure the application in practice of the Audit Committee's treasury management scrutiny role in advance of Council approval.
- Continue to ensure appropriate scrutiny on its Action Log.
- Schedule a recruitment, selection and appointment process for the independent members of the Audit Committee prior to May 2022.

4.3 The Audit Committee Annual / End of Term Report 2021/22 is appended to this report as Appendix 1 for consideration. Midlothian Council continues to adopt this best practice. It is designed both to provide assurance to full Council and to share lessons learned and areas of improvement to inform the new Audit Committee post local elections in May 2022 to enhance the Audit Committee's effectiveness as a scrutiny body.

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

5.1 Resource

The Council has provided support and resources to the Audit Committee throughout the year including a Democratic Services Officer as the Minute secretary.

In terms of accountability and independence to ensure conformance with the Public Sector Internal Audit Standards (PSIAS), the Chief Internal Auditor reports functionally to the Audit Committee as outlined within the Internal Audit Charter. The Chief Internal Auditor facilitated the annual self-assessment process and the prepared the Audit Committee Annual / End of Term Report on behalf of the Chair.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The role of the Audit Committee includes the high level oversight of the effectiveness of the Council's systems of internal financial control, internal control and governance, including risk management.

There is a risk that the Audit Committee does not fully comply with best practice guidance thus limiting its effectiveness as a scrutiny body as a foundation for sound corporate governance. The completion of the annual self-assessment and identification of improvement actions as evidenced through this Annual / End of Term Report will mitigate this risk.

5.4 Ensuring Equalities

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

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Self-assessment of the Audit Committee utilising best practice toolkits underpins its own continuous improvement to ensure that modern and sustainable governance arrangements are in place.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

Self-assessment of the Audit Committee utilising best practice toolkits underpins its own continuous improvement to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council, thus supporting the delivery of the Council’s best value duties.

A.5 Involving Communities and Other Stakeholders

The Audit Committee in fulfilling its governance role acts as a bridge between the Council and other stakeholders.

A.6 Impact on Performance and Outcomes

The members of the Audit Committee have reflected on the performance and outcomes against the remit of the Committee through the completion of annual self-assessments. The identification of improvement actions as evidenced through the Audit Committee Annual / End of Term Report are designed to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

A.7 Adopting a Preventative Approach

Assurances received by the Audit Committee from Management, Internal Audit and External Audit set out the assessment of prevention and detection internal controls and governance arrangements.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Good governance is important to enable Midlothian Council to achieve its objectives.

APPENDIX 1

MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL/END OF TERM REPORT FROM THE CHAIRMAN – 2021/22

This annual/end of term report has been prepared to inform the Midlothian Council of the work carried out by the Council's Audit Committee during the year 2021/22. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) to report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose to share lessons learned and areas of improvement to inform the new Audit Committee post local elections in May 2022.

Meetings

There were virtual meetings of the Audit Committee 6 times during the financial year which included meetings on 22 June, 17 August (special), 28 September, 7 December 2021, 25 January and 14 March 2022 to consider reports pertinent to the audit cycle and its terms of reference.

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

The Audit Committee reviewed the draft Annual Governance Statement 2020/21 at its meeting on 22 June 2021 in order to assess whether it properly reflects the risk environment and whether the content is consistent with its evaluation of the internal controls and governance arrangements based on evidence received during the year. The Audit Committee scrutinised the unaudited Annual Accounts 2020/21 of the Council at its special meeting on 17 August 2021, including the enhanced Management Commentary for therein for wider stakeholders, having not received them as originally expected for consideration at its meeting on 22 June 2021. It reviewed the final audited accounts at its meeting on 28 September 2021, alongside the External Audit report on their annual audit 2020/21 to consider any concerns or improvements arising from the audit, prior to recommending to the Council that they be adopted. The Audit Committee scrutinised the Annual Report and Accounts of the Council at appropriate times in accordance with its terms of reference, which also includes the promotion of good governance, and financial and ethical standards.

The Audit Committee approved the Internal Audit Charter, and the Internal Audit Strategy and Annual Plan. It monitored Internal Audit's performance including progress against annual plan, conformance with Public Sector Internal Audit Standards (PSIAS), and quality assurance and improvement plan (QAIP) within Internal Audit mid-term performance and annual assurance reports, and considered the statutory annual audit opinion within the Internal Audit Annual Assurance Report. It considered Internal Audit's reports which set out executive summaries of findings, audit opinions, good practice and recommendations associated with each assurance review, as well as other work. It monitored the implementation of agreed actions through receipt of two reports during the year from Internal Audit, noting that Corporate Management Team monitoring (the "second line") has been enhanced to check that Internal Audit recommendations are implemented in a more timely manner.

The Audit Committee has reviewed the External Audit Strategy and Plan Overview for Midlothian Council, considered External Audit reports including the annual report to Members and the Controller of Audit on the annual audit of the Council, reviewed the main issues arising from the External Audit of the Council's statutory accounts, and monitored the implementation of agreed actions arising.

The Audit Committee received quarterly update reports from the Chief Officer Place during the year on strategic risks and mitigations. The report requested in June 2020 on the review and scrutiny of the Risk Management Policy and Strategy is still awaited (twice delayed from original December 2020 target) and monitored on the Action Log. There is a dependency on this to enable Audit Committee oversight of Risk Management Framework to ensure it is able to demonstrate its effectiveness in carrying out its remit.

The Audit Committee considered the adequacy and effectiveness of the Council's counter fraud arrangements by way of an annual report which set out the counter fraud activity and outcomes associated with the refreshed Counter Fraud Policy and Strategy approved by Council in August 2020. In addition, the Committee has requested self-assessment of fraud risks and counter fraud controls associated with national reports, and received assurance reports thereon from the Integrity Group.

The Audit Committee is the governance body responsible for scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval, in accordance with the CIPFA Treasury Management Code of Practice. This scrutiny occurred during 2021/22 at Audit Committee meetings including the Annual Treasury Management Outturn Report 2020/21 in June 2021, the Treasury Management Mid-Year Review Report 2021/22 in December 2021, and the draft Treasury Management and Investment Strategy 2022-23 in January 2022. The Audit Committee will have the opportunity in March 2022 to scrutinise the full suite of Treasury Management Practices (TMPs) following CIPFA release of the new editions of the Treasury Management Code and Prudential Code on 20 December 2021.

The minutes of Audit Committee meetings were presented for approval by the Council, and any exceptional items or recommendations were referred to the Council in accordance with the remit.

Membership

The Membership of the Audit Committee reflects the Council's approved Scheme of Administration i.e. there should be a one third equal split on all Committees reflecting the number of Councillors for each political party (June 2017), being six Members of the Council and two non-voting members appointed from an external source. Two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers), which is not in technical compliance with CIPFA audit committee good practice on membership i.e. separation from the executive. However, to partially mitigate this, the Audit Committee operates with an independent Chair and a second independent member to provide the opportunity for independent scrutiny and challenge. The two non-voting independent members were appointed from the community following a recruitment and selection process carried out during 2017. The independent Chair has a pre-meeting with senior management prior to each Audit Committee meeting to enable wider context of Council business.

The Committee membership during the year included Mr M Ramsay (Chair), Councillors C Cassidy, A Hardie, D Milligan, J Muirhead, K Parry and P Smaill, and Mr P De Vink.

The attendance by each member at the Committee meetings throughout the year was as follows:

Member	22 June 2021	17 August 2021	28 September 2021	7 December 2021	25 January 2022	14 March 2022
Mr M Ramsay (Chair)	√	√	√	√	√	
Cllr C Cassidy	√	√	√	√	√	
Cllr A Hardie	√		√	√		
Cllr D Milligan	√	√			√	
Cllr J Muirhead	√	√	√	√	√	
Cllr K Parry	√	√	√	√	√	
Cllr P Smaill	√	√	√	√	√	
Mr P De Vink	√	√	√	√	√	

Every Audit Committee meeting in 2021/22 was quorate (i.e. at least three elected members present). Cllr J Hackett attended the September and December 2021 meetings as a substitute for Cllr D Milligan.

All other individuals who attended the meetings are recognised as being “In Attendance” only. The Chief Executive, Executive Directors, Chief Officer Corporate Solutions (Section 95 Officer), External Audit (EY), and Internal Audit attend all Audit Committee meetings, and other senior officers also routinely attend Audit Committee meetings. The Council has provided support and resources to the Audit Committee throughout the year including a Democratic Services Officer as the Minute secretary.

Skills and Knowledge

Given the wider corporate governance remit of Audit Committees within local government and the topics now covered by the external and internal audit functions, it is noteworthy that there is a range of skills, knowledge and experience that Audit Committee members bring to the committee, not limited to financial and business management. This enhances the quality of scrutiny and discussion of reports at the meetings. No one committee member would be expected to be expert in all areas.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit Committee on 25 January 2022 during a Development Session facilitated by the Chief Internal Auditor using the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance. This was useful for Members to ensure the Committee can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

The outcome of the self-assessments was a medium/high degree of compliance against the good practice principles and an improving and medium degree of effectiveness. Improvements were identified focussing on activity to improve its effectiveness in fulfilling its role. In summary these are:

- Utilise the CIPFA Skills and Knowledge toolkit, to complement the Induction Programme following the Local Government Elections in May 2022, at an appropriate time in line with the Audit Cycle to support new and continuing members to fulfil their remit.
- Continue to obtain feedback on its performance in fulfilling all aspects of the Committee’s remit from a range of Executive Directors and others who interact with the Committee to support continuous learning and improvement.
- Review and scrutinise the revised Risk Management Policy and Strategy (expected in March 2022). It is important that the Audit Committee is given the opportunity to regularly scrutinise the Council’s Risk Management Policy and Strategy (Risk Management Framework). This enables the Audit Committee to fulfil its oversight role to monitor the effective development and operation of risk management consistently across the Council and an Area where the Audit Committee can add value by supporting improvement (No. 3 - Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks).
- Continue to rely on the knowledge of those members appointed to other Committees, to evaluate their effectiveness in fulfilling remits, on which the Audit Committee places reliance.
- Continue to ensure the application in practice of the Audit Committee’s treasury management scrutiny role in advance of Council approval. Ensure that the Members on the Audit Committee and Council receive Briefings and Refresher sessions on this technical area of business of Treasury Management and Investment and Prudential Indicators to enable them to consider reports for scrutiny and decision respectively.
- Continue to ensure appropriate scrutiny and challenge on its Action Log to ensure that Audit Committee recommendations have been recorded and monitored to ensure they are fully implemented to its satisfaction.
- Schedule a recruitment, selection and appointment process for the independent members of the Audit Committee prior to May 2022 local government elections to enable those appointed to benefit from the elected members’ induction programme.

Development Sessions will be arranged prior to each of the Audit Committee meetings during 2022/23 to enable these improvements to be progressed and fully implemented.

Assurance Statement to the Council

The Audit Committee provides the following assurance to the Council:

- The Council has received the Minutes of the Audit Committee throughout the year.
- The Audit Committee has operated in accordance with its agreed terms of reference, covering the themes of Governance, Risk and Control, Internal Audit, External Audit, Financial Reporting, and Accountability Arrangements, and accordingly conforms to the Audit Committee principles within the CIPFA Position Statement for Audit Committees.
- It focused entirely on matters of risk management, internal control and governance, giving specialist advice to the Council on the value of the audit process, on the integrity of financial reporting and on governance arrangements, and acted as a bridge between the Council and other stakeholders. It did this through material it received from Internal Audit, External Audit, other Audit bodies, and assurances from Management relevant to Audit Cycle of reporting.
- The Audit Committee has reflected on its performance during the year, and has agreed areas of improvement to enable enhanced effectiveness to fulfil its scrutiny and challenge role for the new Committee/Council post Local Government Elections in May 2022.

Recommendation of the Terms of Reference for the Audit Committee for the coming year

This Audit Committee in previous year's self-assessment has requested the Council through the Standing Orders Working Group to give consideration to excluding the Audit Committee membership from the Scheme of Administration requirement (i.e. there should be a one third equal split on all Committees reflecting the number of Councillors for each political party), or consider an alternative arrangement, to enable the Membership of the Audit Committee to comply with the Membership requirements set out in the CIPFA audit committee good practice, i.e. separation from the executive. This would enhance the Audit Committee's independence in the high level scrutiny and oversight of internal controls, risk management and governance arrangements. The new Council, as part of its Scheme of Administration arrangements post Local Government Elections in May 2022, is asked to consider this request.

Mike Ramsay
Chairman of Audit Committee
26 January 2022

CIPFA ‘audit committees’ Practical Guidance for Local Authorities and Police 2018 Edition

Midlothian Council Audit Committee – self-assessment of Good Practice at 25 January 2022

Audit committee purpose and governance	Yes/Partly /No	Comments
Does the authority have a dedicated audit committee?	Yes	The Council’s Scheme of Administration approved in May 2017 lists the composition of the Council and its various Committees, including the Audit Committee.
Does the audit committee report directly to full council?	Yes	All Minutes of Audit Committee are circulated to full Council for noting and approval of any of their recommendations. An annual report is submitted by the Chair of the Audit Committee to full Council.
Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA’s Position Statement?	Yes	Terms of Reference of the Audit Committee are periodically reviewed against CIPFA’s best practice by the Chief Internal Auditor. Revisions to its Terms of Reference were approved by Council in August 2019 arising from an update to CIPFA’s Position Statement in 2018.
Is the role and purpose of the audit committee understood and accepted across the authority?	Yes	The role and purpose of the Audit Committee is set out in the Council’s Scheme of Administration including what it can do, the arrangements for meetings, required quorums etc. References to the role of the Audit Committee are made and draft agendas and reports are presented to the Corporate Management Team by the Chief Internal Auditor in advance of each Audit Committee meeting.
Does the audit committee provide support to the authority in meeting the requirements of good governance?	Yes	The Audit Committee carries out the role set out in the Terms of Reference contributing to the Council’s governance framework which is set out in the Local Code of Corporate Governance approved by Council in March 2021. All Minutes of the Audit Committee are circulated to full Council for noting and approval of any recommendations.
Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	The Audit Committee annually reviews its terms of reference as part of it carrying out a self-assessment of performance using best practice checklists. An annual report is submitted by the Chair of the Audit Committee to full Council. It sets out the activities to enable stakeholders to understand how the Audit Committee has discharged its duties and identifies areas of improvement to fulfil its remit. MLC continues to adopt this best practice.

CIPFA ‘audit committees’ Practical Guidance for Local Authorities and Police 2018 Edition

Midlothian Council Audit Committee – self-assessment of Good Practice at 25 January 2022

Functions of the committee	Yes/Partly /No	Comments
Do the committee’s terms of reference explicitly address all the core areas identified in CIPFA’s Position Statement?		
• good governance	Yes	Functions in Terms of Reference Nos. 1, 3 & 4
• assurance framework, including partnerships and collaboration arrangements	Yes	Assurance Framework function in Terms of Reference No. 6 and explicit references to these service delivery models in Nos. 3, 6 & 7 within the revised Terms of Reference approved by Council in August 2019.
• internal audit	Yes	Functions in Terms of Reference Nos. 13-24
• external audit	Yes	Functions in Terms of Reference Nos. 25-29
• financial reporting	Yes	Functions in Terms of Reference Nos. 30-31
• risk management	Yes	Functions in Terms of Reference Nos. 6-8
• Value for money or best value	Yes	Function in Terms of Reference No. 5
• Counter-fraud or corruption	Yes	Functions in Terms of Reference Nos. 9-11
• Supporting the ethical framework	Yes	Function in Terms of Reference No. 12 Treasury Management and explicit references to ethics in Functions 3 & 19 within the revised Terms of Reference approved by Council in August 2019.

Midlothian Council Audit Committee – self-assessment of Good Practice at 25 January 2022

Functions of the committee (cont'd)	**Yes/Partly /No**	**Comments**
Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	The Audit Committee annually reviews its terms of reference as part of it carrying out a self-assessment of performance using best practice checklists. The 2021/22 annual self-assessment was undertaken by members of the Audit Committee on 25 January 2022 using CIPFA's good practice checklist and effectiveness toolkit to inform the Audit Committee Annual/End of Term Report 2021/22.
Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be approriate for the committee to undertake them?	Yes	The Audit Committee is responsible for scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval (Audit function no. 12), in accordance with the CIPFA Treasury Management Code of Practice. This scrutiny occurred during 2021/22 at Audit Committee meetings including the Annual Treasury Management Outturn Report 2020/21 in June 2021, the Treasury Management Mid-Year Review Report 2021/22 in December 2021, and the draft Treasury Management and Investment Strategy 2022-23 in January 2022. The Audit Committee will have the opportunity in March 2022 to scrutinise the full suite of Treasury Management Practices (TMPs) following CIPFA release of the new editions of the Treasury Management Code and Prudential Code on 20 December 2021. Briefings and Refresher sessions on the technical area of Treasury Management and Prudential Indicators are important to enable Members to consider these reports to fulfil relevant remits.
Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	The Audit Committee Terms of Reference covers core areas.
Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes	The Audit Committee Terms of Reference is limited to governance, risk and control; it is non-decision-making though does have an advisory function to recommend improvements to Council within its remit.

CIPFA ‘audit committees’ Practical Guidance for Local Authorities and Police 2018 Edition

Midlothian Council Audit Committee – self-assessment of Good Practice at 25 January 2022

Membership and support	Yes/Partly /No	Comments
Has an effective audit committee structure and composition of the committee been selected? This should include: • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • consideration has been given to the inclusion of at least one independent member	Yes*	*No (1st bullet) - Two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers), reflecting the arrangements set out in the Council’s Scheme of Administration i.e. there should be a one third equal split on all Committees reflecting the number of Councillors for each political party. To partially mitigate this, the Audit Committee operates with an independent Chair and a second independent member to provide the opportunity for independent scrutiny and challenge. Yes (2nd 3rd and 4th bullet points) – Committee comprises of six Elected Members and two independent members (one of which is the Chair) who have a mix of skills, knowledge and experience.
Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?	Yes	An external recruitment, selection and appointment process was undertaken in 2017 for independent members on the Audit Committee. Action required: A recruitment, selection and appointment process for the independent members of the Audit Committee to be scheduled prior to May 2022 local government elections to enable those appointed to benefit from the elected members’ induction programme.
Does the chair of the committee have appropriate knowledge and skills?	Yes	The independent Chair of the Audit Committee has previous experience of chairing meetings and a previous career within the financial sector.
Are arrangements in place to support the committee with briefings and training?	Yes	Development Sessions during the year are used for Audit Committee member learning and development purposes.
Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	No	Improvement identified in 2020/21 self-assessment has been delayed and will be carried forward: Utilise the CIPFA Skills and Knowledge toolkit.
Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	The independent Chair meets with Chief Internal Auditor (CIA) in advance of each Audit Committee meeting and has the option to meet with External Auditors, EY, in private. The independent Chair has a pre-meeting with senior management prior to each Audit Committee meeting to enable wider context of Council business. Development Sessions are scheduled prior to each meeting.
Is adequate secretariat and administrative support to the committee provided?	Yes	A Democratic Services Officer is assigned to the Audit Committee.

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Midlothian Council Audit Committee – self-assessment of Good Practice at 25 January 2022

Effectivenss of the committee	Yes/Partly /No	Comments
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	Improvement identified in 2020/21 self-assessment has been delayed and will be carried forward: The Audit Committee will continue to obtain feedback on its performance from senior management and the external auditor.
Are meetings effective with a good level of discussion and engagement from all members?	Yes	As reflected in the Minutes of the Committee.
Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	Yes	The Chief Executive, Directors, and Section 95 Officer attend all Audit Committee meetings and respond to members’ questions as appropriate for the business being considered by the Committee to ensure action findings and action plans are acted upon. The Chief Officer Place presents quarterly updates to the Committee setting out the corporate risks and mitigations.
Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	Yes	Recommendations are made by the Committee to Council in accordance with the business considered by the Committee. An Action Tracker for Audit Committee is in place to monitor completion of their recommended actions.
Has the committee evaluated whether and how it is adding value to the organisation?	Yes	The Audit Committee carries out an annual self assessment of performance against the CIPFA good practice checklist and the effectiveness toolkit from the CIPFA guidance 2018 ‘audit committees’, the latter enabling evaluation of how effectively it fulfils its Audit functions. The 2021/22 self-assessment was carried out on 25 January 2022 during a Development Session.
Does the committee have an action plan to improve any areas of weakness?	Yes	As part of its annual self-assessment 2021/22 the Committee has recognised where it could improve in respect of its scrutiny and challenge role to fulfil its remit and to further add value. Improvements are set out within the Audit Committee Annual/End of Term Report 2021/22.
Does the committee publish an annual report to account for its performance and explain its work?	Yes	The Audit Committee Annual Report is presented to the Council each year. It sets out the activities to enable stakeholders to understand how the Committee has discharged its duties. MLC continues to adopt this best practice.

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
1. Promoting the principles of good governance and their application to decision making	Supporting the development of a local code of governance. Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it. Working with key members/governors to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	Committee scrutinised Local Code of Corporate Governance, and recommended it for Council approval in March 2021, and scrutinised AGS within Annual Report and Accounts 2020/21. Pre-Meet with independent Chair prior to each Committee meeting to provide wider context. Committee supports the role of audit in improving internal control and governance. Committee considers national reports and self-assessment toolkits. Reliance on previous years’ informal liaison with other Audit Committees e.g. MIJB.	5 (2020/21 4)
2. Contributing to the development of an effective control environment.	Actively monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	Committee received periodic progress reports from Auditors e.g. follow-up activity. Directors attended Committee meetings to discuss progress with Audit actions. Action Log used to monitor completion of Committee recommendations.	5 (2020/21 4)
3. Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements. Holding risk owners to account for major/strategic risks.	The report requested in June 2020 on the review and scrutiny of the Risk Management Policy and Strategy is still awaited (twice delayed from original December 2020 target) and monitored on the Action Log; to enable Audit Committee oversight of Risk Management Framework. Committee received quarterly reports from Chief Officer Place on strategic risks and mitigations, with Directors in attendance.	4 (2020/21 3)

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
4. Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	Annual Strategies and Plans and periodic progress Reports received from Auditors which outline Governance and Assurance Framework, in alignment with Audit Cycle. Regular assurance reports provided on internal control, governance & risk management.	4 (2020/21 4)
5. Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements. Actively supporting the quality assurance and improvement programme (QAIP) of internal audit.	Committee considered and approved the Internal Audit Charter. Committee considered and approved the Internal Audit Strategy and Plan, and regular Internal Audit reports with recommendations. Committee received Internal Audit QAIP and PSIAS conformance within mid-term performance and annual assurance reports.	5 (2020/21 4)
6. Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	Reviewing how the governance arrangements support the achievement of sustainable outcomes. Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	Auditors provided assurance reports on governance arrangements for transformation, and financial sustainability. Reliance on other Committees fulfilling their remits (Business Transformation Steering Group; Performance, Review and Scrutiny); knowledge from members appointed on those Committees used to evaluate their effectiveness.	4 (2020/21 4)
7. Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated in Annual Governance Statement (AGS).	Auditors provided assurance on value for money arrangements e.g. transformation, sustainability, and performance management. AGS sets out the Governance Framework including arrangements for best value.	4 (2020/21 4)

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
8. Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.	Committee received Counter Fraud Annual Report associated with refreshed Counter Fraud Policy and Strategy approved in 2020. Committee has requested self-assessment of fraud risks and counter fraud controls associated with national reports, and received assurance reports from Integrity Group.	5 (2020/21 4)
9. Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency. Publishing an annual report from the committee.	Committee scrutinised Annual Report and Accounts 2020/21 including the enhanced Management Commentary for stakeholders. Reliance on health and social care governance arrangements (Integration Joint Board; IJB Audit and Risk Committee). Audit Committee Annual Report presented to Council in public.	4 (2020/21 3)

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Midlothian Council

Annual Audit Plan
Year ending 31 March 2022

Audit Committee – 14 March 2022

EY
Building a better
working world

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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. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. 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 Hywel Ball, 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 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.

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Executive summary

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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

The Accounts Commission appointed EY as the external auditor of Midlothian Council ("the Council") for the five year period to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22.

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 2022, the sixth and final 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.

We have issued this audit plan to provide the Audit Committee with indicative areas of focus for 2021/22. Under the timescales reflected within guidance from Audit Scotland, our planning work is not due to be finalised until the end of March. Audit Scotland continues to refresh its guidance to recognise the ongoing impact of the pandemic on timescales for the preparers of financial statements and appointed auditors. Any material changes to this plan will be reported to the Audit Committee. After consideration by the Council's Audit Committee in March, the finalised plan will be 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 2021/22 Code of the state of affairs of the Council and its group as at 31 March 2022, 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 interpreted and adapted by the 2021/22 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
£7.7 million	£ 5.85 million	£250,000
2% of the Council's gross 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.

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. During 2021/22, we will consider the impact of additional Covid-19 grant income streams that the Council has managed to support the response to the pandemic, including those administered by the City of Edinburgh on the Council's behalf.
Potential 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 risk: 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 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 and liabilities at the year end.

Wider Scope Risks

Financial Sustainability: Impact of the pandemic on medium term financial planning	The adoption of the Medium Term Financial Strategy (MTFS) and supporting governance arrangements meant that the Council had a clear financial plan in advance of the impact of Covid-19. However, the pandemic has brought ongoing challenges for the Council and it faces risk and uncertainty outside of its control which could impact its ability to deliver savings. The 2022/23 budget continues to rely on one-off measures, as in 2021/22, to achieve a balanced position. Development of a new financial strategy is underway and will be presented to the new administration following the local government elections in May 2022. Difficult decisions will be required from elected members to deliver a sustainable financial strategy.

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Local Government developments

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

The most recent LAN concluded that no scrutiny requirements were identified and that no local scrutiny plan would be published.

A National Scrutiny Plan (NSP) was most recently 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.

As the appointed auditor of the Council, we act as the LAN lead for Midlothian Council shared risk assessment process. The LAN met on 1 March 2021 to discuss the 2021/22 shared risk assessment. The LAN concluded that no additional scrutiny requirements were identified and that no local scrutiny plan would be published. Audit Scotland has communicated that there is not a requirement to hold a LAN for 2021/22, however we will keep this under review through the audit cycle.

Political uncertainty

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

- **Covid-19 Pandemic:** although the pandemic continues to dominate the political environment, focus is shifting towards creating a sustainable long-term approach to living alongside Covid-19 and the potential lessons to be learned.
- **Scottish Local Government Elections:** Scottish elections are due to be held on 5 May 2022.
- **Scotland Independence Referendum**: there is continued uncertainty regarding whether another Scottish independence referendum will be held.

We will continue to monitor 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 Overview 2021 report in May 2021. The report analyses the local government response to the pandemic and the wider risks that have emerged from this.

Key messages highlighted by this report included:

- Councils continue to face significant financial challenges, and these have been exacerbated by the pandemic.
- The Scottish Government has provided substantial additional financial support, but the nature and timing of funding has created further challenges for councils.
- The Covid-19 pandemic is having a profound impact on all aspects of society, including the economy, jobs and the physical and mental health of the public.
- Overall, the workforce demonstrated versatility to take on new roles with many staff redeployed into services that were facing increased pressure.
- There has been some ongoing learning resulting from the emergency response to the pandemic, with councils having started to plan for longer term recovery from the crisis.

Increasing expectations relating to Climate Change

Public interest in climate change is increasing. Scotland has set a legally binding target of becoming net zero by 2045, five years earlier that the rest of the UK, and has set several interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. In March 2022, Audit Scotland published a briefing (available on Audit Scotland's website) to draw out key themes and recommendations for public bodies in Scotland. The recommendations were compiled from a series of key reports, including those from Scotland's Climate Assembly and Committee on Climate Change.

The briefing recognises that climate change planning needs to happen collaboratively both nationally and across sectors, including local government. Climate change plans need innovative thinking to address the inherent tension between doing things thoroughly and doing things quickly. We remain mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks are likely to be increasingly relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

Sustainability is one of the areas of focus under our programme of Best Value coverage for 2021/22. As a result, we will focus on climate-related risks as part of our wider understanding of the Council and its environment. We will consider the impact of specific climate risks as part of our risk assessments and our annual reporting.

Fiscal flexibilities

In October 2020 the Cabinet Secretary wrote to COSLA to confirm three financial flexibilities for local government with further details to be brought forward in further guidance:

- Use of capital receipts to fund revenue Covid-19 expenditure in 2020/21 and 2021/22.
- Loans fund repayment holiday in either 2020/21 or 2021/22.
- Extension of PPP and other similar contracts debt repayment periods to reflect asset life.

While there are ongoing discussions with Scottish Government regarding how some of the flexibilities are delivered, the Council has identified how they plan to utilise the flexibilities as part of the budget setting exercise for 2022/23. The Council position at present is as follows:

- Pending formal approval of the flexibility, the Council transfer capital receipts to the General Fund Revenue Account to use to mitigate the financial impact of Covid-19 and fund transformational projects in 2022/23.
- In respect of the Loans Fund Repayment holiday, the Cabinet Secretary has agreed to extend the period over which this is available to be utilised for one further year. Councils intending to use this flexibility in 2022/23 are required to take the loans fund holiday in 2021/22 and carry that saving to their General Fund reserve. The Council awaits the outcome regarding the delivery method (statutory instrument or administrative arrangement) before determining their position.
- The CIPFA Directors of Finance Section have requested further clarification from Government on the application of the service concession flexibility and a consequence The Cabinet Secretary has written to CIPFA/LASAAC to seek its views on the accounting treatment. Given the continued uncertainty on the exact nature that the final form this flexibility will take and the associated accounting treatment that will apply, the Council is not in a position to quantify its potential impact. However, the Council continues to review developments to determine whether it could support the financial position in future years.

We will continue to review progress with the financial flexibilities and should any be utilised by the Council, we will confirm they have been applied appropriately.

Budget setting process 2022/23

The Scottish Budget for 2022 to 2023 was published on 9 December 2021, with the proposed Local Government Settlement set out in Finance Circular 9/2021. Additional non-recurring funding of a further £120 million was subsequently announced on 27 January 2022 for local authorities.

A meeting of the Council took place on 15 February 2022 to agree the budget for 2022/23. The Council agreed a balanced budget with revenue spending on services projected to be £251 million. A budget gap of £9.727 million was originally identified and reduced through:

- utilising £2 million from uncommitted, earmarked reserves;
- deferring debt repayments, this year and next, to secure an additional £6.358 million; and
- increasing council tax by 2.38%.

We will consider the Council’s approach to budget setting as part of our wider scope work on Financial Management.

Financial statements: Our approach and significant risks identified

Introduction to section

The Council's annual financial statements 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 2021/22 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 2021/22 Code of the state of affairs of the Council and its group as at 31 March 2022, 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 UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code.
- 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.

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 2021/22 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.
- In line with our continuing investment in our audit methodology, and in particular the use of technology in the audit, in 2021/22 we will further extend the use of data analytics in our audit to include greater analysis at the planning and interim stages of the audit. Our approach is designed to more comprehensively assess the underlying financial data through the entirety of the audit process to better understand potential audit matters and address these as they occur.

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 £7.7 million	**Planning materiality (PM)** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2021/22 has been set at £7.7 million (*2020/21: £7.7* 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 2021/22.
Tolerable Error £5.85 million	**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 £5.85 million (*2020/21: £5.85 million*) which represents 75% of planning materiality. This level reflects our prior year audit experience in the preparation of the 2020/21 financial statements.
Summary of Audit Differences £250,000	**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.

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 – which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.

Covid-19 Pandemic - Impact on Financial Statements

We outlined in previous reports how the impact of Covid-19 significantly impacts both the financial statement preparation and audit processes, and continues to do so:

- The governance statement should capture how the control environment has changed during the period of the pandemic, and steps being taken by the Council to maintain a robust control environment during the disruption.
- The management commentary should clearly summarise the impact of Covid-19 on both the financial performance and future planning, and the impact on key statutory performance indicators.
- Significant events after the balance sheet date require to be disclosed within the financial statements, either through the post balance sheet events note or in specific accounting notes or the management commentary and governance statement.

Accounting policies

2020/21 was the first financial year where the impact of Covid-19 accounting transactions were seen in the financial statements. Covid-19 will continue to have a potentially material impact on the financial statements, including how the Council accounts for significant income and expenditure. Any specific government support may qualify as a new transaction stream and require development of new accounting policies.

Impact on Audit Process

A hybrid model is intended to be implemented for the 2021/22 audit with a blend of onsite and remote working to ensure an efficient and high quality audit.

Audit Scotland has set its reporting deadline for local government bodies in 2021/22 at 31 October 2022. These deadlines will continue to be reviewed through the year as circumstances change, however the Financial Reporting Council and Audit Scotland have made clear that any deadlines are secondary to the primacy of audit quality and ensuring completeness of work regardless of the environment in which audit takes place.

We have outlined the planned timing for the key deliverables of the audit process in Appendix E. We intend to take a hybrid approach to the 2021/22 audit with a blend of on-site and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit in 2021/22 under review.

Significant Risks

We set out below the significant risks identified for 2021/22, 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 income and 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 2021/22 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.
- 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, non-domestic rates and housing rents income. With regards to expenditure we have rebutted the risk of improper recognition of payroll, depreciation, HRA, housing benefit 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 and consideration of the effectiveness of 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.
- Review Covid-19 related income streams; challenge the judgements of whether to account for schemes as 'agent' or 'principal' and whether income recognition criteria are satisfied.
- 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 identified some 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 property, plant and equipment balances and pension liability. 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, including any controls in place to manage the awarding of Covid-19 related grants and reliefs.
- 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 represents a significant balance in the Council's financial statements (2020/21 PPE totalled £963 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 identified errors in the Council's valuations. Although we identified an adjustment in 2020/21, we highlighted the Council's overarching process for the valuation of PPE continued to show improvement.	During 2021/22, the most significant proportion of the estate being valued by the Council's valuers relates to high schools. 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 investment properties. 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 2021/22 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 liability, measured as the sum of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council financial statements. At 31 March 2021 the net liability totalled £141 million.

Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. 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.
- Engage our actuarial specialists to assess the work of the actuary (Hyman Robertson), including the assumptions they have used and their assessment of the liability due to recent legal rulings for McCloud and Goodwin.
- Relying on the work of PWC, appointed to consider actuarial assumptions used at the year end for all local government sector bodies.
- 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.
- Developing our own point estimate of the appropriate valuation for both pension assets and liabilities.

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.

Implementation of IFRS 16

The Financial Reporting Standard IFRS 16 Leases, will currently become effective for local authorities from 1 April 2022 to replace the existing IAS 17.

When implemented, IFRS 16 is expected to have significant practical and financial impact for local authorities due to the prevalence of leasing in local government and the risk that the changes could have a budgetary impact if not managed effectively.

Although IFRS 16 does not come into effect until 1 April 2022, the Code of Practice on Local Authority Accounting requires local authorities to disclose information relating to the impact of the accounting change, where a new standard has been published. An Appendix to the 2021/22 Code sets out the changes agreed by CIPFA/LASAAC in relation to the adoption of IFRS 16. The guidance also covers the transitional arrangements for moving to these new requirements.

Subject to any further revisions to the Code, we will review the Council's preparations for implementation of IFRS 16 Leases. In particular, we will assess the Council's arrangements to consider:

- all leases which need to be accounted for;
- the costs and lease term which apply to the lease;
- the policy choices adopted by the Council;
- the value of the asset and liability to be recognised as at 1 April 2022 where a lease has previously been accounted for as an operating lease;
- the ongoing accounting arrangements/models to ensure that the initial recognition and subsequent measurement of rights of use assets and associated liabilities are properly accounted for; and
- whether there is a system to distinguish between remeasurements and modifications of a lease.

We will consider the adequacy of the Council's disclosure in the financial statements and reasonableness of the impact estimated by management.

Emergency consultation on the CIPFA/LAASAC Code for 2021/22 and 2022/23

As noted above, CIPFA/LASAAC are conducting an emergency consultation on the Code for both 2021/22 and 2022/23 which closed on 3 March 2022. Changes are being considered with the aim of alleviating delays to the publication of audited financial statements and include:

- An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year). This approach also explores the use of an index to be used to increase or reduce that valuation.
- Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

We will work with management to ensure appropriate consideration and implementation of any relevant amendments. Any revisions to our audit strategy as a result will be reported through our Annual Audit Report.

Updates to the CIPFA/LAASAC Code for 2021/22

Changes have been made to the guidance notes issued by CIPFA/LAASAC on the Accounting Code for 2021/22;

- Amendments to the financial instruments section to reflect the change in the basis for determining contractual cashflows and additional disclosure requirements as a result of interest rate benchmark reform.
- Confirmation of the arrangements for the endorsement of standards arising because of the UK's withdrawal from the European Union.
- Amendments to the disclosure requirements of estimation uncertainties.

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 2021/22 financial statements. We will assess management's implementation of this guidance as part of the 2021/22 audit.

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.

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.

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 will obtain the financial data from both the general ledger and payroll system for 2021/22 as part of our testing strategy. 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.

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.

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 he 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.

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.

Midlothian Energy Limited is a new joint venture with Vattenfall, a Swedish state-owned energy company. In the prior year, no significant activity had progressed through the venture however during 2021/22, there has been increased activity. We will work with management to ensure that the investment is appropriately accounted for within the Council's financial statements and that appropriate consolidation entries are made where appropriate for the Group financial statements.

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.

4

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.

The Code sets out the four dimension that comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money. The Accounts Commission has also set five strategic Audit Priorities in its 2019-24 strategy. In 2021/22 auditors are not specifically asked to consider and report on these through our audit work, however we will continue to consider them as part of our wider scope work through the year.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. We set out our areas of focus, along with specific significant risks relating to each dimension below.

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

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 2020/21 we reported on our follow-up of the findings from the Best Value report, and the Council's monitoring of the implementation of agreed improvement actions. Our Annual Audit Report will continue to consider the Council's approach to continuous improvement, while reflecting the severe impact of the pandemic on capacity and priorities.

As a result of the impact of the pandemic and lockdown arrangements, we postponed our work on Best Value in 2019/20 and therefore reassessed our overall Best Value programme, in agreement with Audit Scotland. Our updated plan of Best Value coverage is attached at Appendix C. As 2021/22 is the final year of our audit appointment, we will ensure that the remaining areas of the Best Value programme are assessed, to allow us to handover to the successor auditor. Our specific areas of focus will be in relation to the Council's approach to sustainability and equality. We also recognise that in light of the significance of an election year, we will consider key aspects of vision and governance arrangements.

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 2020/21 Annual Audit Report, we noted that the adoption of the Medium Term Financial Strategy (MTFS) and supporting governance arrangements meant that the Council had a clear financial plan in advance of the impact of Covid-19. However, the pandemic has brought ongoing challenges for the Council and it faces risk and uncertainty outside of its control which could impact its ability to deliver savings. The 2022/23 budget continues to rely on one-off measures, as in 2021/22, to achieve a balanced position.

Looking ahead, work is underway by management to develop a new corporate and medium term financial planning arrangements with the intention that this can be presented to the newly elected members following the May 2022 local government elections.

Continuing financial pressures

The Council faces an ongoing challenge to deliver savings in light of the level of risks and uncertainty that are outside the Council's control, including Covid-19 factors and decisions on funding allocations. While the short term risk may be mitigated by fiscal flexibilities, there is a need for continued member and officer focus to safeguard financial sustainability.

The Council has a shared route map through and out of the Covid-19 crisis which aims to secure transformation and support recovery. Our work in this area in 2021/22 will include:

- Consideration of the Council's updated medium term financial plans, including the risk assessment of savings options.
- Assessment of the Council's plans to use fiscal flexibilities to ensure the plans are in accordance with Scottish Government guidance.
- 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 2021/22 will encompass:

- Assessment of the control framework with a focus on the prevention of fraud and irregularity, including in procurement.
- A focus on controls to mitigate the risk of fraudulent claims processed by, or on behalf of, the Council in relation to Covid-19 related support for communities and businesses.
- Continuing monitoring of the Council's participation in the National Fraud Initiative, including notification of any failure to investigate matches by September 2022.

Treasury Management and the application of the Prudential Code are areas of increased focus in local government. In response to the recommendation of the UK Parliament's Public Accounts Committee and the substantial increase in commercial investment, CIPFA published revised Treasury Management and Prudential Codes in December 2021 following consultation periods. Both of these Codes became applicable with immediate effect, although local authorities can defer the reporting requirement until the 2023/24 financial year.

We will assess any actual or planned amendments to the Council's Treasury Management arrangements following the publication of the revised Treasury Management and Prudential Codes.

During 2020/21, treasury management was an area of audit focus with a separate report provided to the Audit Committee in June 2021. No significant findings were identified with only minor areas for improvement identified. We will continue to monitor progress against these recommendations alongside management's consideration of the revised Treasury Management and Prudential Codes.

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 2020/21 Annual Audit Report we concluded that the key features of good governance are in place and operating effectively. However, the Council should satisfy itself that governance arrangements meet changing scrutiny needs following the forthcoming local government elections.

The Audit Committee considered the future of the Shared Internal Audit Services arrangement at its meeting on 13 January 2022. From 2022/23, both Midlothian and Scottish Borders councils intend to opt out of this agreement, with Midlothian choosing to progress to a permanent staff resourcing of the Internal Audit team. We will monitor this closely to ensure that governance arrangements are not at risk throughout this transition.

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 2021/22, 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.
- Transition arrangements are in place to support the newly elected members including a programme of member training and support.

Value for money

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. In our previous audit report we recommended that the Council's performance reporting should continue to be reviewed to ensure performance can be readily assessed and scrutinised including through greater use of graphics where appropriate. We also noted that performance continued to fall short of the targets set within the Council's own performance management framework, although acknowledged that improvement had been made in a challenging year.

With the operational and financial pressures that the Council faces as it transitions from the Covid-19 environment, it is essential that they are able to monitor performance and demonstrate value for money. We will continue to assess their performance reporting throughout the year.

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5

Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Best Value Programme of Coverage

D - Required communications with the Audit and Risk Committee

E – Timing and deliverables of the audit

F – Audit fees

G – 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
▸ 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.	▸ 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: Best Value Programme of Coverage

As 2021/22 is the final year of our audit appointment, we will ensure that the remaining areas of the Best Value programme are assessed, to allow us to handover to the successor auditor. Our specific areas of focus will be in relation to the Council's approach to sustainability and equality.

Best Value Audit Coverage						
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
			BVAR		Best Value Follow Up	
Vision and Leadership			▨		▨	
Sound Governance and Accountability	▨	▨	▨		▨	
Effective Use of Resources	▨	▨	▨	▨		
Partnership and collaborative working			▨			
Community responsiveness	▨				▨	
Sustainability						🟨
Fairness and equality						🟨
Performance outcomes and improvement		▨	▨		▨	

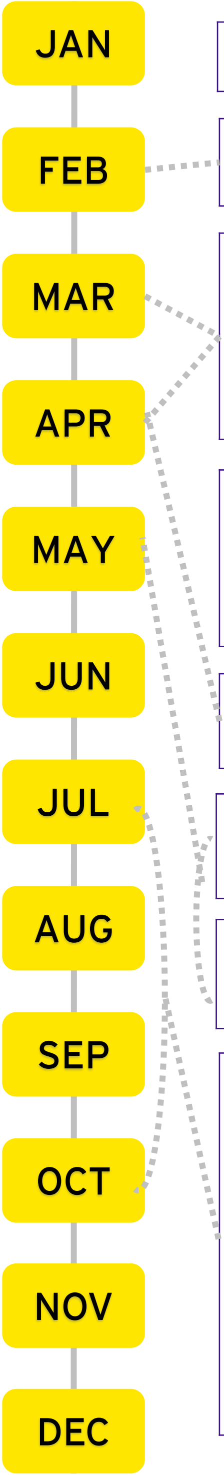
Appendix D: Required Communications

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 ▸ 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: ▸ 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 ▸ 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 ▸ 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 ▸ 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: ▸ 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: ▸ 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 ▸ 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 ▸ 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 E: 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 2020/21 audit cycle.



Audit Activity	Deliverable	Timing
▸ Review progress of NFI exercise	Submit NFI Questionnaire	February 2022
▸ Onsite fieldwork, documentation and walkthrough of key accounting processes ▸ Scoping of wider scope work for year	Annual Audit Plan	March/April 2022
▸ Review of current issues impacting the Council	Quarterly current issue return submission	Quarterly
▸ Review of reported frauds	Quarterly fraud return submission	Quarterly
▸ Completion of Housing Benefits claim testing	Certified Housing Benefit subsidy claim	TBD: Guidance in April
▸ Submit minimum dataset return to Audit Scotland	Return for financial overview	TBD: Guidance in May
▸ Completion of Non-Domestic Rates return testing	Certified Non-Domestic Rates return	TBD: Guidance in May
▸ 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) Certify Annual Financial Statements Issue Annual Audit Report Submit minimum dataset return to Audit Scotland	Provisionally set at 31 October 2022

Appendix F: 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 (including VAT)	2021/22	2020/21
Component of fee:		
Auditor remuneration – expected fee	**£152,060**	**£148,890**
Additional audit procedures (Note 1)	**£TBD**	**£27,300**
Audit Scotland fixed charges:		
Pooled costs	**£15,850**	**£14,160**
Performance audit and best value	**£67,040**	**£66,860**
Audit support costs	**£8,120**	**£8,190**
Total fee	**£243,070**	**£265,400**

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 will continue to consider the impact of Covid-19 on the audit going forward. Should additional audit requirements arise we will raise these with management through the course of the audit and agree variations as appropriate, and report the final position to the Audit Committee within our Annual Audit Report.

Note 1

We have outlined through areas of additional audit focus this year which are likely to have an impact on the expected fee, including the arrangements for administering Covid-19 grants and the implications of late changes to the 2021/22 Code.

Where further additional work is required, fees will be agreed with management and reported to the Audit Committee in our 2021/22 Annual Audit Report

Appendix G: 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 proving 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: Quality of public audit in Scotland annual report 2020/21 | Audit Scotland (audit-scotland.gov.uk) 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: EY UK 2021 Transparency Report | EY UK

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Midlothian Council
Risk Management Strategy

1. Policy Statement

Midlothian Council understands that it is important to recognise and manage the many risks which are inherent in its activities, and in the services which it provides for the benefit of the community. The Council has therefore adopted this policy on risk management, has established the attached Risk Management Strategy and has implemented procedures in support of the policy and strategy.

Midlothian Council acknowledges that risk can never be eliminated in its entirety. The Council also recognises that managing risk can also identify positive opportunities which, with the appropriate level of control, may lead to service improvements. Therefore, the measures which the Council adopts are principles of good management practice which seek to control and balance risk and opportunity.

Specifically, in the area of risk management, the Council seeks to:

- Always meet its statutory obligations, and to act within the law.
- Safeguard the public at large, the Council's members, employees, pupils, tenants and all persons to whom the Council has a duty of care.
- Protect its property, including buildings, equipment, vehicles or any other assets and resources.
- Preserve and enhance service delivery.
- Maintain effective control of public funds.
- Maintain and enhance the Council's reputation.
- Safeguard and enhance the quality of Midlothian’s environment.

The Council will promote these objectives by systematically identifying, evaluating, and thereafter seeking to control and monitor all risks which would potentially endanger, or which could have a detrimental effect upon the aims and objectives stated above.

The Council will support its members and officials in developing the necessary skills and competencies to enable the provision of good quality risk management to the Council.

There is a commitment to embedding risk management throughout Midlothian Council, promoting a positive risk culture and making it a part of everyday service delivery and decision-making, ensuring that sufficient resources are allocated. This includes fostering an environment that embraces openness, supports integrity, objectivity, accountability and transparency in the identification, assessment and management of risks, welcoming constructive challenge and promoting collaboration, consultation and cooperation.

Risk Management enhances strategic planning and prioritisation, assists in achieving objectives and strengthens the ability to be agile to respond to the challenges faced. To meet our objectives, improve service delivery and achieve value for money for the residents of Midlothian, risk management will be an essential and integral part of planning and decision-making.

2. Introduction

The objective is to ensure that risk management is an integral part of the Council's corporate and service management, forms part of the Council's governance, planning and service delivery operations and allows for monitoring and reporting on the effectiveness of that strategy.

The strategy acknowledges that risks occur at all levels of the Council's functions and activities and includes strategic or corporate risks as well as innumerable operational risks.

This strategy and policy applies to all of Midlothian Council’s core functions. Where Midlothian Council enters into partnerships, the principles of risk management established by this strategy and policy and supporting guidance should be considered as best practice and applied where possible. It is also expected that our significant contractors have risk management arrangements at a similar level, which should be established and monitored through commissioning processes and contract management arrangements.

3. Terminology

Governance
The system by which local authorities fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users.

Risk
The chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event. This can be further defined as “the combination of the likelihood of an event occurring (or not occurring, as the case may be) and its impact on the organisation”.

Risk Management
The planned and systematic approach to the identification, evaluation and control of risk. The objective of risk management is to secure the assets and reputation of the organisation and to ensure the continued financial and organisational well-being of the Council. All organisations exist to achieve their objectives. The purpose of risk management is to manage the barriers in achieving these objectives.

Effective risk management
Having a process in place that can identify what might go wrong, what the consequences might be of something going wrong and finally, deciding what can be done to reduce the possibility of something going wrong. If something does go wrong, making sure that the impact is kept to a minimum. Good risk management is successfully managing the barriers to achieving objectives.

4. Objectives

Midlothian Council is committed to establishing and maintaining a systematic approach to the identification and management of risk.

The Council’s risk management objectives are to:

- Ensure that risk management is clearly and consistently integrated and evidenced in the culture of the Council.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Consider compliance with health and safety, insurance and legal requirements as a minimum standard.
- Prevent death, injury, damage and losses, and reduce the cost of incidents and accidents.
- Inform policy and operational decisions by identifying risks and their likely impact.
- Raise awareness of the need of risk management by all those connected with the Council's delivery of service.
- Recognise that good risk management also includes positive risk taking and the identification of opportunities.

These objectives will be achieved by:

- Clearly defining the roles, responsibilities and reporting lines within the Council for risk management.
- Setting out clear risk management processes.
- Continuing to demonstrate the application of risk management principles in the activities of the Council, its employees and members.
- Reinforcing the importance of effective risk management as part of the everyday work of employees and members.
- Maintaining a register of risks linked to the Council's business, strategic and operational objectives, including those risks linked to working in partnership.
- Maintaining documented procedures of the control of risk and provision of suitable information, training and supervision.
- Maintaining an appropriate system for recording health and safety incidents, responses and identifying preventative measures against recurrence.
- Preparing contingency plans to secure business continuity where there is a potential for an event to have a major impact upon the Council's ability to function.
- Monitoring arrangements continually and seeking continuous improvement.

5. Approach

It is essential that a single risk management approach be utilised at all levels throughout the Council. By demonstrating good governance through effective management of risks and opportunities, the Council will be in a stronger position to deliver our objectives, provide improved services to the public, work better as a partner with other organisations and achieve value for money.

This approach to risk management will inform the Council's business processes, including:

- Strategic planning.
- Financial planning.
- Service planning.
- Policy making and review.

- Performance management.
- Project management.
- Partnership working.

It is essential in order to achieve the objectives referred to in section 4 that processes are in place to identify and assess risks and opportunities, develop and implement controls and warning mechanisms, and to review and report on progress.

The identified risks and relevant control measures will be managed through the Council's Strategic Risk Register.

There are five key principles of risk management that provide the basis on which Midlothian Council will manage risk:

A. Governance and Leadership – risk management shall be an essential part of governance and leadership, and fundamental to how the organisation is directed, managed and controlled at all levels.

B. Integration – risk management shall be an integral part of all organisational activities to support decision-making in achieving objectives.

C. Collaboration and Best Information – risk management shall be collaborative and informed by the best available information.

D. Structured Processes – risk management processes are recognised as iterative in practice, rather than sequential, and shall be structured to include:

> **Risk Identification and Assessment** – to determine and prioritise how the risks should be managed.
>
> **Risk Treatment** – the selection, design and implementation of risk treatment options that support achievement of intended outcomes and manage risks to an acceptable level.
>
> **Risk Monitoring** – the design and operation of integrated, insightful and informative risk monitoring.
>
> **Risk Reporting** – timely, accurate and useful risk reporting to enhance the quality of decision-making and to support management and oversight bodies in meeting their responsibilities.

E. Continual Improvement – risk management shall be continually improved through learning and experience.

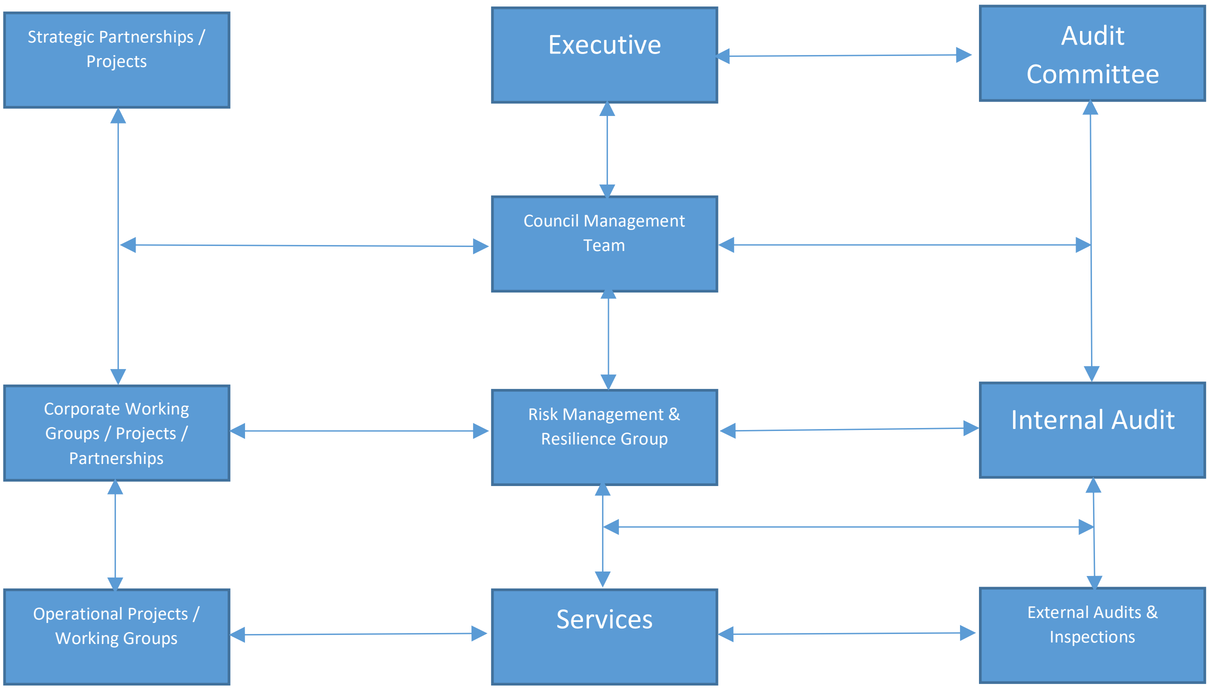
6. Status of Risk Management

Risk management is as much a part of the duties of Council officials as, for example, the control of budgets or the deployment of staff and assets. It is one of many substantive issues to be considered by elected members when making decisions. If the Council is to have reasonable assurance that risk management is effective, and is effectively part of the Council's operations, risk management must be carried out in a systematic and structured manner and be subject to monitoring and reporting on its effectiveness.

7. Management Arrangements

Risk management is a part of service and corporate / strategic management and accordingly is integrated within normal management processes.

The Risk Management Reporting Framework illustrates the Council's risk management structure:


Strategic Partnerships / Projects
Executive
Audit Committee
Council Management Team
Corporate Working Groups / Projects / Partnerships
Risk Management & Resilience Group
Internal Audit
Operational Projects / Working Groups
Services
External Audits & Inspections

The Chief Executive has overall responsibility for the management of risk within Midlothian Council.

Chief Officer – Place will have responsibility for ensuring that the Council's Risk Management Strategy, Policy and Strategic Risk Register/Profile are maintained and regularly reviewed. Risk owners will be clearly identified within the Strategic Risk Profile. The Strategic Risk Profile will be reviewed quarterly, or where a new significant risk is identified. The reviewed Strategic Risk Profile will be presented to the Council Management Team for approval and thereafter to the Audit Committee.

Executive Directors will have responsibility for ensuring the Strategic Risk Profile is compiled and maintained in respect of their Service.

Chief Officers will be responsible for ensuring all risks falling within their service portfolio are reviewed quarterly, or where a new risk is identified.

Senior Managers will ensure that Service Risk Registers are reviewed quarterly, or where a new risk is identified. Any identified risk which has a wider corporate impact will be escalated to the Strategic Risk Register.

The Council Management Team shall:

- Determine the levels of risk and outcomes that are tolerable and acceptable to achieve the Council's objectives.
- Provide advice to elected members on the type and amount of risk to accept when making policy decisions.
- Assume ownership of the strategic risks recorded in the Strategic Risk Profile.
- Carry out a strategic overview of the Strategic Risk Profile quarterly.
- Promote and support the implementation of the risk management policy and strategy throughout the Council.

Identified risks will be allocated to an officer of the CMT and each risk will be accompanied by an assessment of likelihood and impact. Registers will be accompanied by related actions, highlighting the means by which the risk will be controlled.

There are some aspects of operational risk management which benefit from corporate support and co-ordination. There is also a need for the Council to be able to demonstrate that risk management arrangements are effective, through the Audit Committee.

The Risk Management & Resilience Group consists of at least one senior representative from each directorate of the Council. This is not a decision-making body, as recommendations that have a strategic or corporate impact are referred to the Council Management Team.

The Audit Committee evaluates and recommends approval of the strategies and frameworks in respect of risk management. The Committee approves updates and provides direction in respect of risks held within the strategic risk profile.

The Risk Management Policy and Strategy will be reviewed every two years.

8. Health & Safety

The Council has responsibilities under health and safety legislation to ensure the health, safety and welfare at work of employees and other people affected by the Council's business. Managing health and safety risks is an integral part of business risk management and the management of such risks should not be taken in isolation. Poor health and safety management can have a negative impact on other business risks such as reputation, insurance, business continuity and financial resources.

The effective management of health and safety risks, as with all significant corporate risks, is an essential part of the role of the relevant managers. The organisation and arrangements for managing health and safety within the Council are detailed in the Council’s Health and Safety Policy documents.

9. Business Continuity

The business continuity process is essentially risk management applied to the whole organisation and its ability to continue with its service provision in the event of a catastrophic or a localised operational impact event. The Council ensures risk management processes are applied throughout the business continuity lifecycle.

10. Monitoring and Accountability

Formal monitoring and accountability procedures form an integral part of the risk management process, covering the following three main issues:

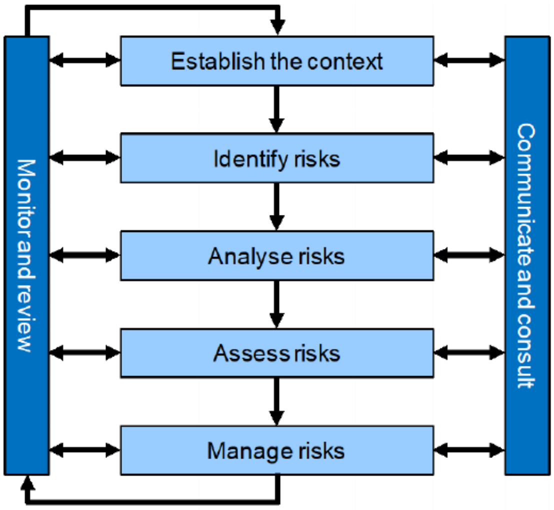
- Delivering the risk management strategy.
- Implementing risk management action plans, both corporate/strategic and service.
- Determining whether the related actions are making a difference to the risk, as appropriate.

The following monitoring arrangements are in place:

- Risk registers are presented to the Audit Committee quarterly to advise members of the risks which may affect the achievement of the Council's strategic objectives.
- Service risks are monitored through quarterly performance reports so that any performance risks are highlighted to the Council Management Team through exception reporting.
- Ensuring that the Risk Management & Resilience Group continues to be an effective and streamlined means of maintaining an overview of risk management and supporting corporate and strategic consistency in the implementation of the risk management policy.
- Internal Audit's role includes the auditing of the risk management process across the Council and the reporting on the efficiency and effectiveness of internal controls.

11. Approach to Risk Management

Risk Management Process – ISO31000



The above diagram demonstrates the whole process and cycle of risk management under the international standard ISO 31000.

The standard as outlined above makes clear that risk management is a dynamic process, with frequent review of existing risks and monitoring of the environment necessary to ensure the risks captured represent the current profile of the organisation.

Continual communication of risks within the organisation is essential to allow for informed decision-making. Communication to the Audit Committee and other stakeholders is imperative to allow effective scrutiny and provide assurance that the risk profile is being effectively managed.

Risk Identification

The aim of risk identification is to recognise and articulate the risks that may help or prevent Midlothian Council to achieve its objectives. It is particularly relevant to consider new or emerging risks alongside business planning and strategy formulation processes. #

There are several risk perspectives:

Corporate - Those risks, which if they occurred, would have a major impact on the organisation or delivery of its priorities. Corporate risks also include cross-cutting risks that impact across directorates.

Change related (Programme / Project) – where we are exposed to risks that could affect our ability to successfully complete the desired transformational outcomes or deliver predefined outputs that enable us to deliver outcomes and realise benefits.

Operational / Service / Contract – where we are exposed to risks that could affect our control and ability to successfully and continually deliver or commission services to our service users / residents.

The following factors, and the relationship between these factors, should be considered when identifying risks:

- Changes in the external and internal context
- Causes and events
- Consequences and their impact on objectives
- Threats and opportunities
- Vulnerabilities and capabilities
- Uncertainties and assumptions within options, strategies, plans or initiatives
- Indicators or emerging risks
- Limitations of knowledge and reliability of information
- Time-related factors
- Any potential biases and beliefs of those involved.

Risks will be identified whether or not their sources are under the Council's direct control, as they have the potential to impact on achievement of objectives, causing great damage or creating significant opportunity.

Assessment / Analysis of Risk
The aim of risk analysis is to build understanding of the nature of risk and its characteristics including, wherever possible, the level of risk. It involves consideration of uncertainties, risk sources, consequences, likelihood, events, scenarios, controls and their effectiveness. Analysis techniques can be qualitative, quantitative or a combination of these, depending on the circumstances and intended use.

The assessment, or scoring, of risk allows for prioritisation by evaluation. Determining the likelihood and impact of a risk and utilising a standardised assessment criteria to assign a score based on these factors allows the Council to understand and prioritise which risks to mitigate first.

	1	2	3	4	5
Likelihood	Rare	Unlikely	Possible	Likely	Almost Certain
Impact	Negligible	Minor	Moderate	Major	Extreme

Risk Assessment Matrix
The risk assessment matrix is a 5x5 scoring mechanism which will identify a score between (1x1) at the lowest (very low) and 25 (5x5) at the highest possible score (critical).

The risk assessment matrix is summarised below:

LIKELIHOOD	5	Low 5 ✓	Medium 10 △	Medium 15 △	High 20 ⚠	Critical 25 🛑
	4	Very Low 4 ✓	Low 8 ✓	Medium 12 △	High 16 ⚠	High 20 ⚠
	3	Very Low 3 ✓	Low 6 ✓	Medium 9 △	Medium 12 △	Medium 15 △
	2	Very Low 2 ✓	Low 4 ✓	Low 6 ✓	Low 8 ✓	Medium 10 △
	1	Very Low 1 ✓	Very Low 2 ✓	Very Low 3 ✓	Low 4 ✓	Medium 5 △
		1	2	3	4	5
	IMPACT					

Risk Evaluation
Once analysed, risks will be evaluated to compare the results against the nature and extent of risks that the organisation is willing to take or accept to determine where and what additional action is required.

Controls
Risk controls are management measures put in place to effectively manage a risk to within acceptable levels (i.e. within target score). It is essential that the controls put in place to manage a risk are effective. The identification of effective controls is the most important part of the whole risk management process as without this element the Council would simply be identifying risks and doing nothing to manage them.

There are two main types of control measure that can be put in place to manage a risk:

- *Preventative Controls:* These are mitigating actions which will work to control the cause of the risk and prevent it happening in the first place
- *Contingency Controls:* These are actions that can be put in place to reduce the impact of the risk if it does materialise.

Risk Appetite, Tolerance and Escalation

Midlothian Council recognises that risk is inherent in delivering and commissioning services and does not seek to avoid all risk, but instead aims to have an ‘open’ approach to risk, appropriately balancing risk against reward, with risks managed in a proportionate manner.

This will require an approach that allows flexibility and support for well-informed and considered risk taking, promoting transparency and effective risk management, while maintaining accountability. While risks defined as ‘high’ are to be managed down to a tolerable level wherever possible, it is important that risks across the Authority are not over-controlled.

It is not realistic for the Council, with its diverse range of services and duties, to have just one definitive application of risk appetite across the entire organisation. Instead, risk appetite should be set with reference to the strategy for service delivery in each particular area. However, examples of risks that would be seen as intolerable are those that are likely to:

- Negatively affect the safety of our service users, residents or employees.
- Severely damage the Authority’s reputation.
- Lead to breaches of laws and regulations.
- Endanger the future operations of the County Council (i.e. by exceeding the risk capacity of the organisation – the amount of risk that the Authority can bear).
- Adversely impact the financial security or resilience of the Council

In addition, to aid managers in understanding what risks are acceptable, our appetite for risk is implicitly defined within our standard for determining risk levels. Risks rated as “Critical” will be deemed to have exceeded tolerance levels and will be subject to escalation to the Risk Management & Resilience Group for review and action. The target rating for a risk is expected to be ‘medium’ or lower. In the event that this is not deemed realistic in the short to medium term, this shall be discussed as part of the escalation process, and this position regularly reviewed with the ultimate aim of bringing the level of risk to a tolerable level.

Risk Review

Once the process of identifying, analysing and assessing a risk are complete, it is imperative that it is subject to regular review. Ongoing management and review of a risk is the most important part of the process as maintaining or reducing the risk score to within an acceptable level assures the overall management of the organisation’s profile.

During a risk review, the risk is re-assessed. If it is identified that the risk continues to exist, the list of current controls and further controls required must be checked, cross-referenced and added to where necessary. On the basis of progress with controls and an assessment of the risk environment, a re-assessment of the current score must be made using the risk assessment matrix. This will show whether the risk is decreasing, increasing or remaining static. Depending on its escalation level, a change to risk score will be reported at the Audit Committee.

Risk Reporting

A quarterly risk management report is presented to the Audit Committee which reports on the Council’s strategic risks. In addition, the Council Management Team is provided with a regular risk management report on strategic and organisational risks.

The Risk Management & Resilience Group provides recommendations to the Council Management Team on the escalation, de-escalation and closure of strategic level risks.

Directorates and services undertake quarterly review, monitoring and reporting on their risk registers (supported by the risk management function) in order to ensure that risks are identified and escalated to the appropriate level at an early stage.

Counter Fraud Annual Plan 2022/23

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is invited to:

a) Approve the Counter Fraud Annual Plan 2022/23 (Appendix 1).

2 Purpose of Report/Executive Summary

The purpose of this report is to gain approval from the Audit Committee for the proposed Counter Fraud Annual Plan 2022/23 to support the delivery of the Council's Counter Fraud Strategy and to demonstrate compliance with the Council's Counter Fraud Policy Statement.

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime (including cybercrime and money laundering), and ensure these are embedded preventative practices as specific changes associated with the Counter Fraud Strategy approved by Council in August 2020.

The Counter Fraud Annual Plan 2022/23 (Appendix 1) sets out the planned counter fraud activity to support the change in approach and culture for the Council for tackling fraud and corruption to deliver the revised Counter Fraud Strategy. This will enable the Council to demonstrate compliance with its Counter Fraud Policy Statement as its commitment to tackling fraud and reflects the Integrity Group's assessment of counter fraud controls (update submitted to the Audit Committee in January 2022).

Date 1 February 2022

Report Contact:
Jill Stacey
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3 Background

3.1 A review was carried out in 2019/20 of counter fraud management arrangements in place and to make improvements in light of the significant fraud investigations that have occurred within Midlothian Council in recent years, noting that some are ongoing.

3.2 The conclusion of the review included a refresh to the corporate policy and strategy for tackling fraud. A revised Counter Fraud Policy Statement and Counter Fraud Strategy and proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Policy and Strategy were approved by Midlothian Council in August 2020.

4 Counter Fraud Annual Plan 2022/23

4.1 Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime (including cybercrime and money laundering), and ensure these are embedded preventative practices as specific changes associated with the Counter Fraud Strategy approved by Council in August 2020.

4.2 The Counter Fraud Annual Plan 2022/23 (Appendix 1) sets out the planned Counter Fraud activity to support the change in approach and culture for the Council for tackling fraud and corruption to deliver the approved Counter Fraud Strategy. This will enable the Council to demonstrate compliance with its Counter Fraud Policy Statement as its commitment to tackling fraud and reflects the Integrity Group's assessment of counter fraud controls (update submitted to the Audit Committee in January 2022).

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

5.1 Resource

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group and the Corporate Fraud Team.

The purpose of the Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). The formal establishment of the Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) enables the shift to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council. The Integrity Group met regularly during 2021/22 and considered and endorsed this Plan on 16 February 2022.

The revised Counter Fraud Policy Statement and Counter Fraud Strategy and proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Policy and Strategy were approved by Midlothian Council in August 2020. The 2 Corporate Fraud Officers are line managed by the Principal Internal Auditor who reports to the Chief Internal Auditor.

Savings will continue to be identified arising from Corporate Fraud Team activity, which will be stated within the Counter Fraud Annual Reports presented to the Audit Committee.

5.2 Digital

None.

5.3 Risk

The Council is committed to minimising the risk of loss due to fraud, theft, corruption or crime and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

The Counter Fraud Policy Statement sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy provides a shift in approach to focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud. The work undertaken by the Corporate Fraud Team in collaboration with other Services is designed to reduce the fraud risks within the Council.

5.4 Ensuring Equalities

An Integrated Impact Assessment (IIA) Form was completed as part of the development of the revised Counter Fraud Policy and Strategy. The conclusion was that undertaking a Combined Impact Assessment was not necessary as the policy / proposal has little relevance to equality, negligible impact on the economy, and no impact on the environment. The revised Counter Fraud Policy and Strategy set out enhancements to internal Management arrangements though it is anticipated that there will be minimal impact on internal staff only; there is no change to the Whistleblowing external-facing arrangements.

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change) by preventing and detecting fraud, additional resources might be available to support the Council's objectives. Any loss of funds due to fraud, theft, corruption or crime might impact on the ability of Midlothian Council to achieve its key priorities.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's arrangements for tackling fraud as set out in the Counter Fraud Policy Statement and Counter Fraud Strategy that were approved by Council in August 2020. The shift to the key drivers for change is an intrinsic part of the change in approach and culture for the Council for tackling fraud and corruption. For example:

(a) The formal establishment of an Integrity Group with a Terms of Reference (approved by the Audit Committee in June 2020) shifting to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council;
(b) A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption, and crime and ensure these are embedded preventative practices;
(c) Applying the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)' for counter fraud policy, strategy and other practices, and adopting the CIPFA Counter Fraud Maturity Model as a means of self-assessment moving forward will enable continuous improvement to be evaluated, managed and evidenced; and
(d) Use of a blend of toolkits such as fraud risk assessments and e-learning packages that can be tailored to specific Services.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. The approved Counter Fraud Strategy states the Council will measure progress against the CIPFA Counter Fraud Maturity Model as a self-assessment approach to continuous improvement in order to continuous improvement to be evaluated, managed and evidenced demonstrate best value in the use of resources.

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has been promoted in recent years and is being utilised, as stated in the Counter Fraud Annual Report 2020/21 that reported outcomes of corporate fraud activity, some of which arose from whistleblowing received from staff, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group and the Corporate Fraud team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. The Findings and Recommendations from Internal Audit and Corporate Fraud work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

A.7 Adopting a Preventative Approach

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the approved Counter Fraud Strategy.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Good governance is important to enable Midlothian Council to achieve its objectives including sustainable outcomes.

Midlothian Council Counter Fraud Annual Plan 2022/23 **Appendix 1**

Ref	Category	Activity	Number of Days	Commentary
1.	Compliance	Contract Management	50	Data analytics to test governance and internal controls in place over Contract Management arrangements with third parties to assess compliance with procurement rules.
2.	Compliance	Corporate Fraud Enquiries	155	Respond to whistleblowing notifications.
3.	Data Match	National Fraud Initiative	50	Plan for participation in the new NFI exercise 2022-2023 across Council services, coordinate data sets submission to NFI portal, review and investigate data matches, and periodically produce reports on the outcomes. New data sets proposed by Cabinet Office associated with Covid-support funding to businesses.
4.	Data Match	Social Housing	40	Data analytics on Social Housing, enquiries and investigations.
5.	Data Match	Council Tax	30	Data analytics on Council Tax, enquiries and investigations.
6.	Other	Corporate Fraud Policy Framework	15	Support the Integrity Group with monitoring of policies and procedures review, update and communication. Assist with the self-assessment of compliance against the CIPFA code on Managing the Risk of Fraud and Corruption.
7.	Other	Fraud Risk Assessments	40	Support operational Service Managers to assess fraud risks and put in place appropriate controls within processes and practices.
8.	Other	Fraud Awareness Training	20	Develop and deliver fraud awareness training modules (face-to-face, virtual or via e-learning) to Management and Staff.
9.	Other	Integrity and SOC Groups	6	Attend and provide support to the Council’s Integrity Group and the Serious and Organised Crime Group.
Corporate Fraud Total			**406**	

Audit Committee
Monday 14 March 2022
Item No: 5.7

Internal Audit Charter

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is invited to:

a) Note the changes to the Internal Audit Charter outlined in section 4 of this report in conformance with PSIAS;

b) Approve the revised Internal Audit Charter shown at Appendix 1; and

c) Note that the Internal Audit Charter will be reviewed annually.

2 Purpose of Report/Executive Summary

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

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."

In accordance with the Public Sector Internal Audit Standards (PSIAS) (2017), 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 Audit Executive must periodically review the Internal Audit Charter and present it to senior management (Corporate Management team) and the board (Audit Committee) for approval.

The Internal Audit Charter has been updated in conformance with the PSIAS for approval by the Audit Committee to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice, and is shown in Appendix 1.

Date 3 March 2022

Report Contacts
Jill Stacey, Chief Internal Auditor
jill.stacey@midlothian.gov.uk
Elaine Greaves, Principal Internal Auditor
elaine.greaves@midlothian.gov.uk

3 Background

3.1 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.”

3.2 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.

3.3 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 Audit Executive must periodically review the Internal Audit Charter and present it to ‘senior management’ (Corporate Management Team) and the ‘board’ (Audit Committee) for approval.

3.4 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.

3.5 Internal Audit assurance resources and services are also provided by Midlothian Council’s Internal Audit team to the Midlothian Health and Social Care Integration Joint Board (MIJB), including the appointed MIJB Chief Internal Auditor. The Internal Audit Charter and Strategy are applicable to each organisation.

4 Internal Audit Charter

4.1 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.

4.2 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.

4.3 The Internal Audit Charter, which was previously approved by the Audit Committee on 9 March 2021, has been updated by the Chief Audit Executive (shared Chief Internal Auditor) and the Principal Internal Auditor. The summary of the changes reflect the following:

- The mutual opt out of the shared Internal Audit services with Scottish Borders Council, noted by the Audit Committee on 25 January 2022, and the associated change in approach for the provision of Internal Audit resources; and
- The change in the Council's statutory officer Chief Social Work Officer within the section 'Position of Internal Audit within Midlothian Council'.

4.4 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2022/23. The Internal Audit Strategy sets out the Council's assurance framework within which Internal Audit operates, and the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions to Midlothian Council and Midlothian Health and Social Care Integration Joint Board (MIJB). The Internal Audit Charter and Strategy are applicable to these organisations. There are separate Internal Audit Annual Plans for each organisation, which set out the range and breadth of audit activity.

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

5.1 Resource

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

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the Chief Audit Executive to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council and the MIJB. Internal Audit resources are set out in the Internal Audit Strategy and Plan 2022/23.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

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.

Approval of the Internal Audit Charter (Appendix 1), as recommended in this report, will ensure that Internal Audit is tasked to carry out its role in accordance with PSIAS and best Corporate Governance practice.

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.)
- Engaging with Internal Audit (the third line) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
- Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

5.4 Ensuring Equalities

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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS. This is of particular importance and relevance for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The 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."

Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives.

Recommendations made by Internal Audit underpin the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

The Chief Audit Executive is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

This report has been presented to the Corporate Management Team on 2 March 2022 to outline the key role of Internal Audit as part of good governance.

A.6 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.

A.7 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.

A.8 Supporting Sustainable Development

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

Appendix 1

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 from the PSIAS[1]: the definition of Internal Auditing "*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",* the Mission Statement of Internal Audit *"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*" and the Core Principles.

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 Finance Officer) and to the 'board' (MIJB Audit and Risk Committee).

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[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 (Chief Internal Auditor) has full access to those charged with governance, specifically the Elected Members and the Corporate Management Team. The latter includes the Council's statutory officers: head of paid service (Chief Executive), s95 finance officer (Chief Officer Corporate Solutions), monitoring officer (Legal & Governance Manager) and chief social work officer (Chief Officer Children's Services, Partnerships and Communities). 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 reporting[3] 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 is managed in a manner which: ensures the CAE is accorded open and direct communication with Management; and 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 (paper/digital).
- 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 safeguards all information obtained in the carrying out of its duties, only uses it for defined purposes and makes no disclosure of any information held, unless this is authorised or there is a legal or professional requirement to do so.

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[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 ensures 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 and with the Nolan principles established in the Seven Principles of Public Life. This is of particular importance and relevance 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. The CAE holds a professional qualification and is suitably experienced. 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 Internal Audit Strategy, as approved by the Midlothian Council Audit Committee, outlines the strategic direction for how Internal Audit will achieve its objectives in conformance with PSIAS. It guides the Internal Audit function in delivering high quality Internal Audit services to Midlothian Council and the MIJB.

The Midlothian Council Internal Audit Annual Plan, as approved by the Audit Committee, is 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 Internal Audit planning process, to determine the priorities of the Internal Audit activity consistent with the organisation's goals, includes consideration of the organisation’s priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided. The CAE determines 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 has 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 has 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. Requests are considered and approved by the CAE subject to any consultancy activity being 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 preserves its independence and objectivity by: ensuring that staff are free from any conflicts of interest when undertaking assurance audits by following the requirements of relevant professional bodies and HR policies; and providing clarity on duties undertaken during audit consultancy engagements to ensure these do not impact on assurance audits and do not impair its independence and objectivity.

APPROVAL

The Internal Audit Charter was reported to and approved by the Midlothian Council Audit Committee at its meeting on *14 March 2022* and shall be subject to regular review by the CAE and the Audit Committee.

Internal Audit Strategy and Annual Plan 2022/23

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is invited to:

a) Note the changes to the Internal Audit Strategy outlined in section 4 of this report;

b) Note the outline of the Internal Audit planning process outlined in section 5 of this report;

c) Approve the Internal Audit Strategy (Appendix 1); and

d) Approve the Internal Audit Annual Plan 2022/23 (Appendix 2).

2 Purpose of Report/Executive Summary

The purpose of this report is to gain approval from the Audit Committee to the proposed Internal Audit Strategy and Annual Plan 2022/23 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 (MIJB).

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

The Internal Audit Annual Plan 2022/23 at Appendix 2 has been developed by the shared Chief Internal Auditor and the Principal Internal Auditor. It sets out the proposed range and breadth of audit activity and sufficient work within the audit programme of work to enable the Chief Internal Auditor to prepare the independent and objective audit opinions for Midlothian Council and MIJB. A separate Internal Audit Annual Plan 2022/23 for the MIJB will be presented to its Audit and Risk Committee. Key components of the audit planning process include a clear understanding of each organisation's functions, associated risks, and assurance framework.

Date 3 March 2022

Report Contacts

Jill Stacey, Chief Internal Auditor	Elaine Greaves, Principal Internal Auditor
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3 Background

3.1 The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *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.

3.2 The Midlothian Council Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) which requires the Chief Audit Executive (CAE) to establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. The plans also require to be sufficiently flexible to reflect the changing risks and priorities pertaining to each organisation.

3.3 A fundamental role of the Council's Internal Audit function is to provide senior management and members with independent and objective assurance, which is designed to add value and improve the organisation's operations. In addition, the CAE is also required to prepare an Internal Audit annual opinion on the adequacy of each organisation's overall control environment.

3.4 Internal Audit assurance resources and services are also provided by Midlothian Council's Internal Audit team to the Midlothian Health and Social Care Integration Joint Board (MIJB), including the appointed MIJB Chief Internal Auditor. The Internal Audit Charter and Strategy are applicable to each organisation.

4 Internal Audit Strategy

4.1 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."

4.2 The Chief Internal Auditor (CAE) and the Principal Internal Auditor have developed the Internal Audit Strategy at Appendix 1. It outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and Midlothian Health and Social Care Integration Joint Board (MIJB).

4.3 The Internal Audit Strategy, since its previous approval by the Audit Committee on 9 March 2021, reflects the following:

- The mutual opt out of the shared Internal Audit services with Scottish Borders Council, noted by the Audit Committee on 25 January 2022, and the associated change in approach for the provision of Internal Audit resources;
- The prioritisation of audit activity deferred from the previous year and with greatest risk within the approach to delivery of the Internal Audit Programme of Work; and
- Greater clarity on the PSIAS requirement for an annual Internal Self-Assessment and an External Quality Assessment (EQA), the latter which is scheduled during 2022.

4.4 The Internal Audit Strategy:

- Outlines the assurance framework, providing clarity of the respective responsibilities of Management for designing and monitoring governance and control systems and of the role of Internal Audit in providing independent assurance thereon;
- States how the key themes which are integral to the assurance gathering process across the organisation’s activities will be covered to inform the annual Internal Audit opinion statement;
- Describes the approach to the development of the risk based Internal Audit annual plan;
- Sets out the relative allocation of Internal Audit resources;
- Outlines how the Internal Audit programme of work will be delivered to add value; and
- Describes the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation’s audit committee/board.

5 Internal Audit Annual Plan 2022/23

5.1 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.”

5.2 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.”

5.3 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.”

5.4 The Chief Internal Auditor (CAE) and the Principal Internal Auditor have developed the Internal Audit Annual Plan 2022/23 at Appendix 2, based on the Internal Audit staff resources set out in 6.1. It sets out the proposed range and breadth of audit activity to be undertaken to provide the independent and objective audit opinions to Midlothian Council and MIJB.

5.5 As part of the Internal Audit planning process it was necessary to consider each organisation’s priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation’s goals, as follows:

- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe which has been significantly revised and realigned by the Principal Internal Auditor to reflect the current strategic and operational management arrangements and approach to service delivery to ensure appropriate coverage;
- The Strategic Risk Profile was checked to confirm coverage on key strategic risks, as reliance is placed on the risk assessments carried out by the Risk Owners taking account of the risk ratings and mitigations; and
- Account was taken of known external audit and inspection activities to avoid duplication of assurance work.

5.6 It is envisaged that 2022/23 will continue to be a year of change for the Council and other partner organisations. Therefore the Internal Audit Annual Plan 2022/23 should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities or available resources. Any amendments relating to the Council will be brought to the Corporate Management Team and the Audit Committee for approval.

5.7 The Non MLC days reflect the Council’s partnership working commitment to provide Internal Audit resource and services to the Midlothian Health and Social Care Integration Joint Board (MIJB). A separate Internal Audit Annual Plan 2022/23 will be presented to MIJB Audit and Risk Committee for approval.

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

6.1 Resource

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

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

The Internal Audit staff resource totalling 4.72 FTE comprises Chief Internal Auditor (1 FTE), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), and AN Other Internal Audit resource (1 FTE). Each member of the current Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to deliver the Plan. After deduction for estimated annual leave, public holidays, absence including staff turnover, learning and development, and management and supervision, this equates to a total of 751 days available for Internal Audit activity (2021/22 775 days).

There is budget provision for the staff and other resources set out above within the Revenue Financial Plans which were approved by the Council on 15 February 2022.

The establishment of the new Chief Internal Auditor post has been completed and advertising for recruitment is expected to commence shortly. The establishment of the AN Other Internal Audit resource and recruitment will commence once the former is appointed and in post. With this in mind and the staff resource requirements in the Internal Audit Annual Plan 2022/23, an interim shared services arrangement for the 1st quarter 2022/23 (April to June 2022) will be agreed between Management in Midlothian and Scottish Borders Council for the continuation of the shared Chief Internal Auditor and the Interim Senior Auditor at a similar level of audit days to previous quarters in 2021/22.

6.2 Digital

There are no digital implications arising from this report.

6.3 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 activity for inclusion within the plan. As in previous years, to capture potential areas of risk and uncertainty more fully, reference has been made to the Strategic Risk Profile and key stakeholders have been consulted.

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.)
- Engaging with Internal Audit (the third line) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
- Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

6.4 Ensuring Equalities

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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS. This is of particular importance and relevance for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

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APPENDIX A – Additional Report Implications

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The 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."

Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives.

Recommendations made by Internal Audit underpin the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

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

The Corporate Management Team (CMT) on 2 March 2022 has been consulted on the Internal Audit resources, risk-based audit approach and the resultant planned Internal Audit coverage to ensure it will provide assurance on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities.

A.6 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.

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

A.7 Adopting a Preventative Approach

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

Specific audits within the 2022/23 plan will include assessments on when a preventative approach can be adopted by the Council.

A.8 Supporting Sustainable Development

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

INTERNAL AUDIT STRATEGY APPENDIX 1

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 will be prioritised to ensure those areas of greatest risk are covered during the audit year; 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. Internal Audit, as the third line, 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 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 managing risks.

4.2. The organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Chief Officer Corporate Solutions (MLC) and Chief Finance 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 2022/23 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, which has been significantly revised and realigned to reflect the current strategic and operational management arrangements and approach to service delivery, to ensure appropriate coverage;
- The Strategic Risk Profile was checked to confirm coverage on key strategic risks, as reliance is placed on the risk assessments carried out by the Risk Owners taking account of the risk ratings and mitigations; and
- 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 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 totalling 4.72 FTE comprise Chief Internal Auditor (1 FTE), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE) and AN Other Internal Audit resource (1 FTE). Each member of the Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to deliver the plan. The Available Days has been amended to reflect the Internal Audit resources after consideration of estimated annual leave, public holidays, absence including staff turnover, learning and development, and management and supervision.

6.2. It is estimated that around 75% of Available Days will be spent on *assurance, and legislative and other compliance* 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. Within this assurance work 50% is cyclical, based on the Audit Universe, and 50% is risk-based on Strategic Risk Profile.

6.3. An estimate of 16% of Available Days will be spent on *Other* activities in support of the Internal Audit function meeting its wider objectives as set out in the Internal Audit Charter.

6.4. 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.

6.5. It is estimated that around 5% of Available Days will be spent on the provision of Internal Audit services to Midlothian Health and Social Care Integration Joint Board (MIJB). 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. Subject to the latter, the audit activity deferred from 2021/22 will be scheduled in the first half of the year, as well as planned work with the greatest risk to ensure these are covered during the audit year.

7.2. For each *Assurance* audit, in line with recognised good practice, an Audit Assignment 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 Internal Audit fieldwork. Within 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 including data analytics will be carried out to ensure completeness and accuracy.
- 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 risk management, performance management, community engagement, equalities, business continuity, 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.

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 assurance work completed and work in progress, and consultancy and other work for the Council associated with the delivery of the Plan will be outlined within regular reports to its Audit Committee. Specifically relating to Internal Audit assurance work, this report 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 to assess conformance with the Definition of Internal Auditing and Standards and the application of the Code of Ethics. 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. Reporting on outcomes includes a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP) to enable an evaluation of the Internal Audit quality management framework and to identify opportunities for improvement.

Category	Activity	Days	Commentary
Assurance - Cyclical	MLC 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. Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with the Local Code of Corporate Governance covering the corporate whole and individual Directorates / Services.
Assurance - Cyclical	PPP Schools Contract Management and payment mechanism	30	Review of the contract management arrangments over the PPP1&2 school contracts including review of the monthly payment mechanism.
Assurance - Cyclical	Accounts Receivable - Sundry Debt	20	Review of controls in place to set fees and charges for services, raise invoices promptly and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable including review of VAT treatment.
Assurance - Cyclical	Complaints	20	Review of the controls in place to ensure complaints are dealt with adequately and in a timely manner.
Assurance - Cyclical	Construction projects / social housing programme	30	Review of the adequacy of the control framework established by management to allow successful delivery of construction projects including the Social Housing Programme.
Assurance - Cyclical	Childrens' Residential and Day Services	20	Review of the controls in place to ensure sound budgetary control and the demand on service delivery for childrens residential and day services.
Assurance - Cyclical	Schools	20	Review of internal financial controls and business administrative procedures in place and data analytics of expenditure (DSM, PEF and other Funds including Schools Funds) to ensure the efficient and effective use of resources in the school establishments.

Category	Activity	Days	Commentary
Assurance - Cyclical	Counter Fraud and Whistleblowing arrangements	20	Review of the Council's Counter Fraud controls including policies and whistleblowing arrangements.
Assurance - Cyclical	Freedom of Information	20	Review of the controls in place to ensure Freedom of Information enquiries and dealt with adequately and in a timely manner. This will include a review of the implementation of the new system.
Assurance - Cyclical	Purchasing Cards	20	Review of the controls over the use of purchasing cards ensuring expenditure incurred is valid, appropriate and represents value for money.
Assurance - Cyclical	Lighting	30	Review of the controls over the installation of new lighting and the maintenance of existing lighting.
Assurance - Cyclical	Utilities, Energy and Water Consumption	30	Review of the controls over the consumption of utilities ensuring utilisation is adequately controlled and represents value for money.
Assurance - Risk	External funded programmes - CLL	30	Review external funded progammes under the terms of the associated agreements to assess compliance with the requirements and delivery of outcomes.
Assurance - Risk	Criminal Justice	20	Review of the controls in place to ensure professionals work jointly and effectively and provide support in a timely manner to ensure the protection and welfare of children and young people.
Assurance - Risk	Mental Health Services	30	Assess the governance arrangements in place to commission specialist mental health services to promote closer integration and partnership working to meet the needs of people with mental health needs. Ensure there is sound budgetary control in place.
Assurance - Risk	Schools Budgets (DSM)	30	Review the Council's implementation of the new DSM scheme.
Assurance - Risk	Systems Development, maintenance and support	30	Review of the controls in place to ensure new systems are adequately installed, tested and implemented in a timely manner.

Category	Activity	Days	Commentary
Assurance - Risk	Information Governance	20	Continual audit approach to review the information governance framework including roles and responsibilities, policy development and implementation.
Assurance - Risk	Financial Substainability in Future Years	20	Continual audit approach to review the medium term financial strategy and plans to ensure they are based on realistic assumptions. Ensure that appropriate scrutiny and challenge is undertaken to deliver the plans.
Assurance - Risk	Workforce Planning	30	Review of the recruitment, training and performance management of employees.
Assurance - Risk	Care at Home	30	Review of the contract management arrangments over the care at home contract to ensure that the Council is receiving value for money.
Assurance - Risk	Performance Management & Performance Indicators	20	Testing of a sample of performance indicators to ensure that they are complete, accurate, based on current data and conform with the stipulated criteria.
Assurance - Risk	Health & Safety	20	The Council is complying with relevant Health and Safety legislation, has a structured approach to Health and Safety awareness, inclding review of the Health and Safety Management system to ensure there are adequate and effective controls in place for health and safety.
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.

Category	Activity	Days	Commentary
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.
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.
Other	MLC Recommendation Follow Up Reviews	30	Undertake 2 reviews: the first includes a sample check on the adequacy of new internal controls for Audit Actions flagged as closed, and the second assesses performance against closing Audit Actions by the agreed due date.
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.
Other	Help Desk Enquiry system	20	Provide guidance and advice to Management on internal controls.
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 relevant Committee.
Other	Management Groups	4	Attend and provide support to Risk Management and Integrity Groups.
Other	MLC Attendance at Boards / Committees	10	Prepare for and attend Audit Committee meetings and other Boards/Committees.
Other	MLC Audit Planning for 2022/23	10	Update the Audit Universe, check risk registers and other sources of assurance, and develop and consult on proposed coverage within the Internal Audit Annual Plan 2023/24.
MIJB Assurance	Midlothian Health and Social Care Integration Joint Board	40	Audit reviews and support to be determined and agreed by the MIJB Audit and Risk Committee for review of the adequacy of the MIJB's arrangements for risk management, governance and internal control for delegated resources.

Total Days 2022/23	751