

**1. AIM OF STRATEGY**

- 1.1. The aim of this strategy is to guide MLC Internal Audit function in delivering a high quality internal audit service to Midlothian Council (MLC) and Midlothian Health & Social Care Integration Joint Board (MIJB), which is capable of:
- providing the statutory annual assurance and audit opinion on the adequacy of each organisation's risk management, internal control and governance arrangements to the relevant organisation's senior management and board/audit committee;
  - carrying out all other objectives contained in Internal Audit's Charter; and
  - adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to their strategic priorities.

**2. STRATEGY OBJECTIVES**

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

**3. ASSURANCE FRAMEWORK**

- 3.1. It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. These are known as the first and second lines of defence. Internal Audit, as the third line of defence, is the review function which will provide independent assurance on the effectiveness of the first and second lines of defence, challenge current practices, recommend best practice and improvements to lead to a strengthening of the control environment and management of risks, thus assisting the organisation in achieving its objectives.
- 3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of systems in place to mitigate those risks.
- 3.3. The assurance framework comprises assurances from within the organisation (from Management and compliance functions, and independent and objective assurance from Internal Audit) and from external providers of assurance. Examples of the latter include the Accounts Commission, External Audit (EY - 5 year appointment 2016/17 to 2020/21 inclusive - for MLC and MIJB), Education Scotland, Care Inspectorate, Scottish Housing Regulator, and other regulators.
- 3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within the relevant organisation's Annual Report and Accounts.
- 3.5. Where audit assurance is required on services that are delivered jointly by public sector joint working arrangements which include the organisation as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management.

#### **4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE**

- 4.1. Each organisation is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by the organisation to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: setting the strategic direction, vision, culture and values of the organisation; effective operation of corporate systems; processes and internal controls; engaging with and, where appropriate, lead communities; monitoring whether strategic objectives have been achieved and services delivered cost effectively; and ensuring that appropriate arrangements are in place for the management of risk.
- 4.2. The organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Head of Finance and Integrated Service Support (MLC) and Chief Financial Officer (MIJB), is responsible for the proper administration of the organisation's financial affairs. Under his/her direction, the organisation's system of internal financial control is based on a framework of Financial Regulations (rules and regulations for financial management or administration arrangements linked to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines), regular Management Information, administrative procedures (including segregation of duties), Management Supervision, and a system of Delegation and Accountability.
- 4.3. The continued use of and investment in technology to support service delivery, and digital change and transformation to improve operations is a key part of the vision for each organisation. Arrangements in place are underpinned by the overarching framework of the ICT security policy designed to ensure that computer systems are secure, reliable and conform to nationally agreed standards, and by the ICT Strategy linked to Corporate Priorities designed to support effective and modern service delivery and to meet service objectives.

#### **5. APPROACH TO PERIODIC PLANNING**

- 5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2020/21 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce the statutory annual assurance and audit opinion for each organisation.
- 5.2. As part of the Internal Audit planning process it was necessary to consider each organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation's goals, as follows:
  - Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage;
  - Corporate and Service Risk Registers were checked to confirm coverage on key risks; and
  - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management and with External Auditors of each organisation to capture potential areas of risk and uncertainty more fully. This is of particular importance during a period of change and transformation as each organisation responds to new legislation or service delivery arrangements that might affect plans, priorities and resources.

#### **6. ALLOCATION OF INTERNAL AUDIT RESOURCES**

- 6.1. The Internal Audit staff resources comprise Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 0.42 FTE Other Audit Resources), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), and 50% of Fraud and Audit Officers (1.0 FTE) with a mix of qualifications, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to perform the plan. The Available Days has been amended to reflect the Internal Audit resources after consideration of annual leave, public holidays, sickness absence (estimated), learning and development, management and administration.

- 6.2. It is estimated that around 87% of Available Days will be spent on *assurance, legislative and other compliance, and other* activities combined. The Assurance work includes sufficient work across a range and breadth of audit areas which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of the required annual audit opinion on the adequacy of the organisation's control environment.
- 6.3. An estimate of around 4% of Available Days will be utilised on *consultancy* activities which support Management in delivering innovation, change and transformation. Management seek this value added activity during this unprecedented period of change for Local Government though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.
- 6.4. It is estimated that around 9% of Available Days will be spent on the provision of Internal Audit services to *Midlothian Health and Social Care Integration Joint Board*. This reflects MLC's contribution of support resources as governance arrangements have changed in response to statutory partnership working for the provision of health and social care integration.

## 7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

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

7.5. *Other* work will include:

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

## **8. MONITORING THE WORK OF INTERNAL AUDIT**

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