Notice of meeting and agenda

Audit Committee

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

Date: Tuesday, 21 June 2016

Time: 11:00

John Blair
Director, Resources

Contact:
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Further Information:

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

Audio Recording Notice: Please note that this meeting will be recorded. The recording will be publicly available following the meeting, including publication via the internet. The Council will comply with its statutory obligations under the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002.

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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   **Declarations 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   **Minutes of Previous Meeting**

5   **Public Reports**

6   **Private Reports**

No Private Reports submitted to this meeting

Minute of Meeting

Midlothian

Audit Committee

Date	Time	Venue
Tuesday 10 May 2016	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Peter Smaill (Independent Chair)	Michael Thomas (Independent Member)
Councillor Bryant	Councillor de Vink
Councillor Milligan	Councillor Muirhead
Councillor Parry	

In attendance:

Kenneth Lawrie	Chief Executive
John Blair	Director Resources
Mary Smith	Director Education, Communities and Economy
Gary Fairley	Head of Integrated Service Support
Ian Johnson	Head of Communities and Economy
Graham Herbert	Internal Audit Manager
Elaine Greaves	Internal Audit Manager
Heather Mohieddeen	Senior Auditor
Claire Gardiner	External Auditor Grant Thornton

1. Apologies

1.1 Apologies were received from Councillor Baxter

2. Order of Business

The order of business was confirmed as outlined in the agenda that had been circulated.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

4.1 The minutes of the Audit Committee meeting of 15 March 2016 were submitted and approved as a correct record.

5. Reports

Report No.	Report Title	Presented by:
5.1	Audit Scotland Report: An overview of local government in Scotland 2016	Chief Executive

Outline of report and summary of discussion
There was a report submitted to the Audit Committee from the Chief Executive dated 20 April 2016 providing the Committee with a summary of the Audit Scotland Report, 'An overview of local government in Scotland 2016' and the Council's position in relation to the report's findings. The Chief Executive highlighted to the Committee the key messages identified in the report and the challenges facing the Council. Thereafter the Committee raised the following questions which were responded to by the Chief Executive and the Head of Finance and Integrated Service Support. • The completion of the Self Assessment tool for Councillors. • Local Government Pension Scheme and the long term strategy in place. • The issues around workforce reduction, job matching, re-training and productivity during this time of change. • The possibility of sharing other services with other local authorities or partnership agencies. • Midlothian Council's position with regards to the equal pay claim settlements. • The difference in the sickness absence figures for Teachers and Employees (non-teachers). • The review of Council's Services and how we can make significant changes to these services.

Decision
To note the Audit Scotland report and the position of Midlothian Scotland in relation to the report's findings.

Report No.	Report Title	Presented by:
5.2	Audit Committee External Audit Update Paper – Midlothian Council	Grant Thornton, External Auditors

Outline of report and summary of discussion

There was a report submitted to the Audit Committee form the External Auditors dated May 2016 updating the Committee on the progress in the delivery of their responsibilities as External Auditors and a summary of emerging national issues and developments relevant to the Council. The External Auditor thereafter gave detailed responses to questions from the Committee which included:

- The change of fair value measurement and any impact on Midlothian Council.

- The Journal entry controls and the process of inputting into this

- External Audit progress and an explanation of the statement 'broadly on track'.

Decision

     To Note the Report

Report No.	Report Title	Presented by:
5.3	Annual Governance Statement	Chief Executive

Outline of report and summary of discussion

There was a report submitted to the Audit Committee dated 14 April 2016 by the Chief Executive providing as assessment of the Council's compliance with its Code of Corporate Governance. The Audit Committee was invited to note the attached draft statement which was proposed to be included in the Financial Statements. The Chief Executive explained that each year the level of compliance with the Code of Corporate governance is monitored by the Heads of Service completing a self assessment that included the Section 95 Officer and the work is independently reviewed by the Internal Audit Team. The Chief Executive thereafter responded to questions raised by the Committee which included:

- The process of the Code of Corporate Governance which is based on the Chartered Institute of Public Finance and Accountancy (CIPFA).

- The officers who monitor governance and the supporting processes during the year.

- The Elements included in the Code of Corporate Governance.

Decision

     To note the proposed Annual Governance Statement.

Report No.	Report Title	Presented by:
5.4	Devolved School Management Scheme	Internal Audit Manager

Outline of report and summary of discussion

There was a report submitted to the Audit Committee dated May 2016 by the Internal Audit Manager on the Devolved School Management Scheme. The Internal Audit Manager presented this report to the Committee highlighting that the purpose of the report was to review the following:

- The Controls in place to allow budgets to be calculated and allocated in a consistent and equitable way.

- The controls designed to monitor actual to budget spend at a school and Council level.

- Whether the Devolved School Management Scheme has been assessed and updated following publication of the revised Scottish Government guidelines on Devolved School Management.

Thereafter the Internal Audit Manager and the Director of Education, Communities and Economy responded to questions raised by the Committee which included:

- The Self Assessment of the Devolved School Management Scheme in the revised 2012 Guidelines.

- The Audit Approach and processes involved in this.

Decision

- Recommendations to be followed up by the Internal Auditors in their Review in December 2016 and also June 2017.

Report No.	Report Title	Presented by:
5.5	Internal Audit Report on Financial Assurance for money delegated to the Integrated Joint Board	Internal Audit Manager

Outline of report and summary of discussion

There was a report submitted to the Audit Committee by Internal Audit Manager dated 6 April 2016 providing the Committee with an opinion on the assurance work that has been carried out on the funds to be delegated to the Integrated Joint Board (IJB) by Midlothian Council for the provision of Health and Social Care for the financial year 2016/17. A report is also being prepared by the NHS Lothian Audit Team over the financial assurance process undertaken by NHS Lothian on the funds that they are also transferring to the Integration Joint Board.

Decision

- To note the contents of the Report

- To approve the recommendations made in the report.

Report No.	Report Title	Presented by:
5.6	Internal Audit: Annual Assurance Report 2015/16	Internal Audit Managers

	Outline of report and summary of discussion

Outline of report and summary of discussion

There was a report submitted to the Audit Committee by the Internal Audit Managers dated 31 March 2016 updating the Committee on the work undertaken by the Internal Audit during the financial year 2015/16 and providing an overall assessment of the adequacy and effectiveness of the Council's framework of Governance, risk management and control based on that work. The Internal Audit Manager presented the report to the Committee and highlighted the information contained in Appendices 1 – 3 which outlined the Internal Audit Plan; the impact of the Integrated Joint Board (IJB) and the proposed changes to the Midlothian Council Audit Plan for 2015/16. Thereafter the Internal Audit Manager responded to questions raised by the Committee which included:

- The levels of reported fraud/theft within the Council which continues to remain relatively low.

- Incidents of theft across the Council which have not been reported and how we can maintain an accurate record all these incidents.

- Review of the Council's Policy and Procedures relating to fraud/theft.

Decision

- To note the Annual Assurance Report

- To note that the weaknesses identified with internal controls in 2015/16 will be followed up in 2016/17 and updates will be provided to the Corporate Management Team and the Audit Committee.

Report No.	Report Title	Presented by:
5.7	Audit Charter	Internal Audit Manager

Outline of report and summary of discussion

There was a report submitted to the Audit Committee by the Internal Audit Manager dated 4 April 2016 advising the Committee of the requirement within the Public Sector Audit Standards (PSIAS) for the Internal Audit Manager to present the Internal Audit Charter to the Corporate Management Team and the Audit Committee following any updates made to the Charter. The Audit Manager highlighted the following changes to the Charter:

- The Fraud Officer's role within the Internal Audit Section.

- To record Midlothian Council Internal Audit Section responsibilities in relation to the Integrated Joint Board.

- To add a new section in relation to the Mission Statement and Core Principles following a recommendation from the Internal Audit Standards Advisory Board.

Decision

- To note the changes outlined in the report

- To note that Internal Audit will re-submit the Charter should the additional Mission Statement and Core Principles not be included within the PSIAS;

- To approve the revised Internal Audit Charter as shown in Appendix 1

Report No.	Report Title	Presented by:
5.8	Self Assessment of the Internal Audit Section against the Public Sector Internal Audit Standards	Internal Audit Managers

Outline of report and summary of discussion
There was a report submitted to the Audit Committee by the Internal Audit Managers dated 31 March 2016 providing the results of a self evaluation by the Internal Audit Manager on the level of compliance by Midlothian Council's Internal Audit Section against the Public Sector Internal Audit Standards. The Audit Manager presented the Report to the Committee.

Decision
- To note the results of the self assessment.   - To note the areas for development.   - To note that the Internal Audit Section would be subject to an external assessment in 2016/17.

6.   Private Reports

In view of the nature of the business to be transacted, the Committee agreed that the public be excluded from the meeting during discussion of the undernoted item, as contained in the Addendum hereto, as there might be disclosed information as defined in paragraph 1, 6 and 14 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

Report No.	Report Title	Presented by:
6.1	Correspondence Review – Summary of Findings	Grant Thornton, External Auditors

Decision
To note the Report

Report No.	Report Title	Presented by:
6.2	Business Gateway Contractors	Internal Audit Manager

Decision
- To note the content of the report.   - To endorse the recommendations in this report.

The meeting terminated at 12:40 pm

Midlothian

Risk Management, Update for 1 January 2016 – 31 March 2016

Report by Chris Lawson, Risk Manager

1   Purpose of Report

The purpose of this report is to provide Audit Committee with the 2015/16 quarter 4 update, covering the period 1 January to 31 March 2016.

2   Background

2.1   Corporate Risks

2.1.1 Audit Committee have requested regular reporting on the Council's Strategic Risks. A Strategic Risk Profile report is attached as Appendix 1 for information. This report reflects the Strategic Risk, Issues and Opportunities facing the Council in Q4 2015/16.

2.1.2   Following the work by Midlothian Community Planning Partners to develop a revised Single Midlothian Plan, work will be required in quarter 1 2016/17 to reflect the new priorities and to adequately assess the risk associated with these.

2.1.3 Strategic Risk Profile Summary

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Balancing budget in future years	4	4	16	High	
Corporate change and transition	4	4	16	High	
Climate change	5	3	15	Medium	
People risk	3	4	12	Medium	
Integration of health & social care	3	4	12	Medium	
Governance & standards	3	4	12	Medium	
Legal & regulatory compliance	3	3	9	Medium	
Working with other to deliver outcomes	3	3	9	Medium	
Asset condition	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Emergency planning & business continuity	2	4	8	Low	
Corporate policies and strategies	2	3	6	Low	

Single Midlothian Plan Risks	Likelihood	Impact	Score	Evaluation	
Early years & child poverty	4	3	12	Medium	
Positive destinations	4	3	12	Medium	
Economic growth	2	4	8	Low	

Top Issues	Likelihood	Impact	Score	Evaluation	
Balancing budget 2017/18	4	5	20	High	
Review of Pay & Grading	4	4	16	High	
Corporate change & transition	3	4	12	Medium	
Integration of Health & Social Care	3	4	12	Medium	

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
Shawfair	5	4	20	High	
Borders rail	5	4	20	High	
Easter Bush - Penicuik	5	4	20	High	
City deal	3	5	15	Medium	

2.2 Strategic Risks – Rated High

2.2.1 Balancing Budget in Future Years

The Council's Financial Strategies core objective is to secure the Council's continued financial sustainability during what is and will continue to be an extended period of significant financial constraint coupled with increasing service demands and increasing customer expectations.

In response to these challenges the Council has a Financial Strategy to 2021. In order to ensure the Services provided meet the needs of our service users and are as efficient as possible the Council are implementing the Delivering Excellence framework, this is expected to bring forward savings options in addition to ensuring service user needs are met.

A report will be provided to June Council setting out actions and timelines associated with setting the 2017/18 Budget.

2.2.2 Corporate Change and Transition

Service areas continue to address the financial and service challenges, the Council faces, through the activity of the transformation programme and the Delivering Excellence framework. Both are clearly focused on reshaping services to deliver improved customer outcomes, achieve service efficiencies and create sustainable change. The Transformation programme and the Delivering Excellence framework is not without its challenges and success requires a sustainable shift in culture, more innovative, entrepreneurial and collaborative thinking across the Council all underpinned by strong leadership.

2.3   Strategic Issues – Rated Critical & High

2.3.1 Balancing Budgets 2017/18

The financial position for 2017/18 is expected to remain challenging. In response the budget preparation report will be taken to Council in June 2016.

2.3.2   Review of Pay and Grading

The implementation of the 'Pay and Grading Review' will have a positive effect on many employees within Midlothian Council, with pay protection put in place where required. There are however risks if the implementation of the review is not fully realised. A key aspect of the review is the updating of OD/HR policies, the re-launch of the 'Code of Conduct' and lifelong learning as well as the strengthening of employee benefits package. The pay and grading structure changes will make a important difference to' in work poverty' and Midlothian Councils position as an employer of choice.

There are Consequences to not fully implementing the review and concerns about what the organisation will 'look like' if the culture change required does not follow. This might result in higher employee relationship issues, because there is uncertainty about what behaviours are expected and what boundaries the organisation works within. There is a risk if the 'pay and grading review' is not implemented, the vision of 'A Great Place to Grow' and the Council values including respect, collaboration, pride and ownership will not be embedded.

2.4   Strategic Opportunities

The opportunities arising from Shawfair, Borders rail, Easter Bush and City Deal are included within the strategic risk profile as they directly or indirectly support the delivery of the Council's key strategic priorities.

3   Report Implications

3.1   Resource

There are no direct resource implications in this report although individual risks will have associated resource implications which are considered within the Risk Registers.

3.2   Risk

Corporate Risks are generally those that impact on all parts of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

☐ Community safety
☒ Adult health, care and housing
☒ Getting it right for every Midlothian child
☒ Improving opportunities in Midlothian
☒ Sustainable growth
☒ Business transformation and Best Value
☐ None of the above

3.4 Impact on Performance and Outcomes

The purpose of the council's risk management approach is to support the authority to deliver on its key outcomes by highlighting and taking steps to mitigate potential disruption to delivery of services.

3.5 Adopting a Preventative Approach

The Risk Management approach being taken by the Council is founded on a preventative approach to managing risks where appropriate.

3.6 Involving Communities and Other Stakeholders

Consultation has taken place with Senior Managers responsible for corporate risk management.

3.7 Ensuring Equalities

There are no direct equalities issues arising from this report.

3.8 Supporting Sustainable Development

Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Corporate Risks.

3.9 IT Issues

No additional issues other than those relating to the Risk Register.

4 Recommendations

Audit Committee is invited to:

Note the quarter 4 2015/16 Strategic Risk Profile report and consider the current response to the risks and opportunities highlighted.

1 June 2016

Report Contact:
Chris Lawson, Risk Manager
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Background Papers: Appendix 1 Strategic Risks Profile Report
                                                    Quarter 4 2015/16

Strategic Risk Profile

Midlothian

1. Strategic Risks

SRP.RR.01 Balancing Budgets in future years/Impact of Budget Cuts/Financial Strength of Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	**Risk cause** *Future Scottish Government grant settlements are expected to result in cash reductions.* *Policy decisions by UK & Scottish Governments which are not fully funded.* *Non or delayed savings from planned activities.* *Future year pay award settlements and implications of living wage increases.* *Inflation, interest rates, tax, income levels, service demand.* **Risk event** *Reduced grant settlement.* *Policies decisions at Government level not fully funded to Council's.* *Delay in project to achieve savings* *Cost pressures exceeding budget estimates* **Risk effect** *Gap in Council budget between budget commitments/ pressures and funding level and inadequate options presented to appraise this, resulting in a structural deficit.*	Gary Fairley	*1. The Financial Strategy to 2021.* *2. Delivering Excellence framework in place to bring forward savings options.* *3.Measures taken to reduce the structural deficit 2016/17, reducing demand on Reserves to £2.6m..* *4. Maintaining reserves to deal with unforeseen or one off pressures.*	4	4	🔺

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.01.A1	Budget Preparation	**Q4 15/16:** Report to June Council setting out actions and timeline associated with setting the 2017/18 Budget.	Gary Fairley	30-Jun-2016	▶

SRP.RR.02 Corporate Change and Transition

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	**Risk cause** Leadership Fit for the Future Lack of clarity or clear compelling vision for the future Delays Cost creep **Risk event** Slow benefits realisation and budget savings **Risk effect** Objectives of changes not actually met Adverse impact on services Staff morale affected Government step-in	Nancy *Brown; Zoe Graham	1. Clear Leadership from Executive Team and Senior Leadership Group. 2. Project Boards for each of the key strands of Corporate Change and Transformation overseeing project delivery. 3. Workforce Planning. 4. Resilience planning. 5. SLG regularly considering change program and budget position.	4	4	🔴

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A08	Delivering Excellence	**Q4 15/16**: Heads of Service have been asked by the Chief Executive to set out when their Services are planning to work through the delivering excellence framework.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	▶

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.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	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. Statutory Inspection.	3	3	🔺

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.

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.03.A1	Legal & Regulatory Compliance	**Q4 15/16:** Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	▶

SRP.RR.04 People risks

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	**Risk cause** HR Policies and Employee Terms & Conditions not creating adequate flexibility to meet service needs and or employee desires. Employees not suitably qualified or developed for the roles required of them. Statutory health and safety - duty of care over services users and employees not met. Organisational transformation activities not informed by all key stakeholders ageing work force Voluntary redundancy as part of financial management approach to respond to budget pressures Employees unclear on expected behaviours. **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. Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees	Chris Lawson; Marina Naylor	01 - Main internal controls centre on the approved People Strategy and supporting initiatives and Action Plan. 02 - HR related policies regularly reviewed 03 - Management of external factors that affect staff 04 - Significant stress awareness campaign 05 - Competency Framework 06 - Various initiatives to keep staff informed of change 07 - Absence Monitoring/Reporting. 08 - Health and Safety Risk Management/pro-action to Internal Audit recommendations/use of risk consultants for surveys/updating policies and link to PIs and day-to-day practice/specific improvements underway in driver training, down to casual users 09 - Adoption and management of a BT Project Risk Register, reviewed/updated quarterly 10 - Non-redundancy policy aimed at keeping employee base stable	3	4	⚠

	Risk effect
	Negative impact on outcomes for customers/service users. Difficulties recruiting the right staff Challenges retaining quality staff Service users and employees exposed to hazards where statutory requirements exist. low skill levels low morale, especially during change non compliance with policy and procedure high absence rates Lose of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01 -A01-1	Policy Review program	**Q4 15/16:** The Policy review work is linked to the review of Pay & Grading for Non-Teaching staff and is expected to be concluded by June 2016.	Marina Naylor	30-Jun-2016	▶
MC01-A01-2	Health & Safety Management Arrangement Development	**Q4 15/16:** The Management Arrangement development program is progressing positively with the following arrangements developed and now consulted through the 3 Divisional Consultative Groups. A suite of Management Arrangements will be presented to CMT for formal approval.	Chris Lawson	10-Jul-2016	▶

SRP.RR.05 Working with others to deliver outcomes

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.05	**Risk cause** Partners not engaged or focused to deliver specific outcomes. Public Sector Reform Agenda. **Risk event** Partners prioritising activity in areas not inline with delivery of defined outcomes. Community groups afforded legal right to make case to operate vacant properties for community use. **Risk effect** Delivery of outcomes delayed or not achieved Officer time to support the assessment of unsustainable business cases.	John *Blair; Mary *Smith; Eibhlin McHugh	1. Key partners engaged in planning and delivery of Service outcomes, e.g. Midlothian Community Planning Partnership have developed a Single Midlothian Plan. Midlothian Integrated Joint Board (Adult & Social Care Integration) have developed and Strategic Plan. 2. Approved integration scheme. 3. Service Directions in Place.	3	3	⚠

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 is a new piece of legislation currently being formulated by the European Commission. It is expected to be agreed in the first part of 2016 with a two year lead in period. **Risk event** The Regulation is expected to be agreed in the first part of 2016 with a two year lead in period. **Risk effect** The Regulations are expected to 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 which ever is greater.	Ian Wragg	1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i)	3	5	🔺

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.06.A02	Preparing for next PSN Assessment	**Q4 15/16:** Final activity completed to secure positive reassessment and continued connection to the Public Sector Network.	Phil Timoney	30-Apr-2017	▶

SRP.RR.07 Integration of Health & Social Care

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	**Risk cause** The nature of many of the Services provided under the banner of Health & Social Care are demand led. Rising numbers of people requiring care and support together arising from demographic make up and improvements in treatment increase the number of people in receipt of long term care packages. **Risk event** Unless the focus and balance of care shifts from acute	Alison White	Midlothian IJB Strategic Plan - focussed on rebalancing care.	3	4	🔺

treatment the costs of providing these services will continue to rise and not provide the best possible outcomes for individuals. **Risk effect** The reactive demand led service may become financially unsustainable.	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A13-3	Develop an IJB risk register	**Q4 15/16:** The draft risk register was presented to the IJB meeting on 14 April 2016. IJB referred risk register to the Audit & Risk Committee.	Tom Welsh	30-Sep-2016	▶

SRP.RR.08 Asset Condition – 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 there nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & buildings used to deliver services. **Risk event** Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance. **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.	Ricky *Moffat; Garry *Sheret; Gary Fairley	1. There is provisions 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. 6. Roads asset management plan 7. Land register 8. Vehicle maintenance schedules. 9. Capital program - investment in estate. 10. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users.	3	3	⚠

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
PFM.RRA.01-43b	Sample survey of properties at risk of having inadequate wall ties.	**25 April 2016:** Survey work due to be started as soon as possible with initial block removal work carried out on Council operated buildings undertakne by Property Maintenance section. PPP school survey work to be arranged through PPP operators.	Garry *Sheret	03-Jun-2016	▶
SRP.RR.08.A1	Development of Digital Strategy	**Q4 15/16:** Digital Strategy under development.	Phil Timoney	30-Sep-2016	▶
SRP.RR.08.A2	Resource allocation	**Q4 15/16:** Preparation of proposals for Asset Management Plan will be developed for report to Council meeting in September 2016.	Gary Fairley	30-Sep-2016	▶

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 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 (eg secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries	Chris Lawson	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, - Contingency Planning Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency inline with key partner organisations. 04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.	2	4	✅

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A06	Preparation for Partnership Working	**Q4 15/16**: The Council Emergency Response Plan will be reviewed with a view to the future partnership working in Civil Contingencies.	Chris Lawson	31-Dec-2016	▶

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	Alan Turpie	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.	3	4	⚠️

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A02	International Governance Standards	**Q4 15/16**: Working Group to be established to review current governance arrangements against new International Governance standard developed by CIPFA and the International Federation of Accountants.	Alan Turpie	30-Jun-2016	▶️
SRP.RR.10.A01	Review - Code of Conduct	**Q4 15/16**: Existing Employee Code of Conduct is being revised to reflect the values and behaviours expected of employees, reflecting the give and the get.	Marina Naylor	30-Sep-2016	▶️

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 be match the aspirations of the Council's Strategic priorities or cultural perspective. **Risk event** 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 fo strategic priorities.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	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	✅

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A08	Delivering Excellence	**Q4 15/16**: Heads of Service have been asked by the Chief Executive to set out when their Services are planning to work through the delivering excellence framework.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	▶
SRP.RR.11.A01	HR Policy Review	**Q4 15/16:** HR - People Policies being overhauled as part of Pay & Grading review, on going review thereafter.	Marina Naylor	31-Dec-2016	▶

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. **Risk event** Persons exploiting opportunities to commit fraud Waste and errors **Risk effect** Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	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.	3	3	🔺

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A04	Annual Audit Plan	**Q4 15/16**: Audit team progressing with 2015/16 Audit Plan to test a range of internal controls as agreed and approved by Audit Committee.	Internal Audit	31-Mar-2016	✅

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** 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.	Ian Johnson	1. Voluntary reporting on compliance with the climate change duties (this will be a statutory requirement from 30 November 2016 onwards). 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 2016/17	5	3	⚠️

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.13.A1	Adaptive Planning	**Q4 15/16:** Adaptive planning proposal to be brought forward to CMT.	Ian Johnson	31-Mar-2017	▶️

2. Single Midlothian Plan Risks

SRP.SMPR.01 Economic Growth

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.SMPR.01	**Risk cause** Not planning to take advantage of the new opportunities and of the developments within and beyond Midlothian's boundary. **Risk event** Midlothian not having the competencies to capitalise on opportunities. **Risk effect** Midlothian's economy not growing as quickly as it has the potential to with impacts on its communities.	Ian Johnson	Midlothian have developed responses to key economic opportunities within Midlothian arising from: 1. Shawfair 2. Borders Rail 3. Easter BUSH 4. City Deal, Edinburgh and South East Scotland Region 5. Dedicated Inward Investment Co-ordinator post 6. Dedicated Tourism Development post.	2	4	✅

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A05	City Deal submission	**Q4 15/16:** City Deal submission update made in December 2015.	Ian Johnson	30-Sep-2016	▶

SRP.SMPR.02 Positive Destinations

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.SMPR.02	**Risk Cause** Ready access to admin support **Risk Event** School Group Managers performing admin tasks **Risk Effect** Accuracy of SEEMIS figures School Group Managers detracted from main role	Grace Vickers	1. Specific post created to support Positive Destination activities. 2. Interventions where Young People are identified at risk. 3. Attitudinal shift on supporting Young People across the organisation. 4. Change to curriculum - pathway. 5. Strong Leadership 6. Working in partnership with colleges to follow up when Young Person leaves course early. 7. Opportunities for Midlothian Placements at Easter BUSH.	4	3	⚠️

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.SMPR.02.A1	Exploring admin support options	**Q4 15/16:** School Group Manager working with ISS team to address	Grace Vickers	30-Sep-2016	▶

SRP.SMPR.03 Early Years & Child Poverty

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.SMPR.03	**Risk Cause** Competing priorities Increased caring duty with Children & Young People Act requiring provision for 16-21yrs **Risk Event** Direction on current work to reduce to create capacity Capacity within existing residential and MLC fostering. **Risk Effect** Capacity to support implications of Children & Young People Act Increase demand on private care placements at significantly higher cost.	Joan Tranent; Grace Vickers	1. Child Poverty Strategy. 2. Priority areas identified in Single Midlothian Plan. 3. Multi-agency working group preparing for 'Named Person' requirement. 4. Large voluntary sector support for families e.g. food banks, lunch clubs, Christmas hampers and presents, support to decorate and furnish homes. 5. Childcare Development Workers 6. Specific post created to support Positive Destination activities. 7. Interventions where Young People are identified at risk. 8. Attitudinal shift on supporting Young People across the organisation. 9. Change to curriculum - pathway. 10. Strong Leadership 11. Working in partnership with colleges to follow up when Young Person leaves course early. 12. Opportunities for Midlothian Placements at Easter BUSH.	4	3	⚠️

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.SMPR.03.A1	Preparation for Named Person	**Q4 15/16:** Arrangements are being developed to see Children's Service record all young people on SEEMIS 5+ where Named Person duty applies. All young people under 5 will be supported through the GIRFEC Co-ordinators.	Joan Tranent	30-Jun-2017	▶
SRP.SMPR.03.A2	SEEMIS	**Q4 15/16:** Development work of SEEMIS is underway as part of a national requirement affecting all Scottish LA's.	Joan Tranent; Grace Vickers	31-Aug-2016	▶
SRP.SMPR.03.A3	GIRFEC Training	**Q4 15/16:** Arrangements underway to roll out training to schools to explain the wellbeing standards.	Joan Tranent	31-Jul-2016	▶

3. Issues

SRP.IR.01a Balancing budget 2017/18

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.01a	**Risk cause** Potential for a reduced level of grant settlement offered to Midlothian Council and budgetary pressures including: Pay inflation, Pension reform, Demographics, Service demand. **Risk event** Uncertainty regarding the level of Grant to be set in December 2016. **Risk effect** Gap in Council budget between budget commitments/ pressures and funding level and inadequate options presented to appraise this, resulting in a structural deficit.	Gary Fairley	1. Financial Strategy. 2. Budget preparation ahead of Report to June Council. 3. Headroom in reserves.	4	5	🔴

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.A.01	Financial Strategy	**Q4 15/16:** Financial Strategy - budget preparation report due to be reported to Council in June 2016.	Gary Fairley	30-Jun-2016	▶

SRP.IR.02 Corporate Change & Transition

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	**Risk cause** Leadership fit for the future and Leadership Capacity Lack of clarity on clear & compelling vision for the future **Risk event** Delayed progress in applying Delivering Excellence framework. **Risk effect** Slow or delayed proposals/savings arising from service redesign.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	1. Delivering Excellence Framework 2. Delivering Excellence Management Tools to support the application of the framework	3	4	🔺

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.02.A1	Applying Delivering Excellence	**Q4 15/16**: Heads of Service have been asked by the Chief Executive to set out when their Services are planning to work through the delivering excellence framework.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	▶

SRP.IR.03 Integration of Health & Social Care

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.03	**Risk cause** IJB not having enough flexibility to make changes Lack of clarity on additional funding from Government on IJB. **Risk event** Uncertainty on final financial settlement for IJB **Risk effect** Risk sharing protocol impacting the IJB's ability to deliver on planned changes Implied cost around threshold for charging £200-£350k could be deducted from £3.6m share of additional funding along with living wage etc resulting in around £1.8m for transformation activity in 16/17.	Eibhlin McHugh	IJB Strategic Plan setting out key transformational activity to shift the demands on services and improve outcomes for people of Midlothian.	3	4	⚠

SRP.IR.05 Review of Pay & Grading

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.05	**Risk cause** Investment to reduce in-work poverty need to improve flexibility and productivity. Update terms and conditions. Many current policies and terms and conditions, including pay arrangements have been constructed around a Monday - Friday, 9 - 5 working week, with many services requiring to deliver services 7 days a week beyond 9-5. **Risk event** Employees **may** decide in the future not to work noncontracted overtime. Employees joining the Council in the future **may** choose they don't want to work noncontracted overtime. **Risk effect** Jeopardy to service delivery and vulnerable people in receipt of services outwith Monday - Friday, 9 - 5.	Gary Fairley	1. Governance on the 4 strands of work from Council: Life Long Learning, Policy, Pay, Non Financial benefits. 2. Delivery of revised Terms & Conditions 3. Policies and support to Managers to Implement 4. Working with Trades unions to reach a collective agreement. 5. Communications plan to ensure all employees know what is changing and how this will impact them and service delivery.	4	4	🔴

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.05.A1	Negotiations on pay linked to policy changes and cultural change.	**Q4 15/16:** Negotiations on pay with the Trades Unions are on going - linked to changes in Council Policy with an emphasis on cultural change.	Gary Fairley	30-Jun-2016	▶

4. Opportunities

SRP.OP.01 Shawfair

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for housebuilders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Ian Johnson	1. Shawfair Development Group. 2. Legal agreement with developers 3. Secured developer contributions (Section 75) 4. Plan for entire community: 5. Business and industrial provision, including small business incubator space. 6. Circa 4000 new homes 7. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 8. New Primary schools	5	4	🔴

SRP.OP.02 Borders Rail

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Regeneration of priority communities of Midlothian through which the railway passes. The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also a catalyst for housing growth.	Ian Johnson	1. Designated Project Manager post. 2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway. 3. Dedicated Inward Investment Co-ordinator post 4. Dedicated Tourism Development post.	5	4	🟠

SRP.OP.03 Easter BUSH - Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	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. Link to City Deal	Ian Johnson	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including STEM. 2. Land allocated for expansion. 3. Easter BUSH Development Board. 4. Troubleshooting issues - Roads Access - tackling road access through proposal in the Local Plan.	5	4	🔴

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.	Ian Johnson	1. Key projects identified. 2. Consortium submission made, including Midlothian Council in September 2015 with and update in December 2015.	3	5	🟡

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A05	City Deal submission	**Q4 15/16:** City Deal submission update made in December 2015.	Ian Johnson	30-Sep-2016	▶

MIDLOTHIAN COUNCIL

Audit Committee

Annual Report from the Chairman
Year ended 31 March 2016

Introduction

This Annual report has been prepared to inform Midlothian Council of the work carried out by the Audit Committee during the financial year. In preparing this report reference has been made to the requirements of the Audit Committee Combined Code (2008) and the 2013 Chartered Institute of Public Finance and Accountancy (CIPFA) document "Practical Guidance for Local Authorities - Audit Committees".

Meetings

The Committee met formally five times in the year. A briefing session is held between the Chairman and the Internal Audit Manager before each Audit Committee meeting. In addition the Chairman also meets with the Chief Executive, Director Resources, Head of Finance and Integrated Service Support (Section 95 Officer) and Internal Audit Manager before each Committee. The Chairman has also met Elected Members, Senior Officers and the External Auditors outside of these formal meetings.

Compared to the maximum possible 35 aggregate attendances at the Audit Committee of the permanent members of the Committee during 2015/16, 6 apologies for absence were received, representing an 81% attendance record.

Membership

The Audit Committee has a total of 8 members. There is an Independent Chair and from 22 September 2015 an Independent Voluntary Member was also appointed to the Committee. There are six Elected Members represented on the Committee (voting members). The quorum for meetings of the Committee of 3 Councillors was achieved at all meetings during the year. Five members of the Committee have private sector financial experience and related qualifications. The Chief Executive, the Director, Resources, Director, Education Communities and Economy, Director of Health and Social Care, and Head of Finance and Integrated Service Support are regularly in attendance; and other officers as appropriate. The Internal Audit team attended every meeting as did Grant Thornton, the Council's External Auditors.

Governance

The Committee operates under the Council's Standing Orders and its policy is to conform to the relevant CIPFA and Convention of Scottish Local Authorities

(COSLA) Codes and Position Statements, and recommendations for Best Practice. An assessment against these codes is shown at Appendix 1. In light of the CIPFA position statement, (issued in December 2013) alterations have been agreed to the Council's Standing orders in respect of the Audit Committee so as to continue in conformity with the CIPFA position (for example the need to assess value for money and approve the Audit Charter). These proposed changes, previously reported, require to be authorised, along with other changes to Standing Orders, by the full Council and this process is underway. The draft revised standing orders were presented to the Corporate Management Team on 22 March 2016 and they will be presented to Council in due course (including the revised Terms of Reference for the Audit Committee).

The Audit Committee Members were asked to complete a Core Knowledge Self Assessment in the prior year so that any training needs can be identified (Appendix 3). A training session will be held on 20 September 2016 with Grant Thornton, the External Auditors, to address any training needs.

The Committee is also conversant with Audit Scotland's reports on Midlothian and its publications generally regarding local government in Scotland. The Audit Committee receives regular reports from Council officers presenting the actions taken against these reports.

The Chairman and Committee Members have access to, and consult when appropriate, relevant publications of Audit Scotland, CIPFA, National Fraud Initiative (NFI), and relevant Accounting Standards. They also review the Council's Risk Management processes and Risk Registers, and monitor Internal Audit performance in terms of delivery of the Internal Audit Plan and the level of compliance against the Public Sector Internal Audit Standards.

The Members also review and have input to the Council's Annual Governance Statement (Appendix 2).

Assurance Framework

The Annual Governance Statement is set out at Appendix 2. The table on page 5 of Appendix 2 sets out the actions proposed for 2016/17 to further improve the Council's assurance framework. These include: updating the procurement processes to comply with the new procurement legislation, updating the Code of Corporate Governance to comply with the new International Framework of Good Governance in the Public Sector, reviewing the Counter Fraud Policy and Whistle-blowing Policy and create a separate Anti-bribery and Corruption Policy to allow full compliance against the new CIPFA code of practice on "Managing the Risk of Fraud and Corruption", undertake a high level assessment of the Council's readiness in relation to the risks posed by Serious Organised Crime and Corruption, and ensure that disaster recovery plans have been adequately tested and to monitor the on-going testing for this.

Internal Audit

The Internal Audit team has had a complement of 4 FTE employees for the majority of 2015/16. An internal assessment against the Public Sector Internal Audit Standards (PSIAS) was reported to the Audit Committee on 10 May 2016 and this showed compliance against the code. A comprehensive checklist accompanied the report which was based on the agreed Scottish Local Authority Chief Internal Audit Group format. Going forward there will be a system of reciprocal assessments within local government with the first external assessment of Midlothian to be undertaken in 2016/17.

Grant Thornton's external audit report, published in September 2015, found the Internal Audit function to be operating satisfactorily. Grant Thornton noted that "overall Internal Audit have completed their plan for 2014/15 as agreed with the Audit Committee and have provided detailed updates to Committee".

In December 2015, the Committee noted the output position of the Internal Audit function. There had been 474 recommendations made in the prior three years, with 90% of the recommendations reported by management as implemented or "on target" to be implemented by the agreed date. The outlying 10% are the subject of continuing follow-up. This reflects a similar position to the previous year's performance (reported in December 2014) where 636 recommendations had been raised and 92% of these were reported as complete by management. The Internal Audit section is to sample a number of issues that have been reported as closed during the year and aims to report this to the June 2016 Audit Committee.

The Audit Committee considered and approved an Annual Assurance Report on the Internal Audit function submitted by the Internal Audit Manager for the financial year 2015/16. This report provided a summary of the work undertaken by the section in comparison to its plan and provided an overall opinion on the Council's system of control based on that work. This opinion was that overall the Council's framework of governance, risk management and control over the period 2015/16 was of a satisfactory standard and have been implemented and are monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment.

National Fraud Initiative

Midlothian participate in the National Fraud Initiative led by Audit Scotland using data-matching techniques to identify potentially fraudulent activity involving social security payments and other entitlements, such as the Blue Badge disabled parking scheme. The work is ongoing but results so far indentified a small number of overpaid benefits and discounts which suggest that the Council is not subject to widespread abuse.

Newbyres Housing

The Audit Committee retain interest in the progress of potential litigation aimed at recovery of losses incurred by the Housing Revenue Account relating to advice given in the construction of 66 council residential properties, which have now been demolished in consequence of CO_2 emissions and the absence of foundation membranes.

Newbyres Village Care Home

The Audit Committee have noted an overspend position in 2015/16 of this Council-run care home. A material adverse variance against the staffing budget suggests that the cost base for the level of staffing required to provide care may have been underestimated. We are aware that the Council is focussed on achieving operational improvement and the Audit Committee will continue to monitor the situation to gain assurance that a normalised performance is occurring against appropriate measures.

Financial Monitoring and Financial Strategy

The Committee has reviewed in 2015/16 regular reports submitted by the Head of Finance and Integrated Service Support in relation to Financial Monitoring, the General Services Capital Plan, Housing Revenue Account and the Financial Strategy.

The Committee has discussed (latest 15 March at quarter 3) the projected net overspend of £1.058m in relation to the General Fund Revenue Account for 2015/16 and has also reviewed the Financial Strategy for 2016/17 and the programmes to manage the projected financial gap (including approved savings, transformational programme, asset management and operational and financial discipline).

In 2014/15, the Council achieved Business Transformation savings of £0.9m compared to a revised target savings figure of £1.8m. Officers have assured us that savings involving early retirement for staff are achieving paybacks against cost which meet the requirements of the Voluntary Severance Early Release policy, and the programme as a whole is forecast to have further savings across a number of strands of work. The effectiveness of Business Transformation relative to cost remains under periodic review by the Audit Committee.

Progress Monitoring

Internal Audit annually reviews whether a sample of recommendations has been implemented satisfactorily. In addition, a report is also prepared annually which details management's performance in closing issues by the agreed due date (as noted above). Both of these reports are presented to and discussed by the Audit Committee. In addition, specific matters are requested for follow-

up discussions at the point of initial discussion, as is required by the Standing Orders and evidenced through the Audit Committee minutes.

Effectiveness of Internal Controls

The Committee has made several recommendations in 2015/16 and endorsed the recommendations made by the Internal and External Auditors. Recommendations made in respect of internal controls are monitored by the Internal Audit team. Additionally, the External Auditor reviews the effectiveness of the controls and systems.

Internal Audit reports directly to the Chief Executive, which strengthens the independence of the function. The External Auditor also noted in their September 2015 report that the Committee "is also well supported by Internal Audit, and by the Independent Chair, who provides additional perspective and financial expertise to the Committee". The External Auditor's review of IT controls in the 2014/15 audit report produced low-priority recommendations and identified that the controls operating were generally satisfactory. The issues identified in the review of IT controls are being followed up in the current year.

Although there is no specific caption in the Standing orders (www.midlothian.gov.uk/download/downloads/id/61/standingorders) at present which specifies that the Audit Committee should review best value (which is included in the revised version which still awaits Council approval), in practice this concept continues to determine the content of debates within the Audit Committee. In addition specific areas where unanticipated risks had been, or might be, encountered were discussed.

During the year, Internal Audit reports have identified weaknesses in the systems of internal control. Examples include: Developer Contributions where it was identified that there were monitoring weaknesses by the Council on when staged payments fall due and on the dates that contributions needed to be used by; the need to strengthen contractual relationships with third parties for specific programmes; and that some payments to subcontractors which fall under the Construction Industry Scheme were not treated appropriately.

Other reports submitted by Internal Audit have included: Commercial Lets, Payroll, Tendering of Contracts, House Rents, Early Years Partnership, Cashless Catering and Devolved School Management Budgets. These reports have been discussed by the Audit Committee and the recommendations made in the management actions plans have been endorsed. The Audit Committee has also requested follow up reports, to measure progress against the recommendations, on certain reviews including Following the Public Pound and Developer Contributions.

Financial Management and External Audit

The Audit Committee reviewed and discussed Grant Thornton's Annual Audit Report.

The principal discussion arose from a materially better-than-expected outturn. For the year ended 31 March 2015, when a £3.9m utilisation of reserves had been projected, the result was an improvement of £0.8m. This comprises an underspend of £3.2m and a positive income variance of £1.5m. On analysis, the spending variance is supported by a series of variances due to non-predictable favourable conditions (especially in Social Work and Adult Care).

There does not appear to be a systemic overconservative approach, but the Chairman of the Audit Committee has made himself available for further examination of forecasting methodology should there be subsequent significant variances (whether positive or negative).

Uncommitted Reserves on the general fund account at 31 March 2015 were £12.84m, which is over 5% of net cost of services and above the level set out in the Council current reserves strategy. In real terms, the Council continues to face increases in demand and with restricted Scottish Government support, it continues to be the case that both efficiency gains and service reductions will be needed to ensure balancing of the revenue account in future years.

The Committee also reviewed favourably the Treasury management function. While the Council's cash deposit strategy for its reserves is supported by external professional advisors, caution was advised by the Committee as to the selection of overseas deposit-taking institutions.

Conclusion

The Committee, in tandem with the Internal Audit function, has taken steps to streamline its workload by way of a more planned approach to subject scrutiny. It retains the flexibility to probe specific unanticipated problems, and increasingly views its work as related to assessing risks and not just enforcing good housekeeping as deficiencies become apparent, important though that function remains.

The Committee in 2016/17 will thus continue to question any perceived weaknesses in internal controls and will also focus on the Council's forward-looking strategy for stabilising the Consolidated Income and Expenditure account. In this a continuing emphasis on Value for Money harmonises the aims of balancing the Council's financial position while generating optimal public benefit from the Council's operations.

The Audit Committee has also been monitoring progress with the role out of the new Health and Social Care Integration Joint Board and has received an Internal Audit report on the financial assurance process undertaken over amounts delegated by the Council to the new Board. The Audit Committee will be involved in scrutinising the outturns from this in future years.

Appendix 1

Audit Committee Self Assessment

<u>**Audit Committee Purpose and Governance**</u>

Good practice questions	Yes	Partly	No
1. Does the authority have a dedicated audit committee?	Yes		
2. Does the audit committee report directly to full council? (Applicable to local government only)	Yes. All Audit Committee minutes are circulated to full Council for noting and approval of recommendations made. An annual report is submitted by the Chair of the Audit Committee to full Council.		
3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA`s Position Statement?	Yes – ToR in place and periodically reviewed against CIPFA's best practice. Some changes were identified following an assessment against CIPFA Audit Committee - Practical Guidance for Local Authorities and a proposed new Terms		

	of Reference was developed and approved by the Audit Committee and Council. This has still to be written into the revised standing orders although we understand that this should be completed by the end of August 2016.		
4. Is the role and the purpose of the audit committee understood and understood across the authority?	Yes – role of committee is set out in Council's standing orders. Senior Management and Elected Members have access to Standing Orders on the Council's Intranet.		
5. Does the audit committee provide support to the authority in meeting the requirements of good governance?	Yes – committee carries out the role set out in the Terms of Reference contributing to the authority's governance framework.		
6. Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes – Independent Chair does not have voting rights. Attendance at		

	meetings by senior management. Audit Committee minutes are submitted to full Council. The Chair of the Audit Committee produces an annual report to full Council which summarises the work of the Audit Committee and provides an opportunity for challenge.		

Functions of the committee

Good Practice Questions	Yes	Partly	No
7. Does the committee's terms or reference explicitly address all the core areas identified in CIPFA`s position statement?			
▪ Good governance	Yes		
▪ Assurance framework	Yes		
▪ Internal audit	Yes		
▪ External audit	Yes		
▪ Financial reporting	Yes		
▪ Risk management	Yes		
▪ Value for money or best value		Partly. Revised ToR has this requirement. Awaiting update of	

		new ToR to standing orders (action raised).	
▪ Counter Fraud and Corruption	Yes		
8. 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. An annual report is produced by the Chair of the Audit Committee and provided to full Council for comment / review.		
9. Has the audit committee considered the wider areas identified in CIPFA`s position statement and whether it would be appropriate for the committee to overtake them?		The Audit Committee's ToR has been adjusted to include Ethics, Treasury Management and specific services reviews. Awaiting update of new ToR to standing orders (action raised).	
10. Where coverage of core areas has been found to be limited, are plans in place to address this?	N/A – coverage of core areas has not been found to be limited. If coverage was found to be limited an action plan would be put in place.		
11. Has the committee maintained its non-advisory role by not taking any decision-making power that is not in line with its core purpose?	Yes		

Membership and Support

Good Practice Questions	Yes	Partly	No
12. Has an effective audit committee structure and composition of the committee been selected? This should include:			
▪ Separation from the executive			No. There are members of the Executive on the Audit Committee. However this is considered as difficult to avoid in a small Council and the Audit Committee operates with an independent Chair and independent member and there is therefore effective challenge.
▪ An appropriate mix of knowledge and skills amongst the membership	Yes. Comprises of Elected Members and 2 independent members (one of which is the Chair).		
▪ A size of a committee that is not unwieldy	Yes - membership limited to six elected members and independent chair and member.		
▪ Where independent members are used, that they have been appointed using an	Yes – person specification for chair		

appropriate process.	in place. Post was advertised and interviews undertaken by the Chief Executive and the Audit Manager.		
13. Does the chair of the committee have the appropriate knowledge and skills?	Yes – relevant and recent financial experience and a relevant accountancy qualification.		
14. Are arrangements in place to support the committee with briefings and training?	Yes. Elected members currently have access to a collective development programme and individual development discussions which cover a range of topics including specific training for those on scrutiny committees such as audit. In addition, at the request of members, as part of their development discussions for 2015, a further financial session is planned in the scheduled Elected Member Development		

	Programme.		
15. Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		Partly. Members are provided with standard induction training and manuals that cover a number of areas listed within the core knowledge and skills framework. Training has also been provided specifically to the Audit Committee on finance related areas. Elected members can also participate in the collective development and individual development programmes. An action has however been raised to undertake an assessment against the knowledge and skills framework	
16. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief	Yes – Chief Executive, Directors and Section 95 Officer attends		

financial officer?	Audit Committee meetings. External and Internal Audit attend all Audit Committee meetings. Audit Committee pre-meetings in place with Chief Executive, Audit Manager, Chair of Audit Committee, Director Resources and Section 95 Officer.		
17. Is adequate secretariat and administrative support to the committee provided?	Yes		

Effectiveness of the committee

Good Practice Questions	Yes	Partly	No
18. Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Yes. The Chair of the Audit Committee produces an annual report and presents to full Council.		
19. Has the committee evaluated whether and how it is adding value to the organisation?	Yes. The Chair of the Audit Committee produces an annual report and presents to full Council.	.	
20. Does the committee have an action plan to improve any areas of weakness?	Yes The following actions are to be included on		

	the action plan: • update of Standing Orders; and • assessment against the core areas of knowledge and skills framework.		

Annual Governance Statement 2015/16   Appendix 2

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. This is to allow public funds and the assets at its disposal to be safeguarded and used efficiently and effectively in pursuit of best value.

Elected Members and senior management are responsible for the governance of the business affairs of Midlothian Council. This includes: setting the strategic direction, vision, culture and values of the Council; and establishing appropriate and cost effective systems, processes and internal controls to allow the strategic objectives to be delivered.

In order to achieve this, the Council has developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework and guidance on Delivering Good Governance in Local Government. The Code was reviewed and updated in 2013. The Council also has a number of officials in statutory posts who monitor governance and the supporting processes during the year. These are the Head of the Paid Service, the Monitoring Officer, the Chief Finance Officer and the Chief Social Work Officer.

The Code of Corporate Governance details 6 Principles and 18 elements of good Governance. A copy of the Local Code of Corporate Governance is on our website at www.midlothian.gov.uk. Elements included are:

- allocating responsibility for maintenance of proper financial records and accounts and for maintaining effective systems of internal control;
- appointing a Monitoring Officer with responsibility to ensure that the Council, its officers and Elected Members, maintain the highest standards of conduct;
- establishing a scheme of delegated powers;
- establishing and enforcing a code of conduct for officers;
- having effective scrutiny and challenge arrangements in place over officer and Council decisions;
- open and effective recording of Council decisions;
- risk management processes;
- whistle blowing and fraud prevention procedures and processes;
- providing induction and training for Elected Members and Council officers;
- encouraging individuals from all sections of the community to engage with the Council;
- undertaking equality impact assessments where required; and
- obtaining professional advice on matters that have legal or financial implications.

Midlothian Council's financial management arrangements conform to the requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government. The Chief Financial Officer has overall responsibility for the Council's financial arrangements and is professionally qualified and suitably experienced to lead the Council's finance function.

The Council is responsible for conducting each financial year, a review of the effectiveness of its governance framework, including risk management and the systems for internal control and financial control. The review of the effectiveness of the Council's governance framework is informed by:

- The work of the Corporate Management Team;
- The work of Council managers and Financial Services staff;
- The annual assurance questionnaires that are provided by all 8 Heads of Service;
- An annual review, by Internal Audit, of compliance with the Council's Local Code of Corporate Governance;
- The Audit Manager's annual report which is based on internal audit reports from across the range of Council services;
- Reports from the Council's external auditor; and
- Reports from other external review bodies, agencies and inspectorates.

The key governance arrangements and controls are set out in the local Code of Corporate Governance. Each year, using an assurance template, Internal Audit samples elements in the code to determine whether these are working effectively and that therefore the governance framework is working effectively.

In addition each Head of Service is required to undertake an annual self assessment of their area of responsibility using an assurance template where key elements of governance are examined.

Neither of these assessments highlighted any issues that would impact on the level of effectiveness of the Council's governance framework. A small number of improvements were identified and these are noted below in the action plan.

The statement has also been informed by the work undertaken by Internal Audit who, following the requirements of the Local Authority Accounts (Scotland) Regulations 2014, conducted an annual review of the effectiveness of the Council's system of internal control. The Internal Audit Manager concluded that based on the work undertaken in 2015/16 by the Internal Audit Section that overall, internal controls had been implemented and were being monitored by management in line with Financial Directives, Council Policies and the other key essentials of a robust Internal Control Environment.

The results from these reviews were presented to the May 2016 Audit Committee of the Council along with the Annual Governance Statement for approval.

The Head of Audit (the Audit Manager) has responsibility for the Council's Internal Audit function and reports functionally to the Audit Committee and operationally to the Chief Executive to allow appropriate independence. The Audit Manager is professionally qualified and suitably experienced to lead and direct the Internal Audit team.

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment be conducted at least once every 5 years by a qualified, independent

assessor from outside the organisation over the level of compliance against PSIAS by the Internal Audit Section. An external assessment was not undertaken in 2015/16 but will be undertaken in late 2016/17 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). However a self evaluation of compliance with the Public Sector Internal Audit Standards by Midlothian Council's Internal Audit Section was undertaken by the Internal Audit Manager. This evaluation demonstrated that the key elements of the Standards were complied with during the year. The Council's external auditor conducts an annual review of the effectiveness of the Council's Internal Audit Service and arrangements and reports its findings to the Council within its Annual Audit Report. The latest available assessment (2014/15) was satisfactory.

 A number of risks were well managed in 2015/16 and this is demonstrated by the work undertaken in setting up the Integrated Joint Board and the launch of the Scottish Borders Rail Line.

A number of governance improvements were highlighted in the 2014/15 self assessment and progress has been made in 2015/16 on the following:

 having a positive impact on the key priorities of economic recovery and business growth; positive destinations for young people; and early years – getting it right for every Midlothian child;

This action has continued to be part of performance monitoring throughout the 2015/16 performance management and scrutiny cycle and reported to Cabinet and Performance Review and Scrutiny Committee with the end year update due as part of the quarterly reporting in late May, early June 2016. The Community Planning Partnership priorities for 2015/16 have shown steady improvement across Early Years, Positive Destinations and Economic Development and these areas will be further developed in 2016-19.The Community Planning Partnership have recently reviewed key priorities and whilst they continue to build on the work previously undertaken, the key priorities for the period 2016-19 are: reducing the gap in learning outcomes; reducing the gap in health outcomes; and reducing the gap in economic circumstances.

 the continued delivery of the approved financial strategy in what continues to be a challenging financial environment for Local Government. Ensuring that measures are developed and implemented to secure the necessary financial savings to balance future years' budgets;

This action is ongoing and updates are provided through regular reports to Council. The Council has already taken decisions in respect of its 2016/17 budget to address a budget shortfall of £7.6 million. Balancing future year's budgets will continue to be a focus of action over coming years.

continued development of risk management processes by aligning risk assessments with service planning and mitigation of risks associated with delivering the Council's outcomes;

In 2015/16, work has been undertaken on the Corporate Risk Register through a bench marking exercise with other local authorities and public sector organisations and the revised Corporate Risk Register has had input from the Corporate Management Team and Directors. A strategic risk profile approach has been used to identify current issues, emerging risks and opportunities. The Risk Manager is now reviewing operational risk registers with service managers, with support from Performance Officers, to assess current and emerging risks which will inform the Strategic Risk Profile. An assessment as to whether Risk Registers should be provided to Cabinet and Council, in addition to the Audit and Risk Committees is being undertaken, given that risk management can be used to help inform decision making and shaping strategy.

 procurement reform arising from the Procurement Reform Bill and new EU Directives;

All procedures and processes are currently being updated to comply with the new procurement legislation, some elements of which are not due to be implemented until 2017.

 continued compliance with the Public Services Network code of connection requirements;

The 2016/17 PSN Code of Connection was submitted to the Cabinet Office on 10 March 2016 for approval. It is likely that the Council will maintain ongoing PSN compliance.

 responding to the impact of further Welfare Reform changes;

Action has been taken to mitigate the impact on households affected and also in the income to the Council but there are further changes with Universal Credit migration and Personal Independence Payments. There is no change in the strategic approaches guiding Midlothian Council's response to Welfare Reform, which is to mitigate against the impact of the effects within the capability and resources of the Council and its partners.

 the Health and Social Care Integration agenda with the continued establishment of joint services;

The Midlothian Integration Scheme was approved by the Scottish Government on 27 June 2015 and has now been legally constituted with the first Board meeting of the Integrated Joint Board held on 20 August 2015. From 2016/17, the Integrated Joint Board takes on responsibility for delivery of the services delegated to it by Midlothian Council and NHS Lothian. The Integrated Joint Board at its meeting on 10 December 2015 approved its Strategic Plan and directions have now been issued to Midlothian Council and NHS Lothian on how these delegated funds should be used. A process

of financial assurance has been undertaken by the Section 95 Officer on amounts transferred to the Integrated Joint Board by Midlothian Council and a report on this process is also to be submitted to the Midlothian Audit Committee by the Internal Audit function of the Council.

☐ The Midlothian Police and Fire and Rescue Board provides the local scrutiny and accountability for Police and Fire and Rescue services as outlined in the Police and Fire Reform (Scotland) Act 2012. This Board was newly established in February 2016 and training opportunities are currently being developed;

During 2015/16, a training workshop was held with the previous Safer Communities Board, Elected Members and partnership representatives from across the Community Safety and Community Planning Partnership who attended on the topic of Community Justice and proposals to change the remit of the Community Safety Partnership to incorporate Community Justice. The Board also received regular update reports on the new national model for Community Justice. A programme of training opportunities will be provided to members of the Police and Fire and Rescue Board, as the Police and Fire and Rescue Board provides the local scrutiny and accountability for Police and Fire and Rescue services as outlined in the Police and Fire Reform (Scotland) Act 2012.

Those actions which are underway but which have not yet been fully concluded (ie the Business Transformation Programme; Welfare Reform; Procurement and Risk Management) will continue to be progressed in 2016/17.

The following table sets out improvements to the governance framework which are to be progressed in 2016/17:

Area for Improvement	Proposed Action in 2016/17
Key priorities and Financial Strategy	To continue to progress the Council's key priorities and deliver the Financial Strategy
Procurement	To update all procedures and processes to comply with the new procurement legislation
Compliance with new Code of Corporate Governance	Updating the Code of Corporate Governance to allow full compliance with the new International Framework of Good Governance in the Public Sector
Compliance against the new CIPFA code of practice on Fraud and Corruption	Review the current Counter Fraud Policy and Strategy, Whistle-blowing Policy and create a separate Anti-bribery and Corruption Policy to allow full compliance against the new CIPFA code of practice on "Managing the Risk of Fraud and Corruption"
Adoption of audit recommendations	To adopt the recommendations made by Internal Audit on the areas where significant weaknesses in control have been identified during the year (including Developer Contributions and Business Gateway)
Serious Organised Crime and Corruption	Undertake a high level assessment of the Council's readiness in relation to the risks posed by Serious

	Organised Crime and Corruption. An improvement plan for recording, managing, and addressing areas of potential risk exposure has been developed and an Integrity Board will be convened to take this forward.
Disaster recovery plans	Ensure that disaster recovery plans have been adequately tested and to monitor the on-going testing of these.
Standing Orders	Updates are required to Standing Orders and the associated documents (Scheme of Administration and Scheme of Delegation) caused by the recent management review and subsequent changes to the Council Directorates

On the basis of the Council's assurance system, and the elements of governance at its disposal, we are satisfied that overall, Midlothian Council's systems of internal control, risk management and governance arrangements are of a satisfactory standard. We are aware of areas where improvements are required and steps will be taken in the forthcoming year to address these areas, allowing the Council to advance its corporate governance arrangements and seek continuous improvement.

Signed:

Catherine Johnstone, Leader of the Council / Kenneth Lawrie, Chief Executive

Date:

Appendix 3

Core Areas of Knowledge

Knowledge Area	Detail
Organisational	The governance structures of Midlothian Council and decision making processes. Knowledge of the organisational objectives and major functions of the Council.
Audit Committee Role and Function	The Audit Committee's role and function within the governance structures. Knowledge of the Audit Committee's terms of reference (standing orders) and accountability arrangements. Knowledge of the purpose and role of the Audit Committee.
Governance	Knowledge of the six principles of the SOLACE / CIPFA Good Governance Framework (engaging with local people and other stakeholders to ensure robust public accountability; developing the capacity and capability of members and officers to be effective; taking informed and transparent decisions which are subject to effective scrutiny and managing risk; promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour; member and officers working together to achieve a common purpose with clearly defined functions and roles; and focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area). Knowledge of the local code of governance.
Internal Audit	Knowledge of the Public Sector Internal Audit Standards and the Local Government Application Note. Knowledge of the arrangements for the Internal Audit Service and how the role of the head of audit is fulfilled.
Financial management and accounting	Awareness of the financial statements that Midlothian Council must produce and the principles it must follow to produce them. Understanding of good financial management principles. Knowledge of how the Council meets the requirement of the role of chief financial officer, as required by CIPFA statement on the role of the chief financial officer in local government.
External Audit	Knowledge of the role and functions of external audit and who is undertaking this role. Knowledge of the key reports and assurance external audit will provide.
Risk Management	Understand the principles of risk management, including linkages to good governance and decision making. Knowledge of the risk management policy and strategy of the organisation. Understanding of risk governance arrangements, including the role of members of the audit committee.

Counter-fraud	An understanding of the main areas of fraud risk the organisation is exposed to. Knowledge of the principles of good fraud management practice. Knowledge of the organisation's arrangements for tackling fraud.
Values of good governance	Knowledge of the seven principles of public life (Integrity, selflessness, objectivity, accountability, openness, honesty and leadership). Knowledge of the Council's key arrangements to uphold ethical standards for both members and staff. Knowledge of whistle blowing arrangements in the authority.
Treasury management	Effective scrutiny of treasury management (regulatory requirements, treasury risks, treasury management strategy, treasury policies and procedures).

Internal Audit Report

Follow-up Review of Audit Recommendations

Issued: June 2016

Level of Assurance	N/A – Follow-up reviews are not rated.

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Page 1	Executive Summary
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Executive Summary

1.0 Introduction

Internal Audit Reports include a section with management actions where recommendations are made to improve upon the existing internal controls and assist the Council achieve best value. These recommendations, following agreement with management, are endorsed by the Audit Committee and are then updated by Internal Audit to the Council's performance management system (Covalent) with a target completion date set.

Management are responsible for acting on the recommendations by the agreed due date and when complete, closing the issue on Covalent. The Internal Audit plan includes a budget for two follow up reviews in relation to recommendations made. The first reviews management's reported performance in closing issues raised by Internal Audit by the agreed due date (reported in December of each year) while the second looks at a sample of recommendations flagged as closed by management and reviews for the adequacy of the actions taken against each issue. This report addresses the second area.

A sample of **40** audit recommendations were judgmentally selected from the Covalent system which were shown at the 'completed' status and evidence obtained to support the satisfactory completion of each recommendation sampled. This included **13** high priority recommendations, **23** medium priority recommendations, and **4** low priority recommendations.

A sample of recommendations from the following Internal Audits were selected for this review:

Audit Report	Number of Recommendations Included in this Review	High Priority	Medium Priority	Low Priority
Following the Public Pound	7	5	2	0
Payroll	6	1	5	0
Commercial Lets	6	0	6	0
House Rents	7	0	4	3
Cashless Catering	6	2	3	1
Construction Industry Scheme	2	0	2	0
Developer Contributions	6	5	1	0
Total	**40**	**13**	**23**	**4**

1

2.0 Objectives of the Audit

The objective of this follow-up audit was to review a sample of recommendations that have been signed off as complete in 2014/15 to determine whether they had been implemented satisfactorily and thus give assurance over the ongoing improvement of internal control.

3.0 Conclusion

We have identified that the majority of audit actions have been completed satisfactorily. However, we have identified that 1 action had not been adequately completed, and some actions were reported as complete but testing revealed that these are only partially complete.

From the **40** recommendations tested, **26** (65**%**) were found to have been completed satisfactorily, **1** (2.5%) was found to be unsatisfactory and **13** (32.5%) were partially completed (full details of these can be found in **Appendix 1**).

As is standard Internal Audit practice, we have not rated this review since it is a follow-up of previously raised audit recommendations. We have however noted **14** recommendations where we have agreed with management that further improvements can be made.

Appendix 1 - This explains the **14** recommendations identified as not being fully completed.

Appendix 2 - This outlines the further recommendations arising from this review with revised completion dates.

2

Appendix 1 – **Recommendations identified as not being fully completed**

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
1	Following the Public Pound (FTPP)	Within the FTPP Corporate Register, relevant employees should be required to review the list of organisations and disclose on the Register any relevant interests or relationships they have with the ALEOs. This should be a requirement of the FTPP policy.	Medium	On application there is a disclosure of vested interests by those reviewing grant applications. However, at the time of the review there was no separate disclosure form in place for monitoring officers (ie those reviewing submitted performance information by grant funded organisations).
2	Following the Public Pound	Link officers should sign off annually whether they have received adequate explanation and information on the performance of the SLA. Issues with the SLA should be recorded during the sign-off and forwarded on to senior management for appropriate action.	High	Monitoring officers are receiving and reviewing performance information as required from grant funded organisations. However, the audit trail of this monitoring could be improved. There is no formal physical or electronic sign off by the monitoring officer of submitted performance information. After discussing this issue with the relevant officer, steps were taken immediately to improve the audit trail of the sign-off of monitoring information.
3	Payroll	It is recommended a report be generated highlighting new start information and changes to hours/grading which should be checked by an independent officer on a monthly basis.	High	The report has been developed but is currently being checked by management to ensure it meets all the requirements and is picking up all the required information. Internal Audit has flagged this recommendation as partly Satisfactory as the report is not yet being checked on a monthly basis.

3

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
4	Payroll	In order to establish segregation a different employee should carry out the match of original form to Business Object reports for mileage and other expenses after it has been input.	Medium	A sample month was reviewed and it was noted that whilst two people were inputting the data, one of the same individuals was carrying out all of the checking. This is an improvement as two individuals are involved in the process, but full segregation of duties has not yet been implemented. It was noted there was difficulty in implementing full segregation due to availability of staff and there only being a small window of time during the payroll closeout to get all of the required checking completed. It was clarified during the follow-up review with management that the audit recommendation was to have full segregation with one person inputting and another checking to prevent against the risk of an employee amending a claim without adequate authorisation.
5	Payroll	More targeted reports be developed, eg a report for checking compliance with the working time directive including overtime and for the exception reporting on employee numbers to be included with the rest of the payroll closedown file.	Medium	The working time directive report has been developed, but is still receiving final updates to meet the service's requirements and pick up all required data. It is not yet being run on a monthly basis. Therefore, as this action is not fully complete it should not be marked as complete until the report is finalised.
6	House Rents	Management need to review current letting strategies over garages and garage sites with the aim of improving upon the number that are let.	Medium	A review is underway and a member of staff has visited the sites to inspect their condition. The information from this review will be used to inform the future strategy as per the audit recommendation. However, the review is not yet complete (new due date is now end of July 2016), and Internal Audit's opinion is that this action should not have been closed until completion of the review.

4

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
7	House Rents	A review of rent charged for garage sites should be undertaken on a regular basis.	Medium	The Housing Services Manager has reviewed the level of rent charged and will increase the rates following approval from the Head of Customer and Housing Services subject to full Council approval and it will be included with the annual rent increase proposal. However, as bills were already issued in April 2016, the rates will be increased and issued for April 2017.
8	House Rents	Rent charges on the Council's website should be updated on an annual basis.	Low	This was updated for the year 2015/16, however there was a delay in updating the 2016/17 rates. The website has now been updated with the new rates.
9	House Rents	Accurate records should be maintained of the number of garage sites under Council ownership.	Low	A review of the records for garages is underway and a member of staff is transferring the hard copy information into an excel spreadsheet.

As noted above, this action is not yet complete (new due date is now end of July 2016), and Internal Audit's opinion is that this action should not have been closed until completion of the task. |
| 10 | Cashless Catering | For any future contracts either a scanned copy of the signed agreement should be taken and retained electronically or a physical copy taken and retained at a different location to the original. | High | It is noted that for the existing provider a detailed breakdown has been received of all chargeable and non-chargeable costs as part of the current maintenance contract and a signed copy of the current service level agreement is on file.

However, this recommendation related to the retendering of the Cashless Catering System. This retendering exercise is not anticipated to be completed until later in 2017 due to prioritising implementing an Epayment system first.

Internal Audit view it as prudent to keep this recommendation open with a revised due date of Q3 2017. |

5

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
11	Cashless Catering	Management should undertake periodic reconciliations between the SEEMIS and the Cashless Catering Systems to confirm that the numbers eligible for free school meals matches between the two systems.	Medium	It was identified that the reconciliation is being undertaken adequately. However, it was noted during the review that the audit trail of this could be improved.
12	Cashless Catering	Procedures should be developed / expanded to reflect the issues noted above and staff reminded of the need to follow these in full (last three bullets).	Medium	A risk assessment relating to cashing up tills has been advised to staff and managers are periodically monitoring compliance with this. However, procedures for weekly reconciliations undertaken by the Catering Services Manager have not been developed yet and there is no cheque return procedure. Management reported that two catering managers have been trained to undertake the weekly reconciliations.
13	Cashless Catering	The variations identified between Catering Services price lists and prices hard coded into tills and the Cashless Catering system need to be brought into line and meals no longer offered should be deleted from the Cashless Catering system.	Low	Some duplicate products were identified in the follow-up review. Therefore, we recommend a further review should be undertaken by management to remove any other obsolete or duplicate products.

6

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
14	Construction Industry Scheme (CIS)	Training should be delivered annually to ensure managers understand the scheme and are aware of the importance of classifying construction suppliers as subcontractors and checking the materials and labour split on the subcontractors' invoices.	Medium	Unsatisfactory. It was identified that the further training on the CIS has not yet been delivered to staff. Management have noted there have been few staff changes since the 2014 training session and felt employees in the sections were up to date on the CIS scheme and did not currently need further training. However, they agreed that if new staff were employed further training would be necessary. Internal Audit's view is that there is a risk that staff may not be up to date with the scheme. Therefore we recommend that training should be held later in the year.

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Appendix 2 – Further recommendations arising from this review

No	Recommendation	Priority	Manager	Target Date
1	An annual vested interest declaration form should be created for monitoring officers involved in the grant monitoring process (one form for each of the three monitoring officers with the one form covering all grants in the year). Relevant employees should be required to complete this and relevant disclosures should be reviewed by management.	Medium	Communities and Performance Manager	30/09/2016
2	The audit trail of the grant performance information monitoring process should be improved. This should include a formal sign off by the monitoring officer to assess whether all relevant documents have been received from the organisation and whether the organisation is meeting all of the grant's stipulated requirements.	High	Communities and Performance Manager	Complete
3	The report highlighting new start information and changes to hours/grading should be reviewed by management to ensure it meets all the requirements, and once complete it should be checked by an independent officer on a monthly basis.	High	Employment and Reward Manager	30/09/2016
4	In order to establish segregation, a different employee should carry out the reconciliation of the original form to the Business Object reports for mileage and other expenses after it has been input.	Medium	Employment and Reward Manager	30/09/2016
5	More targeted reports should be developed (eg a report for checking compliance with the working time directive including overtime and for the exception reporting on employee numbers) and included with the payroll closedown file.	Medium	Employment and Reward Manager	30/09/2016
6	Management need to review current letting strategies over garages and garage sites with the aim of improving upon the number that are let.	Medium	Housing Services Manager	31/07/2016
7	A review of rent charged for garage sites should be undertaken on a regular basis.	Medium	Housing Services Manager	31/03/2017
8	Rent charges on the Council's website should be updated on an annual basis.	Low	Housing Services Manager	Complete
9	Accurate records should be maintained of the number of garage sites under Council ownership.	Low	Housing Services Manager	31/07/2016
10	Once the cashless catering system has been retendered, a scanned copy of the contract should be retained by management.	High	Catering Services Manager	31/12/2017

No	Recommendation	Priority	Manager	Target Date
11	It is noted that management undertake periodic reconciliations between the SEEMIS and the Cashless Catering Systems. We recommend that the audit trail of this process should be improved.	Medium	Catering Services Manager	30/11/2016
12	Procedures should be developed for the weekly reconciliation undertaken by the Catering Services Manager between cash collected through the system and deductions made for meals provided. Procedures should also be developed for dealing with returned cheques.	Medium	Catering Services Manager	30/09/2016
13	The variations identified between Catering Services price lists and prices hard coded into tills and the Cashless Catering system need to be brought into line and meals no longer offered should be deleted from the Cashless Catering system.	Low	Catering Services Manager	30/09/2016
14	Training on the Construction Industry Scheme should be delivered annually to ensure managers understand the scheme and are aware of the importance of classifying construction suppliers as subcontractors and checking the materials and labour split on the subcontractors' invoices.	Medium	Head of Property and Facilities Management and Head of Commercial Operations	31/03/2017

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Appendix 3 - Distribution List

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Eibhlin McHugh, Joint Director Health and Social Care
- Mary Smith, Director, Education, Communities and Economy
- Ian Johnson, Head of Communities and Economy
- Alasdair Mathers, Communities and Performance Manager
- Gary Fairley, Head of Finance and Integrated Service Support (s95 officer)
- Janice Kali, Employment and Reward Manager
- Garry Sheret, Head of Property and Facilities Management
- Margaret Mckenzie, Catering Services Manager
- Kevin Anderson, Head of Customer and Housing Services
- Simon Bain, Housing Services Manager
- Ricky Moffat, Head of Commercial Operations
- Other members of the Corporate Management Team
- Grant Thornton, External Audit

Audit Team

Author:	James Polanski	Auditor
Additional Fieldwork:	Amber Ahmed	Auditor
	Heather Mohieddeen	Senior Internal Auditor
Reviewer:	Elaine Greaves	Audit Manager

10

Midlothian

Internal Audit Report on Follow up of Controls Operating over Developer Contributions

Report by Internal Audit Manager

1.   Purpose of the Report

The purpose of this report is to respond to the Audit Committee's request that Internal Audit follow up on the monitoring recommendations reported in the review of controls operating over Developer Contributions reported to the Audit Committee in March 2016.

2.   Background

In March 2016, a report was presented to the Audit Committee on the controls in place over Developer Contributions. A number of recommendations were made in the report to improve controls within this area focusing on Governance, Monitoring and Procedures. The report can be viewed using the following link:
https://midlothian.cmis.uk.com/live/live/live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/81/Committee/6/Default.aspx

3.   Progress

3.1   Discussions with management highlighted that 3 major pieces of work are in progress to improve practice in this area as follows:

3.1.1 The Planning Service has carried out a review of their service and business processes associated with Developer Contributions. Two of the outcomes of this review were to recruit a Compliance Officer and to purchase a database monitoring system to assist with the Developer Contribution process. The Compliance Officer will assist with monitoring the level of completion of developments and thereafter collection of amounts due. The Compliance Officer is expected to be in place after the summer recess. The new system will be used to record all of the developments and stages of completion. A procurement exercise is currently being undertaken to source the system. Once these outcomes are implemented the monitoring of Developer Contribution agreements in place will be much improved;

3.1.2 Financial Services and the Planning Service are working together to complete an in depth analysis of contributions received and the allocation of these contributions to capital infrastructure. This exercise will not only improve existing arrangements but will provide an accurate foundation by which the new system can be populated. This review, coupled with the implementation of the new system, should ensure that all contributions are received timeously and allocated to infrastructure

within the appropriate timescales. This work will be completed over the summer;

3.1.3 Financial Services are also conducting an analysis of forward funded assets. Costs have been ascertained for these assets and the analysis of amounts allocated to these assets will form part of the above analysis of contributions received. This work will also be completed over the summer.

3.2 There have also been immediate changes to business processes which have already improved the effectiveness of the Developer Contributions process. Planning, Legal Services and Financial Services continue to work together and meet regularly with information held in shared locations. Invoicing is now a proactive process, with the Planning Service making contact with developers and actively seeking contributions. This changed approach should ensure that all contributions are collected at the appropriate time and ensure that none are missed.

3.3 Management have advised that all Developer Contributions identified as being due for payment so far, have either been collected or are in the process of being collected.

4.   Audit Opinion

It is our opinion that management are addressing the risks identified in the original audit and that the actions completed or underway will, once fully implemented, reduce risk to an acceptable level.

5.   Report Implications

5.1 Resource

There are no direct resource implications arising from this report.

5.2 Risk

Weaknesses in the monitoring of Developer Contributions could lead to the loss of contributions from developers.

5.3 Single Midlothian Plan

Themes addressed in this report:

- ☐ **Community safety**
- ☐ **Adult health, care and housing**
- ☐ **Getting it right for every Midlothian child**
- ☐ **Improving opportunities in Midlothian**
- ☐ **Sustainable growth**
- ☐ **Business transformation and Best Value**
- ☒ **None of the above**

5.4 Key Priorities within the Single Midlothian Plan

This Report does not directly impact on the key priorities within the Single Midlothian Plan.

5.5 Impact on Performance and Outcomes

The improvements in practice will reduce the risk associated with the collection of contributions and their application to capital infrastructure.

5.6 Adopting a Preventative Approach

An effective system for the collection of Developer Contributions will mitigate against the impact of development on Council services and infrastructure.

5.7 Involving Communities and Other Stakeholders

This report has been discussed with the relevant Heads of Services and Directors of Midlothian Council.

5.8 Ensuring Equalities

There are no equalities issues with regard to this report.

5.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

5.10 IT Issues

There are no IT issues with regard to this report.

6.   Recommendations

The Audit Committee is asked to note the contents of this report.

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