

Notice of meeting and agenda



Audit Committee

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

Date: Tuesday, 20 June 2017

Time: 14:00

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. The Council will comply with its statutory obligations under the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002.

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

No previous minutes to be considered at this Meeting

5 Public Reports

| | | |
|------------|---|------------------|
| 5.1 | Membership, Terms of Reference and Appointment of Interim Chair - Report by Director Resources | 5 - 10 |
| 5.2 | Internal Audit Plan 201718 - for information | 11 - 18 |
| 5.3 | Internal Audit Annual Assurance Report 201617 - Report by Internal Audit Manager | 19 - 38 |
| 5.4 | Annual Governance Statement - Report by Chief Executive | 39 - 50 |
| 5.5 | Annual Report from the Chair of the Audit Committee for the year ended 31 March 2017 - Report by Peter Smaill | 51 - 66 |
| 5.6 | Audit Scotland Report Local Government in Scotland Performance and Challenges 2017 - Report by Chief Executive | 67 - 78 |
| 5.7 | Risk Management, Update for 1 January 2017 – 31 March 2017 - Report by Risk Manager | 79 - 112 |
| 5.8 | Update of Midlothian's Devolved School Management Scheme (DSM) to reflect the latest Scottish Government Guidance - Report by Director Education, Communities and Economy | 113 - 116 |

THE AUDIT COMMITTEE IS INVITED (A) TO CONSIDER RESOLVING TO DEAL WITH THE UNDERNOTED BUSINESS IN PRIVATE IN TERMS OF PARAGRAPHS 6, 8, 9 AND 10 OF PART 1 OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973 - THE RELEVANT REPORTS ARE THEREFORE NOT FOR PUBLICATION; AND (B) TO NOTE THAT NOTWITHSTANDING ANY SUCH RESOLUTION, INFORMATION MAY STILL REQUIRE TO BE RELEASED UNDER THE FREEDOM OF INFORMATION (SCOTLAND) ACT 2002 OR THE ENVIRONMENTAL INFORMATION REGULATIONS 2004

6 Private Reports

6.1 Internal Audit Report - Review of Utilisation of Assets held under PPP Contracts - Report by Internal Audit Manager

- 6. Information relating to the financial or business affairs of any particular person (other than the authority).
- 9. Any terms proposed or to be proposed by or to the authority in the course of negotiations for a contract for the acquisition or disposal of property or the supply of goods or services.

6.2 Internal Audit Report - Arrears, Sundry Debt - Report by Internal Audit Manager

- 6. Information relating to the financial or business affairs of any particular person (other than the authority).
- 8. The amount of any expenditure proposed to be incurred by the authority under any particular contract for the acquisition of property or the supply of goods or services.
- 9. Any terms proposed or to be proposed by or to the authority in the course of negotiations for a contract for the acquisition or disposal of property or the supply of goods or services.
- 10. The identity of the authority (as well as of any other person, by virtue of paragraph 6 above) as the person offering any particular tender for a contract for the supply of goods or services.

6.3 Internal Audit Report - Arrears, Rent Council Tax and Overpaid Housing Benefit - Report by Internal Audit Manager

- 6. Information relating to the financial or business affairs of any particular person (other than the authority).
- 8. The amount of any expenditure proposed to be incurred by the authority under any particular contract for the acquisition of property or the supply of goods or services.
- 9. Any terms proposed or to be proposed by or to the authority in the course of negotiations for a contract for the acquisition or disposal of property or the supply of goods or

services.

- 10. The identity of the authority (as well as of any other person, by virtue of paragraph 6 above) as the person offering any particular tender for a contract for the supply of goods or services.

Audit Committee – Membership, Terms of Reference and Appointment of Interim Chair

Report by John Blair, Director, Corporate Resources

1 Purpose of Report

This report brings the Committee's attention to its Membership, Terms of Reference and the appointment of an Interim Chair.

2 Membership

On 23 May 2017, the Council agreed that membership of the Audit Committee be Councillors Baird; Hardie; Milligan; Muirhead; Parry and Smaill. The Council further agreed that an independent Chair and Member of the Committee be appointed.

3 Independent Chair

Steps are being taken to recruit a suitable individual to chair meetings of the Committee but in the interim it will be necessary for the Committee to appoint a Chair. The Chair of the Committee may not be a member of the Cabinet as set out in the Council's Standing Orders.

4 Terms of Reference

The Audit Committee is responsible for the following:-

Statement of purpose

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

Governance, risk and control

3. To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
4. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
5. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
6. To consider the council's framework of assurance and ensure that it adequately addresses the risk and priorities of the council.
7. To monitor the effective development and operation of risk management in the council.
8. To monitor progress in addressing risk-related issues reported to the committee.
9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. To review the assessment of fraud risks and potential harm to the council from fraud corruption.
11. To monitor the counter-fraud strategy, actions and resources.
12. To monitor controls operating over Treasury Management and the Council's approach to establishing ethical standards.

Internal audit

13. To approve the internal audit charter.
14. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
15. To approve the risk-based internal audit plan, including internal audit's resources requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
16. To approve significant interim changes to the risk-based internal audit plan and resource requirements.

17. To make appropriate enquiries of both management and the Chief Internal Auditor to determine if there are any inappropriate scope or resource limitation.
18. To consider reports from the Chief Internal Auditor on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non- conformance is significant enough that it must be included in the Annual Governance Statement.
19. To consider the Chief Internal Auditor's annual report:
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the Annual Governance Statement.
20. To consider summaries of specific internal audit reports as requested.
21. To receive reports outlining the action taken where the Chief Internal Auditor has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
22. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

- 23. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement.
- 24. To support the development of effective communication with the Chief Internal Auditor.

External audit

- 25. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 26. To consider specific reports as agreed with the external auditor.
- 27. To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 28. To commission work from internal and external audit.
- 29. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

- 30. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 31. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- 32. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
- 33. To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

Meetings

The Committee will normally meet six times per annum.

Quorum

The quorum for meetings of the Committee will be 3 Councillors(plus Independent Chair when appointed).

Minutes

The Minutes of the Audit Committee will be recorded by the Officer clerking the meeting and submitted to the next ordinary meeting of the Committee for approval. They will also be submitted to the Council both for information and to allow the Council to consider any recommendations contained in them. Meetings of the Audit Committee will also be audio cast subject to the exemptions contained within the Local Government (Scotland) Act 1973

4 Recommendations

The Committee is invited to:-

- (a) Note its membership and terms of reference; and
- (b) Appoint an interim Chair who is a non Cabinet member.

Date 9 June 2017

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Internal Audit Plan: 2017/18

| Audit Reviews | | | | | | | | | |
|----------------------|---|--|-----------------------|-----------------------------|-----------|-----------|-----------|-----------|--|
| Ref | Strategic Risk/Risk Based/Core System (S/R/C or N/A) | Auditable Unit | Priority (H/M) | Total Number of Days | Q1 | Q2 | Q3 | Q4 | Comments |
| 1 | S | Tyne Esk Leader Grant Fund | M | 25 | | ✓ | | | Annual requirement to review the controls in place to deliver the Tyne Esk Leader Grant Fund and to undertake compliance related work as defined by the Service Level Agreement. |
| 2 | S | Construction Industry Scheme | M | 10 | ✓ | | | | Annual requirement to undertake a review in this area to test that the scheme rules are being complied with as required by HM Revenues and Customs. |
| 3 | S and R | Children and Young People's Act – Named Person | H | 30 | | | | ✓ | The Children and Young People's Act requires all children to have a named person. The audit will review the controls in place which allow the Council to implement this legislation. Postponed from 2016/17 as implementation delayed. |
| 4 | S | Climate Change Reporting | M | 25 | | | ✓ | | This is a strategic risk for the Council. The audit will review the reporting arrangements to the Scottish Government. |

| Ref | Strategic Risk/Risk Based/Core System (S/R/C or N/A) | Auditable Unit | Priority (H/M) | Total Number of Days | Q1 | Q2 | Q3 | Q4 | Comments |
|-----|--|--|----------------|----------------------|----|----|----|----|---|
| 5 | S | Highways Network Assets | M | 30 | | | ✓ | | Requirement to review compliance with the new CIPFA Code of Practice on the Highways Network Asset. |
| 6 | S | Follow up of the 2016/17 Audit of Financial Strategy and Delivering Excellence | H | 25 | | | | ✓ | Follow up review of the 2016/17 Audit of Financial Strategy and Delivering Excellence to determine progress with Internal Audit recommendations. |
| 7 | S and R | Pupil Equity Funding | H | 40 | | | ✓ | | Additional ring fenced funding of £2.27M provided to help close poverty related attainment gap in schools. Review of controls over this funding. |
| 8 | S and R | Social Care Budget Planning Project | H | 40 | | ✓ | | | To provide assurance over the Social Care Budget Planning Project currently underway. |
| 9 | R | Waste | H | 40 | | ✓ | | | Review of controls over collection and disposal of waste. Residual waste currently being land-filled without any secondary treatment - residual waste contract currently out to tender. |
| 10 | R and C | Bank and Cash | M | 40 | | | ✓ | | To review the controls over the collection, banking and accounting for income including online payments and compliance with PCI requirements. Postponed from 2016/17 due to the implementation of a new till / management reporting system in Leisure Services. |

| Ref | Strategic Risk/Risk Based/Core System (S/R/C or N/A) | Auditable Unit | Priority (H/M) | Total Number of Days | Q1 | Q2 | Q3 | Q4 | Comments |
|-----|--|--------------------------|----------------|----------------------|----|----|----|----|---|
| 11 | R | Complaints | M | 30 | ✓ | | | | Performance reports highlight that performance indicators are off target for all Services. To include a review of controls operating over FOI requests. |
| 12 | R | Council Owned Care Homes | H | 30 | | ✓ | | | To review controls over the management of Council owned care homes. |
| 13 | C | Payroll | M | 30 | | | | ✓ | Core system with significant value of payments. Scope to include controls over Electronic Payments. |
| 14 | C | Treasury Management | M | 30 | ✓ | | | | Core system. To test controls over policies and practices, strategies and reporting and compliance with the Treasury Management Code of Practice. |

| Corporate Fraud Reviews | | | | | | | | | |
|-------------------------|--|---|----------------|----------------------|----|----|----|----|---|
| Ref | Strategic Risk/Risk Based/Core System (S/R/C or N/A) | Auditable Unit | Priority (H/M) | Total Number of Days | Q1 | Q2 | Q3 | Q4 | Comments |
| 1 | S | Vetting of Employees | H | 30 | ✓ | | | | Action from Integrity Group. Review of vetting of new / existing employees to ensure that references obtained, PVG and Disclosure Scotland checks undertaken, membership of bodies maintained (eg SSSC), secondary employments and any convictions are disclosed. |
| 2 | R | Insurance Claims | H | 15 | | | | ✓ | Review of controls to prevent insurance frauds particularly those below the Council's excess level. |
| 3 | R | Contract Compliance – Building Maintenance Services | H | 15 | | | ✓ | | For a sample of contracts, check a sample of invoices to ensure that contract conditions are being adhered to. |
| 4 | R | Subletting of Council Owned Properties | H | 30 | | ✓ | | | Local data match of Council tax system to house rents system to identify potential subletting of Council houses. |
| 5 | R and C | Council Tax Reduction Scheme and Discounts and Exemptions | M | 50 | ✓ | ✓ | ✓ | ✓ | Investigations for Council tax reduction scheme and discounts and exemptions to determine whether these reductions are claimed legitimately. |

| Ref | Strategic Risk/Risk Based/Core System (S/R/C or N/A) | Auditable Unit | Priority (H/M) | Total Number of Days | Q1 | Q2 | Q3 | Q4 | Comments |
|-----|--|---------------------------|----------------|----------------------|----|----|----|----|---|
| 6 | C | National Fraud Initiative | M | 55 | ✓ | ✓ | ✓ | ✓ | To co-ordinate the NFI exercise, review and investigate matches and produce reports for the Audit Committee on the outcomes from these matches. |
| 7 | R | Fraud Awareness Training | M | 10 | ✓ | ✓ | ✓ | ✓ | A budget is set aside to allow fraud awareness training to be provided by the Corporate Fraud team to Council management and employees. |

| Annual Audit Work | | | | | | | | | |
|-------------------|--|----------------------------------|----------------|----------------------|----|----|----|----|---|
| Ref | Strategic Risk/Risk Based/Core System (S/R/C or N/A) | Auditable Unit | Priority (H/M) | Total Number of Days | Q1 | Q2 | Q3 | Q4 | Comments |
| 1 | R and C | Recommendation follow up Reviews | H | 35 | | ✓ | | ✓ | 2 reviews are undertaken. The first notes performance against closing issues by the agreed due date while the second includes a sample check on the adequacy of actions taken against issues which are flagged as closed. |

| Ref | Strategic Risk/Risk Based/Core System (S/R/C or N/A) | Auditable Unit | Priority (H/M) | Total Number of Days | Q1 | Q2 | Q3 | Q4 | Comments |
|-----|--|---|----------------|----------------------|----|----|----|----|---|
| 2 | R and C | Review of Corporate Governance | M | 10 | | | | ✓ | Internal Audit each year tests a sample of the key elements in the Code of Corporate Governance to determine whether these are operating as described. The results from this testing are included in the Annual Governance Statement. |
| 3 | R and C | Annual Assessment of Internal Controls | M | 10 | | | | ✓ | Internal Audit each year prepares an annual report for the Audit Committee summarising the work undertaken by the Internal Audit Section and forming an opinion on the adequacy of the control environment within the Council. |
| 4 | N/A | Assessment of Internal Audit against PSIAS and of the Audit Committee against the CIPFA code. | M | 15 | | | | ✓ | Each year the Internal Audit Section undertakes a self assessment against the Public Sector Internal Audit Standards and reports its findings to the Audit Committee. This year there will also be an external assessment. In addition assistance is provided to the Chair of the Audit Committee in undertaking an assessment of the Audit Committee against the CIPFA guidance. |
| 5 | R | Consultancy (4 at 30 days each) | H | 120 | ✓ | ✓ | ✓ | ✓ | Time is set aside in the plan to undertake any consultancy work / emerging risks. |
| 6 | R | Investigations (3 at 30 days) | H | 90 | ✓ | ✓ | ✓ | ✓ | Time is set aside in the plan to undertake any investigations. |

| Ref | Strategic Risk/Risk Based/Core System (S/R/C or N/A) | Auditable Unit | Priority (H/M) | Total Number of Days | Q1 | Q2 | Q3 | Q4 | Comments |
|-----|--|---|----------------|----------------------|----|----|----|----|---|
| 7 | R | Help Desk Enquiry system | H | 34 | ✓ | ✓ | ✓ | ✓ | Internal Audit has a help desk facility where guidance and advice is given to management on internal controls. The help desk is also used to manage any enquiries received through the whistle blowing facilities offered by the Council. |
| 8 | N/A | Administration of Audit Scotland Reports | M | 4 | ✓ | ✓ | ✓ | ✓ | Internal Audit co-ordinates submission of Audit Scotland Reports to the Audit Committee. |
| 9 | N/A | Support for the Risk Management and Integrity Groups | M | 15 | ✓ | ✓ | ✓ | ✓ | Internal Audit attends and provides support to the Risk Management Group and the Integrity Group. |
| 10 | R and C | Audit reviews and support for the Integration Joint Board | H | 80 | ✓ | ✓ | ✓ | ✓ | This time relates to three scheduled audits for the Integration Joint Board and all related support work. |
| 11 | N/A | Planning for 2018/19 | M | 15 | | | | ✓ | Time is set aside to allow for the development of the 2018/19 internal audit plan. |

Key:

S – Strategic Risk Based Audit

R – Risk Based Audit

C – Core Process or Systems Audit

Internal Audit: Annual Assurance Report 2016/17
Report by Elaine Greaves, Internal Audit Manager**1. Purpose of Report**

The Local Authority Accounts (Scotland) Regulations 2014 require an authority to conduct a review, at least once in a year, on the effectiveness of its system of internal control and include a statement of this review in the Annual Governance Statement.

The purpose of this paper is to report on the work undertaken by Internal Audit during the financial year 2016/17 and to provide an overall assessment of the adequacy and effectiveness of the Council's framework of governance, risk management and internal control based on that work.

2. Background**2.1 Public Sector Internal Audit Standards (PSIAS)**

From 1 April 2013, all audit work has been undertaken in accordance with the Public Sector Internal Audit Standards (PSIAS). One of the requirements of these standards is that the Internal Audit Manager is required to prepare an annual internal audit opinion and report that can be used to inform the Council's overall Annual Governance Statement which is included in the published financial statements. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control and must incorporate:

- the opinion;
- a summary of the work that supports the opinion;
- a statement on conformance with the Public Sector Internal Audit Standards; and
- the results of the quality assurance and improvement programme over the level of compliance by the Internal Audit Section with the requirements of PSIAS.

The Standards 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. An external assessment was not undertaken in 2016/17 but will be undertaken in 2017/18 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). However, an assessment of Internal Audit's work is undertaken each year by the Council's external auditor as part of their annual audit. Their report in 2015/16 found this to be satisfactory.

2.2 Self Assessment of Internal Audit against the Standards

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, but identified a small number of areas where performance could be improved. An action plan has been developed to address these issues and the majority have already been acted upon.

2.3 Balanced Scorecard

Internal Audit has based its performance indicators on those developed by SLACIAG. These include the number of face to face meetings with the Chair of the Audit Committee and Chief Executive, the level of coverage of corporate risks in the audit plan, the follow up of recommendations raised by Internal Audit and training and qualifications of Internal Audit employees. Appendix 5 provides a summary against these targets.

2.4 Organisational Independence

The Standards state that the Internal Audit Manager is required to report to the Audit Committee and have free and unfettered access to the Chief Executive and the Chair of the Audit Committee. He/she must report to a level within the organisation that allows the Internal Audit activity to fulfil its responsibilities and the Internal Audit Manager must confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity.

The reporting line for Internal Audit is functionally to the Audit Committee and operationally to the Chief Executive.

The Internal Audit Manager met regularly throughout the year with the Chief Executive, the Director, Resources and the Section 95 Officer to discuss governance, risk management and internal control matters. The Internal Audit Manager met the Chair of the Audit Committee on a one to one basis, on six separate occasions during the year and, in addition, before each Audit Committee meeting.

There have been no threats to the independence of the internal audit activity during the period.

2.5 Proficiency and Due Professional Care

The Standards state that internal auditors must possess the knowledge, skills and competencies needed to perform their individual responsibilities and are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications. The Internal Audit Manager must hold a relevant professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

The Internal Audit Section had a resource of 4.2 FTE for the majority of the year. The role of Internal Audit Manager during this period was undertaken on a job share basis by a CIMA (Chartered Institute of Management Accounts) qualified accountant and a CMIIA (Chartered Member of the Institute of Internal Auditors) qualified auditor. Both managers have public sector and financial services experience. The senior auditor and auditors are members of the Association of Chartered Certified Accountants (ACCA).

The Internal Audit Section also has 2 Accredited Counter Fraud Specialist officers who review and identify the threats of Corporate Fraud throughout the Council, provide support to the Internal Audit team and assist with the National Fraud Initiative.

2.6 Internal Audit Resource

The Internal Audit resource has been sufficient to undertake a challenging and value adding Internal Audit Plan and this in turn has provided management, external audit, the Audit Committee and other interested parties with a significant level of assurance. However, one of the job share audit managers left the Council in March 2017 and this post remains vacant. The Internal Audit and Corporate Fraud team are undergoing a service review as part of the Delivering Excellence programme and this may result in reduced resource going forward. Any changes to the Internal Audit plan as a result of the review will require Audit Committee approval.

The Midlothian Internal Audit Manager is also the Chief Internal Auditor of the Midlothian Health and Social Care Integration Joint Board (MIJB). A resource of 100 days was allocated for the development and delivery of the MIJB Audit Plan for 2016/17 as well as all related support work (see Appendix 2 for details of work undertaken in 2016/17).

2.7 Internal Audit Plan

The Internal Audit Plan for 2016/17 was approved by the Audit Committee on 15 March 2016. The audit plan is risk based and concentrates on governance, risk and internal control matters affecting the Council.

For the financial year 2016/17, the risk assessment approach was consistent with the Internal Audit Strategy and focused Internal Audit resource towards:

- the Council's main IT and financial systems;
- high risk exposures as identified through the risk management system, particularly the strategic risk register;
- consultancy exercises requested by management;
- investigations, where required; and
- the provision of an Internal Control Help Desk service.

There have been no areas reviewed which had inappropriate scope. Progress with the Internal Audit Plan was presented to the Audit Committee in December 2016 and a verbal update was given in March 2017. Internal Audit is on course to achieve a challenging Audit Plan by the end of July 2017, with only minor adjustments (as detailed in Appendix 3).

2.8 Internal Audit Reviews

In relation to the 2016/17 Audit Plan, we reviewed the internal controls, governance and management of risk within a number of Council systems, both financial and non financial. The Internal Audit activities undertaken during 2016/17 and the conclusions arising from that work are set out at Appendix 1.

Internal Audit use a set of assurance categories to provide an opinion on the level of assurance given over internal control, governance and the management of risk within audit assignments. This can be found in Appendix 4.

From the Audits undertaken in 2016/17, we have identified a number of areas that required improvement to internal controls. The majority of reviews have shown either average or good internal controls with only 1 specific area rated as weak (related to the lack of an assessment of the Council's Devolved School Budgets Scheme against the revised Scottish Government guidance).

The results of our audits were reported to management and the Audit Committee and action plans for improvement over controls were agreed on the conclusion of each audit. The recommendations arising from the action plans were loaded into the Council's Covalent system and progress with their implementation is recorded on the system by management.

2.9 Implementation of Internal Audit Recommendations

Internal Audit periodically reviews whether recommendations have been implemented and reports the outcome of this to the Corporate Management Team and the Audit Committee. A review of overdue recommendations was undertaken in December 2016 and this highlighted that 93% of the recommendations were either 'completed' or 'on target' and only 7% were overdue. In June 2016, a sample of 40 recommendations recorded as 'completed' by management on the Covalent system were reviewed to confirm the adequacy of the actions taken. 26 were found to have been implemented satisfactorily, 13 were partially complete and 1 was found to be unsatisfactory (related to Construction Industry Scheme and the requirement to deliver annual training to managers). This exercise will be repeated in 2017 and the results reported to the Audit Committee.

We are pleased to note from this follow up work that management have acted on Internal Audit recommendations and therefore controls have been strengthened.

2.10 Code of Corporate Governance

Each year, Internal Audit undertakes a review of the Code of Corporate Governance and tests a sample of the key elements listed as controls to determine whether they are working in practice. Our testing identified that the control elements were working effectively although we did identify the following:

- the 'Delivering Good Governance in Local Government: Framework' was updated by CIPFA/SOLACE in 2016 but this has not yet been fully embedded. Midlothian Council's Code of Corporate Governance has been updated but this is still in draft and hasn't yet been presented to Council;
- draft workforce plans have been developed but these require updating and a Council wide plan is required;
- although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects;
- the Council's current Incident Response Plans focus heavily on disruption to service delivery associated with building availability. A Business Continuity Policy, detailing the Council's approach to ensuring critical services and outcomes can be delivered during periods of business disruption, has been created and once approved by CMT, training and Business Continuity Plans will be rolled out across the Council;
- a Register of Interests for Council Officials requires further development; and
- a standalone Gifts and Hospitality policy requires to be developed.

2.11 Risk Management

Internal Audit reviews management's perception of risk in all audits undertaken and reviews risk more generally as part of the planning cycle for each year's audit plan. From these assessments, it is noted that Midlothian Council's risk management process is developing in its maturity with key risks monitored by the Council's Risk Management Group, the Corporate Management Team and the Audit Committee.

We noted that in 2016/17:

- there is an established risk management process within Midlothian Council and there has been significant input to the Risk Management process by management. This has resulted in the identification of strategic risks, strategic opportunities and top issues;
- the Risk Manager has assigned actions to the Strategic Risk Profile and is continuing to support services to develop operational risk registers with service managers;

- there is a need to update the Risk Policy with changes introduced as part of the Risk Management Guidance; and
- not all operational risk registers are updated in a timely manner.

The Internal Audit Section has identified instances, through testing, where revisions to risk registers were required and have also identified a small number of risks that are not being updated on a quarterly basis. Generally however we are of the opinion that the current process is working effectively.

2.12 Fraud

Midlothian Council has a number of controls in place to limit the risk of fraud and to highlight where fraud may have occurred. These include:

- a Corporate Fraud team with dedicated resource to help prevent and detect fraudulent activity within the Council;
- an Anti-fraud and Corruption Policy and Strategy;
- an Anti-bribery Policy;
- a Whistle-blowing Policy and reporting system
- an Anti-money Laundering Policy;
- segregation of duties;
- fraud policies make it clear that management are responsible for introducing robust controls to reduce fraud and the requirement to update risk registers quarterly documenting the controls in place to mitigate against fraud;
- Heads of Service are required to assess fraud risk annually as part of the Annual Governance process; and
- the Internal Audit section reviews the risk of fraud within all work undertaken. They also undertake specific investigations where fraud is suspected.

A standalone Gifts and Hospitality policy is being created. The Council's Employee Code of Conduct makes reference to Gifts, Hospitality and Services but the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and various training courses delivered by Police Scotland and CIPFA have detailed the need to have a stand-alone policy in this area.

An Integrity Group, chaired by the Director, Resources, has been established within the Council to investigate any vulnerabilities to fraud. The Group met 4 times in 2016/17 and was attended by key Council officers and Police Scotland. A presentation was given to the Council's Leadership Forum in April 2017 on Serious Organised Crime and the steps the Council should be taking to reduce the risk of fraud.

Since October 2015, the Corporate Fraud team has: undertaken reviews of council tax discounts and exemptions; worked with Housing to identify tenancy fraud; investigated matches as part of the Council's participation in the National Fraud Initiative; and delivered fraud awareness training to a number of areas in the Council. The team has identified circa £750,000 of savings (calculated using Audit Scotland's

guidance) in relation to this work. £651,000¹ of this is as a result of the recovery of 7 Council houses (4 of these houses totalling £372,000 were recovered in 2016/17).

The levels of reported fraud / theft within the Council continue to remain relatively low although there have been a number of reported incidents in 2016/17. These include: theft of a quad bike (£7,000), theft of a grass-cutter (£5,000), theft of a safe from a school (containing £207), theft of monies within a school (£317), theft of monies from a residential home (£190), theft of a laptop and mobile telephones (totalling £950), theft of tools (amount unknown), theft of fuel from Council vehicles parked overnight (approx £450 in total) and alleged thefts of fuel / scrap metal. Investigations have been undertaken or are underway and controls implemented to help reduce future such incidents.

2.13 National Fraud Initiative

Midlothian participates 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. A data match was undertaken in October 2016 and matches were received in January 2017. Key changes for the 2016/17 return included:

- Council tax reduction scheme data is an additional dataset required;
- Housing waiting list data is an additional dataset required; and
- Council tax and electoral register data is now required the same year as the main exercise, but on a slightly different timescale.

Work is ongoing to check through the matches received to identify any fraudulent activity or overpaid benefits and discounts. Matches related to means tested benefits from DWP (such as Universal Credit, etc) have been sent directly to the DWP for checking. This has reduced the number of Housing Benefit matches reported to the Council.

2.14 Internal Audit Opinion

I am content that the breadth and depth of coverage is sufficient to allow me to provide a balanced opinion on the overall adequacy of the Council's framework of governance, risk management and internal controls over the period 2016/17. No direct reliance has been placed on the work of other assurance providers in providing this opinion.

It is my view that overall the Council's framework of governance, risk management and internal control over the period 2016/17 are 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.

¹ Audit Scotland has advised that the appropriate calculation for the loss in respect of a fraudulent tenancy is £93,000 per tenancy to cover 2 years homeless accommodation, legal and administrative costs and 2 years future savings, assuming an average tenancy period of 4 years.

In arriving at this overall opinion I have considered:

- the ratings applied to each individual audit undertaken in the period and their relative importance in relation to the control environment within Midlothian Council;
- management's performance in addressing issues raised by Internal Audit;
- the strength of governance arrangements including the Code of Corporate Governance and adherence to its requirements;
- the risk management system; and
- strategies designed to manage fraud risk.

2.15 Annual Governance Statement

The following issues from this report have been used within the Annual Governance Statement:

- the 'Delivering Good Governance in Local Government: Framework' was updated by CIPFA/SOLACE in 2016 but this has not yet been fully embedded. Midlothian Council's Code of Corporate Governance has been updated but this is still in draft and hasn't yet been presented to Council;
- draft workforce plans have been developed but these require updating and a Council wide plan is required;
- although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects;
- the Council's current Incident Response Plans focus heavily on disruption to service delivery associated with building availability. A Business Continuity Policy, detailing the Council's approach to ensuring critical services and outcomes can be delivered during periods of business disruption, has been created and once approved by CMT, training and Business Continuity Plans will be rolled out across the Council;
- a Register of Interests for Council Officials requires further development;
- a standalone Gifts and Hospitality policy requires to be developed; and
- the service review of Internal Audit should be completed and any subsequent changes to the Internal Audit plan (if any) should be approved by the Audit Committee.

2.16 Audit Committee Chair's Report

Each year the Internal Audit Section assists the Chair of the Audit Committee in completing the Chair's annual report to the Audit Committee and assists with the assessment of the Audit Committee against the CIPFA Practical Guidance for Local Authorities.

3. Report Implications

3.1 Resource

There are no direct resource implications arising from this report.

3.2 Risk

In overall terms, our Internal Audit assignments, the risk management system, investigations, consultancy and help-desk advice provides a sufficient level of assurance over the governance, risk management and internal control compliance with the Financial Directives and key Council policies. However, the areas highlighted for improvement present residual risk which management are progressing.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Key Priorities within the Single Midlothian Plan

This report does not relate directly to the key priorities within the Single Midlothian Plan.

3.5 Impact on Performance and Outcomes

None.

3.6 Adopting a Preventative Approach

This report addresses the Council's policy to have a robust internal control environment, management of risk and effective governance.

3.7 Involving Communities and Other Stakeholders

This statement on the Council's Internal Control Environment is as a result of consultation with management during audit assignments, the Corporate Management Team and the Chief Executive.

3.8 Ensuring Equalities

We found no equalities issues to report on during the financial year. Internal Audit considers equalities issues as part of every audit assignment.

3.9 Supporting Sustainable Development

Internal Audit provides an independent assurance function which assists the sustainability of the Council's internal control environment, governance and management of risk. During the year, we have found no sustainability issues.

3.10 IT Issues

There are no IT issues with regard to this report.

4. Recommendations

The Audit Committee is invited to:

- (1) note and comment on the Annual Assurance Report; and
- (2) note that the weaknesses identified with internal controls in 2016/17 will be followed up in 2017/18 and updates will be provided to the Audit Committee.

Date: 23 May 2017
Report Contact: Elaine Greaves, Internal Audit Manager
Tel: 0131 271 3285
E-Mail: Elaine.Greaves@midlothian.gov.uk

Appendices:

- Appendix 1: Summary of work undertaken in 2016/17 and progress against the 2016/17 Internal Audit Plan
- Appendix 2: Impact of Integration Joint Board
- Appendix 3: Changes to Audit Plan
- Appendix 4: Definition of Internal Audit Assurance Categories
- Appendix 5: Balanced Scorecard Measures

**SUMMARY OF WORK UNDERTAKEN IN 2016/17 AND PERFORMANCE
AGAINST THE INTERNAL AUDIT PLAN**

| No | Audit Activity | Date reported to Audit Committee | Comment |
|----|--|---|---|
| 1 | A review of the Code of Corporate Governance | June 2017 | An audit of a sample of controls listed in the Code of Corporate Governance was reviewed for operational effectiveness. Testing identified that the key elements were in place and operating effectively. Issues raised are recorded within the Internal Audit Manager's annual assurance report. |
| 2 | Annual Assurance Report | June 2017 | A high level summary of the control environment of the Council by the Internal Audit Manager. The statement is also used to inform the Annual Governance Statement. |
| 3 | Self assessment against the public sector internal audit standards | June 2017 (incorporated into Annual Assurance report) | No material exceptions to the standards were noted through undertaking the assessment. |
| 4 | Devolved School Budgets | May 2016 | This audit reviewed 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 and whether the Devolved Scheme had been updated following publication of the revised Scottish Government guidance. The Audit identified that there had not been an assessment of the Council's Devolved Scheme against the revised Scottish Government Guidance so this element was rated as weak. The other control objectives were rated as Good. |
| 5 | Financial Assurance for money delegated to the Integration Joint Board | May 2016 | This audit concluded that the Financial Assurance carried out by the Council has followed the guidelines laid out by the Scottish Government and therefore has followed an adequate assurance process. Recommendations were raised relating to the management of risk. |
| 6 | Follow up of Completed Internal Audit Recommendations | June 2016 | A follow up review was undertaken of a sample of previously raised recommendations made by Internal Audit. A sample of 40 recommendations recorded as 'completed' by management on the Covalent system was reviewed to confirm the adequacy of the actions taken. 26 were found to have been implemented satisfactorily, 13 were partially complete and 1 was found to be unsatisfactory (related to Construction Industry Scheme and the requirement to deliver annual training to managers). |
| 7 | Follow up of Controls Operating over Developer Contributions | June 2016 | A follow up review was undertaken which concluded that management are addressing the risks identified in the original audit and that the recommendations already completed or underway will, once fully implemented, reduce risk to an acceptable level. |

| No | Audit Activity | Date reported to Audit Committee | Comment |
|----|---|----------------------------------|---|
| 8 | Follow up review of Business Transformation Programme | September 2016 | A follow up review was undertaken which concluded that of the 35 recommendations originally raised in the report, 8 of the recommendations required further work. This related to highlight reports, annual report, health checks, closure reports, central register of projects, risk register and Corporate Asset Management Strategy. |
| 9 | Review of Controls Operating over Care at Home | September 2016 | This audit reviewed the controls in place over the monitoring of service provision by Care at Home suppliers. The audit was rated as average, with recommendations raised in relation to service provision (quality issues and shortage of delivered care hours), vacant quality assurance officer post and management of complaints. |
| 10 | Petty Cash Follow up review | September 2016 | A follow up review was undertaken which concluded that controls over petty cash have improved and the level of petty cash spend has reduced. Further work is required for 6 recommendations and 3 recommendations are still in progress. Additional testing highlighted some services still failing to record VAT correctly and claiming for items that should have been processed through the Accounts Payable system. |
| 11 | Self-Directed Support | September 2016 | This audit reviewed the controls operating over Self-Directed Support. The audit was rated as average with recommendations raised in relation to the risk register, updating of policies, monitoring the roll out of self-directed support, letters of agreement and audit trails. |
| 12 | Internal Audit Recommendations Performance Report | December 2016 | A review of overdue recommendations was undertaken and this highlighted that Internal Audit had raised 497 recommendations over the last 4 years. 82% of these had been completed, 11% had not reached their due date and 7% were overdue at the time of testing. |
| 13 | Welfare Reform | December 2016 | This audit reviewed the key controls in place over the implementation of Universal Credits. The audit was rated as good with recommendations raised in relation to improving management information, system interface issues and the recovery of Housing Benefit overpayments. |
| 14 | Tyne Esk Leader Grant Fund | December 2016 | This audit reviewed the controls in place for the Tyne Esk LEADER Programme. The audit was rated as good with recommendations raised in relation to the register of interests, storage facilities for records, minutes of meetings and the requirement to obtain clarification from the Scottish Government on a number of points (eg Performance Indicators) |
| 15 | National Fraud Initiative | December 2016 | The purpose of the report was to provide a summary of how the Audit Scotland report (published in June 2016) relates to the work undertaken within Midlothian, to review actions taken to address the |

| No | Audit Activity | Date reported to Audit Committee | Comment |
|----|---|---|--|
| | | | recommendations made and to provide comment on the self appraisal checklist undertaken. |
| 16 | Corporate Fraud Annual Report | December 2016 | The purpose of the report was to provide an update on the activities of the Corporate Fraud team for the period October 2015 to September 2016. Activities included reviews of Council tax discounts and exemptions to identify any discounts or exemptions that are claimed when they should not be and providing training to the Housing team to identify potential social housing recoveries. This work identified savings of around £250K. The team have been involved in updating council fraud related policies, carrying out internal investigations, handling helpdesk enquiries and supporting the Internal Audit section with elements of their work including reviews of Corporate Governance and Petty Cash. |
| 17 | Fraud Policy and Procedures | December 2016 | The Council's policies on Whistle blowing and Anti-fraud and Corruption were reviewed and updated and a new stand alone Anti-bribery policy was created following new guidance from the Scottish Government and CIPFA. A draft stand alone policy on Gifts and Hospitality has been created but this has not yet been finalised. |
| 18 | Progress Report Against the Internal Audit Plan | December 2016 | Noted progress and proposal to delay the review on Named Person (Children and Young People's Act) since there is a delay in implementing this legislation. |
| 19 | Progress Report Against the Internal Audit Plan | March 2017 | Verbal update on the plan and proposal to delay 3 audits (Insurance, Bank & Cash and Sickness Absence). |
| 20 | Construction Industry Scheme | Included within the Annual Assurance report | The objective of the audit was to carry out an annual review (as requested by HM Revenue and Customs) of the controls operating over the Construction Industry Scheme and to test that the scheme rules are being complied with. Controls were found to be satisfactory with 2 minor recommendations raised. |
| 21 | Arrears | Estimated for June 2017 Audit Committee At final reporting stage | The objective of the audit was to review the Council's management over the collection of overdue debt including council tax, rental income and overpaid housing benefit. The audit was rated as average with recommendations raised in relation to performance information, procedures, complaints and management information. |
| 22 | Arrears – Sundry Debt | Estimated for June 2017 Audit Committee At final reporting stage | The objective of the audit was to review the Council's management over the collection of overdue sundry debt. The audit was rated as average with recommendations raised in relation to performance information, procedures, performance monitoring, reconciliation of bad debt write offs, legal escalation of debt and invoicing of customers already in debt. |

| No | Audit Activity | Date reported to Audit Committee | Comment |
|----|---|--|---|
| 23 | Private Public Partnerships | Estimated for June 2017 Audit Committee At final reporting stage | The objective of the audit was to review the current utilisation of buildings to ensure best value is being achieved. The audit was rated as average with recommendations raised in relation to third party income, access to and marketing of facilities and management information. |
| 24 | Health and Safety | Estimated for September 2017 Audit Committee At draft reporting stage | To review the adequacy of the control framework designed by management to allow compliance with Health and Safety legislation. |
| 25 | Accounts Payable Compliance Review | Fieldwork Underway | This is the main system used by the Council to pay suppliers for goods and services. |
| 26 | Monitoring of External Care Homes | Fieldwork Underway | To assess the adequacy of the Council's internal quality control over third party care home providers. |
| 27 | Financial Strategy / Delivering Excellence | Planning underway | To review the frameworks established for delivering the financial strategy including the Delivering Excellence model and testing a sample of service areas that are progressing through this model. |
| 28 | Fleet Management | Planning underway | To review the controls over the management of the Council's fleet vehicles including the linkage to the Council's asset management plans. |
| 29 | Social Housing Audit | Not commenced | To review the adequacy of the control framework established by management to allow successful delivery of the Social Housing Programme. |
| 30 | Investigations | N/A | 2 investigations have been undertaken and 2 are underway. |
| 31 | Consultancy engagements undertaken / underway are: <ul style="list-style-type: none"> • 5 Investigations undertaken on behalf of Human Resources (acting as the Investigating Officer) • Advice to Communities and Performance Team on the Following the Public Pound Policy • Control Advice over payment of a grant to a playgroup • Control Advice to Adult Services for Carers' Mileage Claims • Assisting with Service Review of the section • Purchasing Cards (underway) | N/A | Where consultancy reviews highlight control issues these are reported to the Audit Committee. |

| No | Audit Activity | Date reported to Audit Committee | Comment |
|----|---|----------------------------------|---|
| | <ul style="list-style-type: none"> Stores (underway) | | |
| 32 | Support for the Risk Management Group / Integrity and Contest Groups | N/A | Internal Audit provided support to the Risk Management Group and the Integrity and Contest Groups throughout the year. |
| 33 | Help Desk Facility | N/A | 71 individual enquires were raised with Internal Audit over the year. The nature of the enquires vary considerably but have included: concerns raised by members of the public which were either managed by the Internal Audit team or were referred for resolution to the appropriate Council area; and the provision of advice on internal controls. |
| 34 | Co-ordinating the submission of Audit Scotland Reports to the Audit Committee | Various dates | <p>A total of 4 Audit Scotland Reports have been submitted to the Audit Committee over the period and include:</p> <ul style="list-style-type: none"> An overview of local government in Scotland 2016 – reported in May 2016 The National Fraud Initiative in Scotland – reported in December 2016 Maintaining Scotland's roads: a follow up report – reported in December 2016 Local Government in Scotland Financial Overview 2015/16 – reported in March 2017 |

MIDLOTHIAN INTEGRATION JOINT BOARD (MIJB)

On 20 August 2015, the Internal Audit Manager of Midlothian Council was appointed as the Chief Internal Auditor of the Midlothian Integration Joint Board. This necessitated the development of an Audit Plan for the Midlothian Integration Joint Board. The following work was undertaken in 2016/17 in relation to the Midlothian Integration Joint Board:

| No | Audit Activity | Date reported to the MIJB Audit & Risk Committee | Comment |
|----|--|---|--|
| 1 | MIJB Internal Audit Charter | June 2016 | This report presented the Internal Audit Charter, specified for the Midlothian Integration Joint Board, to the Audit and Risk Committee for approval. |
| 2 | Strategic plan | June 2016 | This audit reviewed the processes used to develop the MIJB Strategic Plan and directions. It concluded that generally these processes were adequate and operating effectively. |
| 3 | Financial Assurance | August 2016 | The objective of this audit was to provide an opinion on the Financial Assurance paper from the Chief Finance Officer of the MIJB. Recommendations were made in relation to agreement of overspends, performance reporting, the budgeting process and the use of the Social Care fund. |
| 4 | Internal Audit Recommendations Performance report | December 2016 | A review of overdue recommendations was undertaken and this highlighted that Internal Audit had raised a total of 43 recommendations. 20 of these had been completed, 3 had not yet reached their due date and 20 were overdue. It was reported that the original expected completion dates were too optimistic and new implementation dates were agreed. |
| 5 | Progress report against the Internal Audit Plan | December 2016 | Noted progress on the plan and provided indicative dates for completion of outstanding tasks. |
| 6 | Self- Directed Support | December 2016 | This report was provided to the MIJB for information. |
| 7 | Review of controls operating over Care at Home | December 2016 | This report was provided to the MIJB for information. |
| 8 | Follow up of Completed Internal Audit Recommendations | March 2017 | A follow up review was undertaken of a sample of previously raised recommendations made by Internal Audit. A sample of 10 recommendations recorded as 'completed' by management on the Covalent system was reviewed to confirm the adequacy of the actions taken. 9 were found to have been implemented satisfactorily and 1 was not implemented (related to resource allocation at locality level). |
| 9 | Review of Corporate Governance and support for the Annual Governance Statement | To be timed to support the Annual Governance Statement (June 2017 MIJB) | Assessment of code of Corporate Governance undertaken. |
| 10 | Chief Internal Auditor's Annual Assurance Report | To be timed to support the Annual Governance Statement (June 2017) | A high level summary of the control environment of the MIJB by the Chief Internal Auditor. The statement is also used to inform |

| No | Audit Activity | Date reported to the MIJB Audit & Risk Committee | Comment |
|----|--|---|---|
| | | MIJB) | the Annual Governance Statement. |
| 11 | Assessment against PSIAS | To be timed to support the Annual Governance Statement (June 2017 MIJB) | This will be incorporated into the Annual Assurance report. |
| 12 | Monitoring of Performance | Fieldwork underway | Fieldwork has commenced but awaiting drafting of the Annual Performance report before this can be reviewed. |
| 13 | Directions to the NHS and Midlothian Council | Fieldwork underway | This is being undertaken by NHS Lothian Internal Audit. The Terms of reference has been agreed and the audit is planned to be concluded by 23 June 2017. |
| 14 | Help Desk / Administration | N/A | Internal Audit has provided guidance and advice to management on internal control in 2016/17 which included: a comparison of other Lothian IJB Risk Frameworks; assistance with development of a Code of Corporate Governance and Annual Governance Statement; and monitoring for submission of relevant Audit Scotland Reports to MIJB Audit and Risk Committee. |

Internal Audit has also provided support in relation to the development of the MIJB Financial Directives, Standing Orders and the Code of Corporate Governance.

CHANGES TO THE MIDLOTHIAN COUNCIL AUDIT PLAN FOR 2016/17

The following amendments have been made to the Audit Plan approved by the Audit Committee in March 2016:

| No | Audit | Change (Added / Delayed) |
|----|--|--|
| 1 | Purchasing Cards | Added A request was received to review the controls over purchasing cards, recently rolled out across the Council. Planning undertaken |
| 2 | Stores | Added Management requested that this be postponed from 2015/16 so it was included in the 2016/17 Internal Audit Plan. Fieldwork underway |
| 3 | Service Review | Added A service review of the Internal Audit and Corporate Fraud team, as part of the Delivering Excellence programme, is underway. Initial rationale report presented to CMT on 29 March 2017. |
| 4 | Bank and Cash Compliance Review | Delayed Audit delayed until 2017/18 as new till and management information systems are being introduced at leisure centres. |
| 5 | Children and Young People's Act – Named Person | Delayed Audit delayed until 2017/18 as national delay in implementing legislation. |
| 6 | Insurance | Delayed Audit delayed until 2017/18 as a tender exercise is in progress. |
| 7 | Sickness Absence Management | Delayed Audit delayed until 2017/18 as a project is in place to review the current processes and it would be appropriate therefore to delay until project is completed. |

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

| Level of Control | Reason for the level of Assurance given |
|-------------------------|---|
| Excellent | The control framework is of a high standard with no unacceptable risks identified. |
| Good | The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management. |
| Average | The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible. |
| Weak | The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council. |
| Poor | The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council. |

Summary of Balanced Scorecard Measures

| Target / Measure | Performance |
|--|---|
| To hold at least quarterly one to one meetings with the Chair of the Audit Committee | 6 meetings held. Met. |
| To hold at least quarterly one to one meetings with the Chief Executive | 10 meetings held. Met. |
| To Audit all Corporate Risks on a three year cycle | All major risks were covered in the 2016/17 audit plan Met. |
| The follow up of recommendations. Two reports per year and specific follow up reviews. | Met. |
| Adoption of PSIAS | Self assessments show a good level of overall compliance. This will be subject to external scrutiny in 2017/18. Met. |
| Percentage of qualified staff | All internal auditors hold a relevant professional qualification. The two fraud officers hold accredited fraud qualifications. Met. |
| Training provided to Internal Audit Staff | Budget available / training needs identified as part of performance management framework. All staff are members of professional bodies and must undertake continual professional development. Development plans / training logs maintained. Met. |
| Satisfaction rates from client surveys | Feedback questionnaire received from Chair of Audit Committee in March 2017. Post Audit Questionnaires are being reviewed and were therefore not issued during 2016/17. Off target. |
| Involvement of Internal Auditors in major change initiatives | Review of Delivering Excellence / Financial Strategy including in audit plan. Met. |
| Compliance with Internal Audit strategy | Audit strategy is to review strategic risks, key processes and systems, and to have time set aside for investigations and consultancy. This approach has been followed in 2016/17. Met. |

Annual Governance Statement

Report by: Kenneth Lawrie, Chief Executive

1 Purpose of Report

This report provides an assessment of the Council's compliance with its Code of Corporate Governance and invites the Audit Committee to note the attached draft statement which is to be included in the financial statements.

2 Background

- 2.1** 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.
- 2.2** Elected Members and senior management are responsible for the governance of the business affairs of Midlothian Council and have therefore 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.
- 2.3** This framework includes a requirement that an Annual Governance Statement (AGS) should be prepared; that this be included as part of the Financial Statements; and that the AGS be authorised by the Leader of the Council and Chief Executive.
- 2.4** Each year, the level of compliance with the Code of Corporate Governance is monitored by requiring Heads of Service (including the statutory post of Section 95 Officer) to complete a self-assessment against the key elements of the Code. Input from the Monitoring Officer is also sought. Internal Audit independently reviews a sample of control elements from the Code, as well as using evidence from its own reviews of Council performance undertaken during the year. The conclusions of any external inspections are also used to help inform the AGS.

2.5 A copy of the proposed AGS for 2016/17 is shown at Appendix 1.

3 Report Implications

3.1 Resource

There are no direct resource implications arising from this report.

3.2 Risk

The AGS highlights where progress has been made in reducing risks within the Council over the period 2016/17 and also highlights where further work is planned in 2017/18 to reduce risk further.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Key Priorities within the Single Midlothian Plan

By ensuring that the Council has proper governance arrangements in place, this provides a suitable framework when seeking to achieve the key priorities of the Single Midlothian Plan.

3.5 Impact on Performance and Outcomes

Without good governance arrangements, performance and outcomes may be adversely affected.

3.6 Adopting a Preventative Approach

This report addresses the Council's policy to have a robust internal control environment, management of risk and effective governance.

3.7 Involving Communities and Other Stakeholders

The AGS has been prepared following consultation with Chief Officers, Heads of Service, the Monitoring Officer and Internal Audit.

3.8 Ensuring Equalities

An Equalities Impact Assessment (EQIA) is not required at this stage and there are no equalities issues arising from the report.

3.9 Supporting Sustainable Development

There are no sustainable development issues raised in this report.

3.10 IT Issues

There are no IT issues raised in this report.

4 Recommendations

The Audit Committee is invited to consider and comment on the proposed Annual Governance Statement prior to its finalisation.

Date: 13 June 2015

Report Contact:

Name Alan Turpie Tel No 0131 271 3667

alan.turpie@midlothian.gov.uk

Background Papers:

Appendix 1 – Annual Governance Statement

Annual Governance Statement 2016/17

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: Framework (2016). The Code has been reviewed and updated in line with the new International Framework of Good Governance in the Public Sector which was implemented on 1 April 2017. 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 7 core principles which are supported by 20 sub-principles and 91 behaviours and actions that demonstrate good Governance. A draft copy of the revised Local Code of Corporate Governance is pending approval by the Council. Elements of good governance included are:

- Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the Council;
- Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements;
- Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear;
- Developing formal and informal partnerships to allow resources to be used more efficiently and outcomes achieved more effectively;
- Establishing a clear policy on the type of issues that the Council will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes;
- Having a clear vision, which is an agreed formal statement of the Council's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the Council's overall strategy, planning and other decisions;

- Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision;
- Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided;
- Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets;
- Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints;
- Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources;
- Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained;
- Implementing robust and integrated risk management arrangements and ensuring that they are working effectively;
- Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the Council's financial, social and environmental position and outlook;
- Aligning the risk management strategy and policies on internal control with achieving objectives ;
- Evaluating and monitoring risk management and internal control on a regular basis;
- Ensuring effective counter fraud and anti-corruption arrangements are in place;
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor;
- Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment and that its recommendations are listened to and acted upon;
- Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance;
- Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on the assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement); and
- Ensuring that recommendations for corrective action made by external auditor are acted upon.

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 Heads of Service;
- An annual review, by Internal Audit, of compliance with the Council's Local Code of Corporate Governance;
- The Internal 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's overall Audit Opinion for the Annual Governance Statement is included within the Internal Audit Annual Assurance Report for 2016/17 and concludes that overall the Council's framework of governance, risk management and internal control over the period 2016/17 are 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.

The programme of Internal Audit work undertaken in respect of 2016/17 was sufficient in breadth and depth to allow a robust and balanced opinion to be formed.

The Head of Audit (the Internal 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. There have been no threats to the independence of the internal audit activity during the period.

The Internal 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 2016/17 but will be undertaken in 2017/18 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). However, an assessment of Internal Audit's work is undertaken each year by the Council's external auditor as part of their annual audit. Their report in 2015/16 found this to be satisfactory.

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, but identified a small number of areas where performance could be improved. An action plan has been developed to address these issues and the majority have already been acted upon.

A number of risks were effectively managed in 2016/17 and Midlothian Council continues to support the Integration Joint Board with its approach to risk management.

A number of governance improvements were highlighted in the 2015/16 self assessment and progress has been made in 2016/17 on the following:

| Area for Improvement identified in 2015/16 | Action Undertaken in 2016/17 |
|--|--|
| Key priorities and Financial Strategy To continue to progress the Council's key priorities and deliver the Financial Strategy | A Financial Strategy update, including recommendations for the 2017/18 budget was considered by Council on 7 February 2017. Action is ongoing to develop the longer term financial strategy and develop a change programme to address the identified financial challenge. As part of this work, updates are provided through regular reports to Council. |
| Procurement To update all procedures and processes to comply with the new procurement legislation | Procedures and processes have been updated for all legislative changes that have taken place in the last year. |
| 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 | Following implementation of the framework with effect from 1 April 2017 this action has been addressed and a draft revised Code of Corporate Governance is currently pending approval. |

| Area for Improvement identified in 2015/16 | Action Undertaken in 2016/17 |
|---|--|
| 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 | The review of Standing Orders and associated documents was presented and approved by Council in September 2016. |
| 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" | Partially complete. Policies updated and approved by the Audit Committee in December 2016. Still to be approved by Cabinet. |
| 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. | The Serious and Organised Crime Integrity Group has been established for Midlothian with a range of partners. The group focuses on the principles of the national agenda to deter, disrupt, divert and deter criminality and potential areas of activity. A parallel Prevent Strategy group is also focussed on the counter terrorism agenda. The Council is working closely with Police Scotland and is represented on the Police Division Serving Organised Crime Group. |
| Disaster recovery plans Ensure that disaster recovery plans have been adequately tested and to monitor the on-going testing of these. | This action remains an area for improvement following the return of the annual assurance questionnaires completed by Heads of Service, however a new Business Continuity Policy incorporating consideration of disruptions to service through impacts on buildings, people, system, and infrastructure etc has been drafted and is scheduled to be presented to CMT for approval. |
| 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) | Internal Audit periodically reviews whether recommendations have been implemented and reports the outcome of this to the Corporate Management Team and the Audit Committee. A review of overdue recommendations was undertaken in December 2016 and |

| Area for Improvement identified in 2015/16 | Action Undertaken in 2016/17 |
|--|--|
| | <p>in June 2016 a sample of 40 recommendations recorded as 'completed' by management were reviewed to confirm the adequacy of the actions taken. This confirmed that management have acted on Internal Audit recommendations and therefore controls have been strengthened. This exercise will be repeated in 2017 and the results will be reported to the Audit Committee.</p> |
| <p>Brexit To consider the effects on the Council if Article 50 of the Treaty on the European Union is triggered and to consider plans to ensure the Council's readiness and to minimise risk to the Council in terms of the resultant changes to procurement, data protection, planning, environmental legislation, employment law and grant funding.</p> | <p>A report to Council in November 2016 set out an initial assessment of the impact on Midlothian of the decision to leave the European Union. It concentrated on the loss of European Union grant aid, leaving wider questions of economic and social policy impact for a later report when it is clearer what the new relationship with the European Union will be. The Quarter 4 2016/17 Strategic Risk Register will also include some initial analysis of the potential impact on the Council from the triggering of Article 50, this will clarify as negotiations progress at a UK level and the final agreement is reached.</p> |

Those actions which are underway but which have not yet been fully concluded will continue to be progressed in 2017/18.

The following table sets out improvements to the governance framework which are to be progressed in 2017/18:

| Area for Improvement | Proposed Action in 2017/18 |
|-------------------------------------|---|
| Code of Corporate Governance | Midlothian Council's Code of Corporate Governance has been updated but this is still in draft and requires approval by Council. |
| Workforce Plans | Draft workforce plans have been developed but they require updating and a Council wide plan is required. |
| Post Project Implementation Reviews | Although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects. |

| Area for Improvement | Proposed Action in 2017/18 |
|----------------------------|---|
| Business Continuity Policy | The Council's current Incident Response Plans focus heavily on disruption to service delivery associated with building availability. A Business Continuity Policy, detailing the Council's approach to ensuring critical services and outcomes can be delivered during periods of business disruption, has been created and once approved by CMT, training and Business Continuity Plans will be rolled out across the Council. |
| Register of Interests | A Register of Interests for Council Officials requires further development. |
| Gifts and Hospitality | A standalone Gifts and Hospitality policy requires to be developed. |
| Internal Audit Plan | The service review of Internal Audit should be completed and any subsequent changes to the Internal Audit Plan (if any) require approval by the Audit Committee. |

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:

Derek Milligan, Leader of the Council / Kenneth Lawrie, Chief Executive

Date:

MIDLOTHIAN COUNCIL - AUDIT COMMITTEE

Annual Report from the Chair of the Audit Committee for the year ended 31 March 2017

1. 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".

2. Meetings

The Committee met formally five times in the year. A briefing session is held between the Chair and the Internal Audit Manager before each Audit Committee meeting. In addition the Chair 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 Chair also met Elected Members, Senior Officers, Audit Scotland and the External Auditors outside of these formal meetings.

There was an attendance rate of 80% for the members of the Committee during 2016/17.

3. Membership

The Audit Committee has a total of 8 members. There are six Elected Members (voting members), an Independent Chair and an Independent Voluntary Member represented on the Committee. The quorum for meetings of the Committee of 3 Councillors was achieved at all meetings during the year. 5 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 the Council's External Auditors.

4. 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 were authorised, along with other changes to the Standing Orders, by the full Council on 27 September 2016.

A training session for the new members of the Audit Committee is due to be held in June 2017 with EY, the External Auditors.

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 Chair 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.

5. Assurance Framework

The Annual Governance Statement for 2016/17 sets out the actions proposed for 2017/18 to further improve the Council's assurance framework. These include:

- the 'Delivering Good Governance in Local Government: Framework' was updated by CIPFA/SOLACE in 2016 but this has not yet been fully embedded. Midlothian Council's Code of Corporate Governance has been updated but this is still in draft and hasn't yet been presented to Council;
- draft workforce plans have been developed but these require updating and a Council wide plan is required;
- although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects;
- the Council's current Incident Response Plans focus heavily on disruption to service delivery associated with building availability. A Business Continuity Policy, detailing the Council's approach to ensuring critical services and outcomes can be delivered during periods of business disruption, has been created and once approved by CMT, training and Business Continuity Plans will be rolled out across the Council;
- a Register of Interests for Council Officials requires further development;
- a standalone Gifts and Hospitality policy requires to be developed; and
- the service review of Internal Audit should be completed and any subsequent changes to the Internal Audit plan (if any) should be approved by the Audit Committee.

6. Internal Audit Resource

The Internal Audit team had a complement of 4.2 FTE employees for the majority of 2016/17. An internal assessment against the Public Sector Internal Audit Standards (PSIAS) was undertaken and this showed compliance against the code. The Council is participating in the Scottish Local Authority Chief Internal Audit Group's reciprocal assessments within local government and the first external assessment of Midlothian is to be undertaken in 2017/18. Internal Audit reports directly to the Chief Executive, which strengthens the independence of the function.

7. Internal Audit Reports

Reports submitted by Internal Audit during the year have included:

Devolved School Management Scheme, Financial Assurance for money delegated to the Integration Joint Board, Follow up of Controls Operating over Developer Contributions, Follow-up Review of Audit Recommendations, Transformation Programme Follow-up Review, Review of Controls Operating over Care at Home, Follow-up Review of Petty Cash, Self-Directed Support, Corporate Fraud - Annual Report, Anti Fraud and Corruption, Anti Bribery and Whistleblowing Policies, Audit Scotland Report - National Fraud Initiative 2014/15, Tyne Esk LEADER and Welfare Reform - Universal Credits. These reports have been discussed by the Audit Committee and the recommendations made in the management actions plans have been endorsed.

The Committee observed a range of control weaknesses generally of a sporadic nature and capable of remediation. On areas such as Petty Cash, remediation, largely by payment card utilisation, has been a partial answer but further scrutiny will be desirable.

A number of Internal Audit reports encompassed areas of activity impacted on by governmental reforms. These include the Devolved School Management Scheme, Care at Home, Self-Directed Support and Welfare Reform. The risk control environment put in place is designed to ensure that there is no systemic failure in implementing the reforms and, in general, assurances were received that the risk control environment was effective. However in respect of Welfare Reform, it was noted that the early experience may not turn out to be statistically valid in the face of the full roll-out of Universal Credit which has the potential for significant impact on revenue due to be collected by the Council.

The Committee has also considered the questions of dispute resolution with regard to the Integration Joint Board (IJB) which is set out in the approved Integration Scheme. A further concern is the possibility of cross-subsidisation by one partner of the other and the arrangements will need continuing review to ensure that dysfunctional outcomes do not arise.

The Committee has made several recommendations in 2016/17 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.

8. Annual Assurance Report

The Annual Assurance Report on the Internal Audit function for the financial year 2016/17 will be submitted to the Audit Committee in June 2017 by the Internal Audit Manager. This report provides a summary of the work undertaken by the section in comparison to its plan and provides an overall opinion on the Council's system of control based on that work. The opinion states that overall the Council's framework of governance, risk management and control over the period 2016/17 was of a satisfactory standard and has been implemented and is monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment.

9. 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. Both of these reports are presented to and discussed by the Audit Committee. In December 2016, the Committee noted the output position of the Internal Audit function. There had been 497 recommendations made in the prior three years with 93% of the recommendations reported by management as implemented or "on target" to be implemented by the agreed date. This reflects a similar position to the previous year's performance (reported in December 2015) where 474 recommendations had been raised and 95% of these were reported as implemented or "on target" to be implemented by the agreed date.

However, staff indebtedness of around £1m and the age of the debtor book continues to be the subject of scrutiny.

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.

10. Fraud

The Council has a Corporate Fraud team and since October 2015 has undertaken reviews of council tax discounts and exemptions; worked with Housing to identify tenancy fraud; investigated matches as part of the Council's participation in the National Fraud Initiative; and delivered fraud awareness training to a number of areas in the Council. The team has identified circa £750,000 of savings (calculated using Audit Scotland's

guidance) in relation to this work. £651,000¹ of this is as a result of the recovery of 7 Council houses (4 of these houses totalling £372,000 were recovered in 2016/17).

11. National Fraud Initiative

Midlothian participates 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. A data match was undertaken in October 2016 and matches were received in January 2017. Key changes for the 2016/17 return include:

- Council tax reduction scheme data is an additional dataset required for the NFI 2016/17 exercise;
- Housing waiting list data is an additional dataset required for the 2016/17 exercise; and
- Council tax and electoral register data is now required the same year as the main exercise, but on a slightly different timescale.

Work is ongoing to check through the matches received to identify any fraudulent activity or overpaid benefits and discounts.

12. Newbyres Housing

The Audit Committee retain interest in the progress of 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 CO2 emissions and the absence of foundation membranes.

13. Financial Monitoring, Strategy and Management

The Committee has reviewed in 2016/17 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 also reviewed the Financial Strategy for 2017/18 and the change programme aimed at addressing the projected budget gap.

In March 2017, the Committee received an annual report on the Business Transformation Programme which stated that delivery of the financial savings element of the programme has been and will continue to be a key contributor to the wider change programme aimed at addressing the projected budget shortfalls. Savings achieved to date (31/3/17) total £12.310 million which

¹ Audit Scotland has advised that the appropriate calculation for the loss in respect of a fraudulent tenancy is £93,000 per tenancy to cover 2 years homeless accommodation, legal and administrative costs and 2 years future savings, assuming an average tenancy period of 4 years.

equates to 6.3% of the 2016/17 budgeted net expenditure. This includes further savings across the strands of the transformation programme of £2.791 million in 2017/18 rising to £5.437 million by 2021/22. Overall savings for the transformation programme are expected to be in the region of £17.8 million, or 9% of net expenditure.

However the Audit Committee has noted that the presentation of variances regarding the Transformation programme has changed to encompass departmental reforms in addition to the project specific work previously associated exclusively to the transformation group. The Committee was also aware of the comments of the Accounts Commission in March 2017: “Midlothian Council did not achieve its savings targets in 2015/16”.

Internal Audit highlighted in its follow up report on the Transformation Programme in the review year 2016/17, that projections are not consistently derived and variances measured without further reference to aspirational forward-looking targets. Thus the delivery of savings to address the projected budget gap achievement remains a high concern for the Audit Committee.

The Committee was made aware of the opening General Fund Reserve of £24.625 million at 31 March 2016 of which £7.851 million was earmarked leaving a General Reserve of £16.774 million.

Changes approved to the utilisation of reserves coupled with operational performance in the year to 31 March 2017 were such that the Section 95 Officer reported to the Council in February 2017 that the projected General Fund Reserve at 31 March 2017 was £9.378 million of which £3.970 million would be utilised in setting the 2017/18 budget leaving a reserve position which is below the £8 million level previously considered appropriate.

The latest Financial Strategy report identified a budget shortfall for 2017/18 of £12.431 million, around 6% of net cost of services, which after reflecting the approved change programme required the utilisation of reserves of £3.970 million to deliver a balanced budget for the year.

It follows that the outlook is requiring immediate and sustained action to rebalance the revenue account.

14. Treasury Management

The Committee reviewed Treasury Management reports and noted that the average interest rate for Midlothian’s portfolio of borrowing remains lower than all other Scottish Councils. The Council has continuing access to PWLB long-term borrowing and other shorter term borrowing markets.

The existence of £10 million of cash on deposit with a German counterparty, while made entirely within the existing protocols, was the subject of debate and in the future the Committee may wish to review the approved counterparty criteria set by Council against reputational, financial or regulatory risk.

15. External Audit

The Audit Committee reviewed and discussed Grant Thornton's Annual Audit report, published in September 2016. Within the report it was stated that:

- while the Council generally budgets accurately, it does not have a good record of delivering savings. A number of observations reflecting the need for organisational tightening on IT systems, Register of Conflicts, Workforce Planning and Asset Revaluations were raised;
- the Internal Audit function was compliant with the requirements under Internal Audit Standards, delivers the specified plan and they have no concerns around arrangements currently in place to mitigate against fraud and corruption; and
- "our own observations of the Audit Committee are good. The Committee is well-attended, both by members and by senior Council officers. The Committee is also supported by Internal Audit, and by the Independent Chair, who provides additional perspective and financial expertise to the Committee".

16. 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.

In 2017/18, close scrutiny on a consistent basis of the various strands of the change programme and income generating changes needed to secure financial sustainability will be the highest priority.

Audit Committee Self Assessment

Appendix 1

Audit Committee Purpose and Governance

| 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? | <p>Yes. All Audit Committee minutes are circulated to full Council for noting and approval of recommendations made.</p> <p>An annual report is submitted by the Chair of the Audit Committee to full Council.</p> | | |
| 3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement? | <p>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 new Terms of Reference was developed and</p> | | |

| Good practice questions | Yes | Partly | No |
|--|---|--------|----|
| | approved by the Audit Committee and Council. | | |
| 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 | | |

| Good practice questions | Yes | Partly | No |
|-------------------------|---|--------|----|
| | 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 of 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 | Yes | | |
| ▪ 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 | Yes, The Audit Committee's ToR has been adjusted to | | |

| Good Practice Questions | Yes | Partly | No |
|---|--|--------|----|
| them? | include Ethics, Treasury Management and specific services reviews. | | |
| 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: | | | |
| <ul style="list-style-type: none"> 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 |

| Good Practice Questions | Yes | Partly | No |
|---|--|--------|--|
| | | | independent Chair and independent member and there is therefore effective challenge. |
| <ul style="list-style-type: none"> 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). | | |
| <ul style="list-style-type: none"> A size of a committee that is not unwieldy | Yes - membership limited to six elected members and independent chair and member. | | |
| <ul style="list-style-type: none"> Where independent members are used, that they have been appointed using an appropriate process. | Yes – person specification for chair 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 | | |

| Good Practice Questions | Yes | Partly | No |
|---|--|--|----|
| | 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. New members will be receive Audit Committee training in June 2017 | | |
| 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 | |

| Good Practice Questions | Yes | Partly | No |
|---|--|--|----|
| | | development and individual development programmes. An action has been raised to train new members of the Committee in June | |
| 16. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer? | Yes – Chief Executive, Directors and Section 95 Officer attends 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 | Yes. The Chair of the | | |

| Good Practice Questions | Yes | Partly | No |
|---|---|--------|----|
| performance from those interacting with the committee or relying on its work? | 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: <ul style="list-style-type: none"> • Training of new members of the Audit Committee. | | |

Audit Scotland Report: Local government in Scotland: Performance and Challenges 2017**Report by: Kenneth Lawrie, Chief Executive****1 Purpose of the Report**

The purpose of this report is to provide Audit Committee with a summary of the Audit Scotland report, 'Local government in Scotland: Performance and challenges 2017' and the Council's position in relation to the report's findings. The following is a link to the full report:

http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_170307_local_government_performance.pdf

2 Background

2.1 Local government in Scotland: Performance and challenges 2017 was published by the Accounts Commission in March 2017. The report provides a high-level, independent view of the challenges facing councils, how well they are addressing these and what more they can do. It is aimed primarily at Councillors and senior council officers as a source of information and to support them in their complex and demanding roles. The report covers the following three areas:

- The current and future challenges facing councils.
- Council progress in meeting these challenges, including performance in key service areas, public satisfaction and unit costs
- What more councils can do to ensure they are best placed to successfully manage the changes and challenges they face.

To help councillors who are new to the role, those who are re-elected, and council officers, the report includes additional supplements as follows:

- A self-assessment checklist for councillors – this has questions that councillors could ask to help them understand their council's position, scrutinise performance and make difficult decisions. Councillors should feel that they fully understand, and are satisfied with, the answers to the questions most relevant to them in their role within the council. (See Appendix 1)
- Good practice supplement – a summary of the good practice identified during the audit. It is not an exhaustive list of all good practice across Scotland but provides examples of councils improving performance

and processes or using innovative techniques. This may be a useful source of reference for councillors or senior officers when appraising options for changes. (See Appendix 2)

- 2.2** The report draws on findings from local government audit work in 2016 (including annual audit reports, Best Value audit reports and national performance audits) and published performance data. All audit reports are available on Audit Scotland's website which can be accessed via the following link (<http://www.audit-scotland.gov.uk/about-us/audit-scotland>).

3.0 Performance and challenges 2017 – Report findings

- 3.1** This section details the key messages from the report, the recommendations included and Midlothian's position in relation to the recommendations.

- 3.2** The key messages identified in the report include:

- Councils have faced significant challenges from a long-term decline in revenue funding and from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work.
- Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite these challenges, councils' performance has been maintained or improved.
- With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward.
- A councillor's role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account.
- Long-term financial strategies must be in place to ensure Council spending is aligned with priorities, and supported by medium-term financial plans and budget forecasts. Even where the Scottish Government only provides Councils with one-year financial settlements, this does not diminish the importance of medium and longer-term financial planning. This is necessary to allow Councillors and officers to assess and scrutinise the impact of approved spending

on future budgets and the sustainability of their Council's financial position.

3.3 The recommendations identified within the report state that Councils should:

- set clear priorities supported by long-term strategies and medium-term plans covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions.

A clear set of priorities for the Council and its partners have been developed through the Single Midlothian Plan process and the Council service plans which flow from that. Performance monitoring is focused on the key priority areas.

Whilst the Financial Strategy presented to Council in December 2016 (updated February 2017), and the earlier introduction of the 'Delivering Excellence' framework responds to the need for the medium term, the Strategic Leadership Group, have identified the need to develop a five year financial plan linked to a clear vision for Midlothian through to 2021/22. This looks to articulate and provide further clarity regarding the direction of travel and the ambition for Midlothian longer term, together with the financial implications of that.

- ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year

The budget exercise reflected in the Financial Strategy which was presented to Council in December 2016 was largely informed by the work of the Strategic Leadership Group and in particular followed a robust review and challenge exercise for each Head of Service from their peers. This resulted in a more cohesive 'Delivering Excellence' programme and provided clarity of spend and savings projections going forward. However the need to utilise reserves in 2017/18 and the projected greater decline in revenue funding in future years demands a new focus on the forward financial plan. Improved financial information is an important basis for this.

- have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future

An annual workforce plan is now produced for each service area and this is used to inform service and workforce planning decisions. Each Head of service completes projections of future workforce requirements and an associated action plan. The completed service level plans are then amalgamated into a council level report and action plan.

- ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department level. This will allow councils to better assess the opportunities and risks in staff changes

The workforce planning data, at service level, is currently updated on an annual basis, however, ways of providing workforce updates on a quarterly basis to ensure service managers have the most accurate data on which to base decisions is currently being developed.

- thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes

The service review and continuous improvement agenda is supported by the Delivering Excellence Framework, which includes the need to consider a range of service delivery models. Service planning is also informed by the Single Midlothian Plan which ensures a focus on agreed priorities and desired outcomes.

- support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources

A key activity carried out as part of the Single Midlothian Plan annual review and identified as an expected delivery model to be considered as part of any service redesign is community engagement and consultation and, where possible, co-production is a targeted method of delivery. The 'Shaping Our Future' exercise carried out in 2016 demonstrates a clear focus on the need to encourage participation from communities, but this will need to be further developed for future years. The Council is responding positively to the Community Empowerment Act and has supported participatory budgeting exercises.

- ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles

A full induction programme was developed for implementation following the May 2017 elections and is ongoing. This provides a strong basis for further development work with Elected Members to support them in their roles.

- ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas

Midlothian's public performance reporting activities meet current national standards and over the last few years has received a largely positive report when externally assessed. Areas previously noted for improvement have been addressed such as clear links to all SPIs (Statutory Performance Indicators) categories.

- continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice from each other.

Midlothian participates fully in Local Government Benchmarking and family groups and ensures an active internal focus on the agreed LGBF indicators by incorporating them within the ongoing planning and performance management reporting.

4 Report Implications

4.1 Resource

There are no direct resource implications as a result of this report.

4.2 Risk

Whilst there are no additional direct risks associated with this report, the Audit Scotland Report – Local government in Scotland: Performance and challenge 2017 does ask members to consider the wider scrutiny and performance management and risk elements associated with their role.

4.3 Single Midlothian Plan

Themes addressed in this report:

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

4.4 Key Priorities within Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

This report does not directly impact Midlothian Council's key priorities but a key message within the Audit Scotland Report does make reference to the need for clear priorities.

4.5 Impact on Performance and Outcomes

The report does not directly impact Midlothian Council's and wider partners performance and outcomes but it does stress the need to ensure consideration is given to the wider strategic planning and objectives as part of the council's response to Audit Scotland's finding noted in their report.

4.6 Adopting a Preventative Approach

This report supports current actions and plans in place to adopt preventative approaches.

4.7 Involving Communities and Other Stakeholders

This report supports involving communities and the Audit Scotland Report references the need to address the requirements in the Community Empowerment (Scotland) Act 2015.

4.8 Ensuring Equalities

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

4.9 Supporting Sustainable Development

The recommendations in this report support Midlothian Council's position in relation to Audit Scotland's findings for Local government in Scotland: Performance and challenges 2017 and supports ongoing sustainable development.

4.10 IT Issues

There are no direct IT issues arising from this report at this time.

5 Recommendations

The Committee is asked to note the Audit Scotland report and the position of Midlothian Council in relation to the report's recommendations.

Appendix 1: Local government in Scotland: Performance and challenges 2017
– Supplement 1: Self-assessment tools for councillors

Appendix 2: Local government in Scotland: Performance and challenges 2017
– Supplement 2: good practice

Date: 09 June 2017

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Tel No: 0131 271 3445

Background Papers:

Accounts Commission - Local government in Scotland: Performance and challenges 2017– (March 2017)

Local government in Scotland: Performance and challenges 2017

Key messages

1. Councils have faced significant challenges from a long-term decline in revenue funding from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work.
2. Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite these challenges, councils' performance has been maintained or improved.
3. With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward. A councillor's role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account.

Recommendations

Councils should:

- set clear priorities supported by long-term strategies and medium-term plans covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions. **Exhibit 14 (page 34)** sets out the main elements of a councils' financial planning processes and how these link with other council plans
- ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year
- have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future
- ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department level. This will allow councils to better assess the opportunities and risks in staff changes
- thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes
- support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources
- ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles
- ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas
- continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice from each other.

Self-assessment tool for councillors

This self-assessment captures a number of potential questions for councillors and relates to our report ***Local government in Scotland 2017: Performance and challenges***. It is designed to help councillors identify how well informed they are about key issues in their council and to highlight areas where they may wish to ask further questions of officers.

As part of ***Local government in Scotland: Financial overview 2015/16*** published in November 2016, we produced a **checklist for councillors** related to financial matters. This may be useful to help councillors identify how well informed they are about financial issues in their council.

| How well informed am I? | | |
|---|-----------------|---|
| Questions for councillors to consider | What do I know? | Do I need to ask any further questions? |
| Workforce planning (paragraphs 24-32) | | |
| What do you need the workforce to look like in terms of numbers, skills and knowledge? | | |
| Does your workforce data allow accurate analysis of changes to the workforce at an organisation and department level? | | |
| Do you have an organisation-wide workforce plan with realistic targets and timescales for meeting objectives? | | |
| Do you think your organisation-wide workforce plan will ensure staff reductions do not have a negative impact on the skills mix and ability of your council to scrutinise, manage and deliver services effectively? | | |
| Do you have the staff and skills necessary to manage change and deliver services? | | |
| Scrutiny (paragraphs 39-40) | | |

| How well informed am I? | | |
|---|-----------------|---|
| Questions for councillors to consider | What do I know? | Do I need to ask any further questions? |
| How well do you scrutinise decisions on financial and service performance? | | |
| How do you ensure you have the knowledge and expertise you need to scrutinise effectively? | | |
| Community engagement (paragraphs 52-53 and 61-63) | | |
| How are you involving local communities and empowering them to design and deliver services to suit local needs? | | |
| Does your council have regular discussions with communities about service priorities and what level of service the council can afford to provide going forward? What is your role as councillor in this? | | |
| How can you consider more business in public? | | |
| Public satisfaction (paragraphs 50-51) | | |
| How can you better engage with local communities to understand why public satisfaction is declining? | | |
| What level of complaints does your council receive? For which departments? How has this changed? | | |

| How well informed am I? | | |
|---|-----------------|---|
| Questions for councillors to consider | What do I know? | Do I need to ask any further questions? |
| Are appropriate systems in place to deal with complaints? | | |
| Councillor skills and training (paragraphs 54-57) | | |
| How can you ensure that you have the right skills and knowledge to help carry out increasingly complex and challenging roles efficiently? | | |
| Transformational change and service redesign (paragraph 61-63) | | |
| How fully have you appraised all options for delivering services differently? | | |
| Do you need to invest in any skills, for example, change management? | | |

Local government in Scotland: Performance and challenges 2017

Good Practice

This supplement provides a summary of the good practice we identified during the audit. It is not an exhaustive list of all good practice across Scotland but provides examples of councils improving performance, improving processes, making savings or adopting innovative approaches. This may be a useful source of reference for councillors and senior officers when considering service redesign.

The Improvement Service and SOLACE also maintain the Innovation Exchange www.innovationexchange.scot/. This may also be a useful source of information on innovative projects being taken forward by Scottish councils. Councils can also access contact details for each project if they would like to find out more about a particular case study.

Digital and online solutions

Digital and online solutions provide opportunities for councils to significantly reduce costs. The estimated cost of a face-to-face visit is £8.21, a telephone call is £2.59 and an online transaction is £0.09. (Figures from Society of Information Technology Management).

Glasgow City Council

Glasgow City Council has launched a myglasgow app and a new website which allows users to request services online (for example, request a bulk uplift). This is expected to deliver savings of £3 million a year and improve the customer experience.

Improving procurement

East Ayrshire Council

Through service redesign, councils are also procuring new models of care. For example, in East Ayrshire Council, changes to its model of care for supported living from 24-hour care per person to more flexible care that promotes independence has saved the council almost £500,000 in 2016/17 (around 40 per cent of costs). The council also reports improved service user satisfaction.

Reducing unit costs

Glasgow City Council

Glasgow City Council reduced the cost of collecting council tax in real terms from £18.48 per dwelling in 2010/11 to £10.98 in 2015/16. It achieved this by redesigning processes, better use of technology and closer working with partner organisations. Over the same period, the collection rate increased from 92.3 per cent to 94.7 per cent.

City of Edinburgh Council

City of Edinburgh Council has reduced the net cost of street cleaning per 1,000 residents by over 50 per cent in real terms, from £37,006 to £16,646, with the council's cleanliness score only falling by 0.4 percentage points from 90.5 per cent to 90.1 per cent.

Community engagement

North Ayrshire Council

North Ayrshire Council reviewed its library opening hours in consultation with local communities and reduced the service by 475 hours a year, saving £315,000.

Options appraisal/review

South Ayrshire Council

The council has developed a comprehensive review system to help approve and reform services. This follows a nine-step process and includes topic selection, approval, consultations and options appraisal. The reviews and consultation procedures involve staff at all levels, trades unions and service users.

Through this approach, the council has reported that it is starting to achieve positive results. For example, in April 2015, the council carried out a property maintenance service review that concluded that there has been an overall average increase in productivity of staff of 15 per cent from 2014; and an increase in the number of jobs completed on time, from 68 per cent in 2013/14 to 87 per cent in 2015/16.

Stirling Council

Auditors at Stirling Council reported that the council has a project-driven approach where all projects need to be fully backed up by business cases and completed option appraisals before a decision is taken. Options are effectively challenged throughout the process to ensure that they are achievable and that the project provides value for money.

Sharing services

East Dunbartonshire, Inverclyde and West Dunbartonshire councils

East Dunbartonshire, Inverclyde and West Dunbartonshire councils are exploring opportunities to share a range of services, beginning with roads and transportation services. In February 2016, the councils estimated that they may be able to generate recurring savings of 15 per cent of current spending on these services by 2020.

Participatory budgeting

Comhairle nan Eilean Siar

Community members were involved in designing and procuring the Uist and Barra public bus service. The procurement process involved using an 'output performance specification'. In this, participants were asked at various public meetings to define their priorities, rank types of services and vote for their preferred price/quality ratio. The final decisions were made by panels of local people. This participatory budgeting approach has provided a more responsive service for the local community and the council has reported an increase in uptake since it began in March 2016.

City of Edinburgh Council

'£eith Decides' is the longest-running participatory budgeting project in Scotland and has been used by Leith Neighbourhood Partnership since 2010/11. The approach involves the local community deciding how 50 per cent of the partnership's community grants fund is spent. In 2014/15, a total of 1,625 people took part in scoring projects (an increase of 66 per cent on the previous year) and £22,092 (in grants of up to £1,000) was allocated to 25 projects. In addition to this, the number of people engaged in local decisions has increased significantly, from 320 in 2010/11 to 1,625 in 2014/15.

North Ayrshire Council

In November 2016, the council launched one of Scotland's largest online participatory budgeting projects in collaboration with Young Scot. Around 5,000 young people aged 11-25 years in North Ayrshire used Young Scot's online voting platform to allocate a share of £60,762 to youth projects in their local area.

Risk Management, Update for 1 January 2017 – 31 March 2017**Report by Chris Lawson, Risk Manager****1 Purpose of Report**

Audit Committee has requested regular reporting on the Council's Strategic Risks. The Strategic Risk Profile seeks to provide a strategic assessment at the current issues, future risk and the opportunities facing the Council.

The purpose of this report is to provide Audit Committee with the 2016/17 quarter 4 strategic risk management update, covering the period 1 January to 31 March 2017.

2 Background

Midlothian Council is operating in an increasingly demanding environment. New and returning councillors face major challenges from continued reductions in funding from the Scottish Government, greater demands for services from an ageing population and, growing school age population. The scale of these challenges mean it is more important than ever that Councillors provide effective leadership in setting a clear strategy and make the difficult decisions that will be required.

Midlothian Council has relied on the use of reserves to bridge the 2017/18 budget gap, utilising £3.970million to balance the budget. Incremental changes to services, increasing charges and reducing employee numbers are neither sufficient nor sustainable solutions for the scale of the challenge facing the Council which is in the region of £30m by 2021/22.

The Council will need to respond effectively to national policy priorities within the Scottish Government's Programme for Government and, along with partners, will require to demonstrate clear progress in Integrating Health and Social Care and in meeting the requirements of the Community Empowerment Act.

2.1 Strategic Risk Profile update

The following risks were added to Midlothian Council's Strategic Risk Profile in quarter 4:




- Fastest Growing Council in Scotland
- UK Decision to leave the European Union following the referendum
- Political uncertainty including Education Governance Review

The opportunities associated with Midlothian Council being the fastest Growing Council in Scotland were included to the risk profile within the opportunity section.













- 2.2** The issue of balancing the 2017/18 budget was addressed when the balanced budget presented to Council was approved on 7 February 2017. The on-going risk associated with financial stability and balancing the budget in future years remains, with the change programme becoming the most significant factor in seeking to identify and deliver on the reduction in expenditure and increased income opportunities required to enable the Council to set a balanced budget position in future years.
- 2.3** Pay and grading review was implemented in quarter three, the Investing in Our Workforce strategies moves into the risk section as there remains the potential that the Council does not fully realise the flexibility and efficiency changes sought through the review.
- 2.4** Welfare reform remains an item of focus as an issue in the Strategic Risk Profile in quarter 4 as the Department for Work and Pensions implemented the Universal Credit in full from 22 March 2017.







2.5 Strategic Risk Profile Summary

The Top Strategic Issues are summarised in table 1.






| Top Issues | Likelihood | Impact | Score | Evaluation | |
|----------------------|-------------------|---------------|--------------|-------------------|---|
| Financial Stability | 5 | 5 | 25 | Critical |  |
| The change programme | 4 | 5 | 20 | High |  |
| Welfare Reform | 5 | 4 | 20 | High |  |

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

| Strategic Risks | Likelihood | Impact | Score | Evaluation | |
|---------------------------------------|-------------------|---------------|--------------|-------------------|---|
| Balancing budget in future years | 5 | 5 | 25 | Critical |  |
| Scottish Abuse Inquiry | 4 | 5 | 20 | High |  |
| Growing Council | 4 | 5 | 20 | High |  |
| Review of Pay and Grading | 4 | 4 | 16 | High |  |
| Information Security | 3 | 5 | 15 | Medium |  |
| Health and Safety | 3 | 5 | 15 | Medium |  |
| Political uncertainty | 3 | 4 | 12 | Medium |  |
| Integration of health and social care | 3 | 4 | 12 | Medium |  |
| UK decision to leave the EU | 3 | 4 | 12 | Medium |  |
| Governance and standards | 3 | 4 | 12 | Medium |  |
| People risk | 3 | 4 | 12 | Medium |  |
| Legal and regulatory compliance | 3 | 3 | 9 | Medium |  |
| Working with other to | 3 | 3 | 9 | Medium | |

| Strategic Risks | Likelihood | Impact | Score | Evaluation | |
|--|------------|--------|-------|------------|---|
| deliver outcomes | | | | |  |
| Asset condition | 3 | 3 | 9 | Medium |  |
| Climate change | 3 | 3 | 9 | Medium |  |
| Internal control environment | 3 | 3 | 9 | Medium |  |
| Emergency planning and business continuity | 2 | 4 | 8 | Low |  |
| Corporate policies and strategies | 2 | 3 | 6 | Low |  |

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

| Strategic Opportunities | Likelihood | Impact | Score | Evaluation | |
|-------------------------|------------|--------|-------|------------|---|
| Growing Council | 5 | 5 | 25 | Critical |  |
| Shawfair | 5 | 4 | 20 | High |  |
| Borders rail | 5 | 4 | 20 | High |  |
| Easter Bush - Penicuik | 5 | 4 | 20 | High |  |
| City deal | 3 | 5 | 15 | Medium |  |

2.6 Strategic Issues – Rated Critical and High

2.6.1 Financial Stability

Midlothian Council faces greater demand for services against a backdrop of reducing central government funding. The Council required the use of £3.970 million from reserves to bridge the budget gap for 2017/18. The Strategic Leadership Group are aware that incremental changes are neither sufficient nor a sustainable solutions for the scale of the financial challenge facing the Council and recognise the need to be creative in the solutions to this challenge in change programme proposals. The genuine challenge is going to be the scale, pace and deliverability of the proposals being brought forward practically and politically.

2.6.2 The Change Programme

The strands of work that will continue to be necessary to address the projected budget shortfalls represent the change programme, encompassing:-

- Business Transformation Steering Group;
- The Delivering Excellence programme;
- The delivery of savings approved in 2016/17 and 2017/18
- The continued control over expenditure;
- The Transformation Programme;
- The EWIM programme;
- An updated Capital Strategy and Reserves Strategy;
- Operational savings encompassing financial discipline measures;
- The development of further savings options for 2018/19 and beyond.

2.6.3 Welfare Reform

Universal Credit Full Service was rolled out in Midlothian on 22 March 2017.

The Universal Credit Programme closes gateways for legacy benefits, therefore existing benefit claimants will no longer be eligible as Universal Credit rolls out and there are plans for the migration of those remaining claimants on current benefit types once the digital rollout is complete for all of Great Britain.

Awareness, advice and assistance is being provided by the Council. The projected outcomes are based on local data and evidence in conjunction with anecdotal information resulting in speculative scenarios. Monthly meetings are taking place via the Midlothian Operational Delivery Group to plan Universal Credit implementation.

2.7 Strategic Risks – Rated Critical/High

2.7.1 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 set out a Financial Strategy covering the period to 2021/22. In order to ensure the Services provided meet the needs of service users and are as efficient as possible the Council are implementing a Change Program, incorporating the Delivering Excellence framework for service review and redesign. This approach is expected to bring forward savings options in addition to ensuring service user needs are achieved.

A report setting out future budget savings will be brought forward to an early meeting of the new Council.

2.7.2 Fastest growing Council

Midlothian Council has been identified by the Scottish Government as the fastest growing Council in Scotland with a projected population growth of 26% between 2014 -2039. This would see the population of Midlothian grow from 86,000 – 108,000 by 2039. The growth is expected to see the 0-15 population increase by 20%. The fastest rate increase is expected in the 75+ population with a projected 106% increase between 2014 and 2039. Failure to resource and plan for these rises in population will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.

To plan for the impact this will have on the school estate, the Council have undertaken work to develop a Learning Estate Strategy which would seek to address the pressures expected from this and other known Government policies which will impact on capacity requirements within schools.

2.7.3 Scottish abuse inquiry

On 1 October 2015 the Scottish Government set up The Scottish Child Abuse Inquiry. The inquiry will report back to Scottish Government Ministers within 4 years with recommendations for the future to improve the law, policies and practices in Scotland relating to children.

If the inquiry finds historical cases that suggest incidents of abuse may have occurred within Midlothian, there would be passed onto Police Scotland for investigation.

The risks to Midlothian Council is that such a move could place doubt in the eyes of the public as to the safety of young children and young people who are currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse.

The Council recognises the potential for compensation claims deriving from the Scottish Government's Limitation (Childhood Abuse) (Scotland) Bill which will remove the three-year time limit on claims of child abuse. Some claims will be historic and relate to Lothian Regional Council, Midlothian District Council or their predecessors some will date post-reorganisation and relate to Midlothian Council.

The Council have set up an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise.

Currently the Council have received two Section 21 requests from the Inquiry Team and are working to ensure that required timescales to return all relevant information is met.

2.7.4 Review of pay and grading

During 2016 Midlothian Council made an investment of £2.67million to reduce in-work poverty. While enabling the Council to achieve a position where all employees were paid at or above the national living wage, there was a desire to secure improvements in flexibility, productivity and service quality as a result of this investment.

The employee grades, terms and conditions altered by these changes have now taken place. The risk to the Council is that following this substantial investment it does not realise the return in improved productivity and or flexibility across the workforce. The impact of pay and grading review is being kept under review by the Investing in our Workforce Project Board, with a focus on securing the gains.

2.7.5 Legal and regulatory compliance

Midlothian Council are currently required to provide 600 hours of nursery provision per year, this is equivalent to 15hrs 50mins per week over 38 weeks. The Scottish Government have committed to increase this to 1140hrs per year, equivalent to 30 hrs per week over 38 weeks per year. This new level of provision is to be in place from August 2020, although Scottish Government expects Council to expand provision towards this between now and August 2020.

Midlothian Council are looking at areas where there is capacity to begin to extend the provision. The full implementation will place demands on both Physical space and staff capacity. The demands associated with physical space will be captured as part of the Learning Estate Strategy work outlined in 2.7.2 above.

STRATEGIC OPPORTUNITIES

2.8.1 Shawfair

The Shawfair development with its new rail link provides a major incentive for house builders, employers, retailers and commercial interests; including opportunities to secure a low carbon community through a district heating scheme from the Zero Waste facility. The opportunity to create a new town of this size provides a unique opportunity for the Council.

2.8.2 Borders Rail

The Borders Rail provides the opportunity to support the 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. The Railway has also acted as a catalyst for housing growth in Midlothian particularly along the Rail corridor.

2.8.3 Easter Bush

Easter Bush offers fast growing opportunities in Science Technology Engineering and Mathematics (STEM), with opportunities to link directly with Education. Maximising partnership links between schools the University sector and the Bush will all support STEM opportunities.

2.8.4 City Deal

Midlothian Council is part of the South East Scotland Region City Deal bid for funding to Scottish and UK Governments.

The purpose of which is to support the acceleration of economic growth through investment in infrastructure/ housing/ skills and innovation.

Midlothian Council and city deal partners are awaiting feedback from UK Government and Scottish Government Officials on the city deal submission, the city deal sign off is expected in 2017.

2.8.5 Fastest Growing Council

Midlothian Council has been identified as the fastest growing Council in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council the Council has the opportunity to influence the future development of Midlothian and associated infrastructure, with a focus on area targeting, improving economic opportunities, improving education and health outcomes.

3 Report Implications

3.1 Resource

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

3.2 Risk

The Strategic Risk Profile seeks to articulate the significant risks facing the Council at any point in time.

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

The risks referred to in this report are set out within the Council's Strategic Risk Profile, attached as Appendix 1.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Impact on Performance and Outcomes

The purpose of the Council's risk management approach is to support a level of risk awareness, to inform decision making and support the Council to deliver on its key outcomes by highlighting and taking steps to mitigate potential disruption to the delivery of services.

3.5 Adopting a Preventative Approach

The Risk Management approach being taken by the Council is founded on a preventative approach to managing risks, where appropriate and more generally to decision making with far greater risk awareness.

3.6 Involving Communities and Other Stakeholders

Consultation has taken place with Senior Managers responsible for leading responses to key Strategic Issues, Risk and Opportunities.

3.7 Ensuring Equalities

There are no direct equalities issues arising from this report.

3.8 Supporting Sustainable Development

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

3.9 IT Issues

No additional issues other than those relating to the Strategic Risk Profile.

4 Recommendations

Audit Committee is invited to:

Note the quarter 4 2016/17 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

Date: 20 May 2017

Report Contact:

Chris Lawson, Risk Manager

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chris.lawson@midlothian.gov.uk

Background Papers: **Appendix 1** Strategic Risks Profile
Quarter 4 2016/17


Strategic Risk Profile



ISSUES

SRP.IR.07 Financial Sustainability

| Risk Code | Issue Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|--------------|--|------------|--------|-----------------|
| SRP.IR.07 | <p>Risk cause</p> <p>Reduction in long term funding from Scottish Government</p> <p>Increasing ageing population of over 75's</p> <p>Increasing population of 0-15 age group</p> <p>Rising customer expectations</p> <p>Risk event</p> <p>Ever decreasing timescale in which to address the future projected budgetary gap with the issue becoming more critical the longer a solution takes to be identified and applied.</p> <p>Risk effect Slow or delayed savings arising from change program. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p> | Gary Fairley | <p>1. Change Programme</p> <p>2. Strategic Leadership Group developing the longer term Change Programme for the new Council.</p> | 5 | 5 | |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|--|--|---|-------------|---|
| SRP.IA.02.01 | Developing and implementing a Change Programme to ensure long term financial sustainability. | Q4 16/17: Strategic Leadership Group action in preparation for the new Council. | Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White | 30-Jun-2017 |  |


SRP.RR.02 The Change Programme

| Risk Code | Issue Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|--------------|---|------------|--------|---|
| SRP.RR.02 | <p>Risk cause</p> <p>A change program that doesn't address the budget shortfall or contextual factors relating to the Midlothian area</p> <p>Reduced resources</p> <p>Leadership fit for the future</p> <p>Lack of clarity or clear compelling vision for the future</p> <p>Delay or shortfall in securing savings</p> <p>Risk event</p> <p>Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework</p> <p>Slow benefits realisation and budget savings</p> | Gary Fairley | <p>1. Financial Strategy and Change Programme</p> <p>2. Leadership from Executive Team and Strategic Leadership Group.</p> <p>2. Appropriated governance in place across the Change Programme.</p> <p>3. Links between Change Programme and Workforce Plans</p> <p>4. Resilience planning.</p> <p>5. Strategic Leadership Group regularly considering Change Programme and budget position.</p> | 4 | 4 |  |


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|--|--|--|--|--|--|--|
| | <p>Risk effect</p> <p>Objectives of change not actually met</p> <p>Adverse impact on services</p> <p>Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities.</p> <p>Staff morale negatively affected, Government step-in</p> | | | | | |
|--|--|--|--|--|--|--|

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|--|---|--------------|-------------|---|
| SRP.RA-02.01 | Developing and implementing a Change Programme to ensure the long term financial sustainability. | Q4 16/17: Update Financial Strategy report to be presented to an early meeting of the new Council; and Strategic Leadership Group action in preparation for the new Council. | Gary Fairley | 30-Sep-2017 |  |

SRP.IR.06 Welfare Reform


| Risk Code | Issue Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|----------------|---|------------|--------|---|
| SRP.IR.06 | <p>Risk Cause: NewUniversal Credit scheme introduced by UK government replacing legacy benefit schemes with a single scheme.</p> <p>Risk Event: Universal Credit (UC) Live Service was introduced in Midlothian for newly unemployed single claimants, with or without housing costs, in Dalkeith and Penicuik Jobcentres from 27 April 2015. Universal</p> | Kevin Anderson | <ol style="list-style-type: none"> 1. Applying discretionary housing payment to offset full impact of under occupancy charge (also known as bedroom tax) 2. Notified job centre plus of Midlothian Councils temporary accommodation units for housing for housing cost impacts. 3. Work with 3rd sector to mitigate individual case circumstance were applicable. 4. Scottish welfare fund available for hardship cases, emergency food packs available a relevant council offices. Food banks in | 5 | 4 |  |

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|--|--|--|------------------------------|--|--|--|
| | <p>Credit Full Service is being rolled out in Midlothian on 22 March 2017.</p> <p>Risk Impact: The Universal Credit Programme will close gateways for legacy benefits, so existing benefits will no longer be eligible, as Universal Credit rolls out as plans for the migration of those remaining claimants on current benefit types once the digital rollout is complete for all of Great Britain.</p> | | operation within Midlothian. | | | |
|--|--|--|------------------------------|--|--|--|



| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|----------------------------------|---|----------------|-------------|---|
| SRP.IA.06.01 | Preparation for Universal Credit | <p>Q4 16/17: Universal Credit Mailing to all Council House tenants. Awareness training to all front-line staff across services. Digital access services available through library service. Monthly meetings meantime of the Midlothian Operational Delivery Group to plan Universal Credit implementation.</p> | Kevin Anderson | 31-Mar-2017 |  |

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 | <p>Risk cause:</p> <p>Reduction in long term funding from Scottish Government</p> <p>Increasing ageing population of over 75's</p> <p>Increasing population of 0-15 age group</p> <p>Population growth and time lag to fund pressures on public services.</p> <p>Policy decisions by UK & Scottish Governments which are not fully funded.</p> <p>Non or delayed savings from planned activities.</p> <p>Future year pay award settlements and implications of living wage increases.</p> <p>Inflation, interest rates, tax, income levels, service demand</p> <p>Rising customer expectations</p> <p>Risk event:</p> <p>Reducing grant settlement.</p> <p>Policies decisions at Government level not fully funded to Council's.</p> <p>Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge.</p> <p>Cost pressures exceeding budget estimates.</p> | Gary Fairley | <p>1. The Financial Strategy to 2021-22</p> <p>2. Development of a Change Programme including the Delivering Excellence framework developed for the new Council Administration.</p> <p>3. Maintaining a level of reserves to deal with unforeseen or one off cost pressures.</p> | 5 | 5 |  |




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|--|--|--|--|--|--|--|
| | Risk effect: Gap in Council budget between budget commitments/ pressures and funding level and inadequate options presented to address this, resulting in a structural deficit | | | | | |
|--|--|--|--|--|--|--|

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|--|--|---|-------------|---|
| SRP.RA.01.01 | Developing and implementing a Change Programme to ensure the long term financial sustainability. | Q4 16/17: Update Financial Strategy report presented to an early meeting of the next Council; and Strategic Leadership Group action in preparation for the new Council. | Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White | 30-Jun-2017 |  |
| SRP.RA.01.02 | Maintaining and ensuring sustainability of growth in asset base | Q4 16/17: Review of Capital Plan with report to Council planned for September 2017. | Gary Fairley | 31-Mar-2018 |  |


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 | Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison | 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. | 3 | 3 |  |

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|--|---|-------|---|--|--|--|
| | <p>Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect</p> <p>Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p> | White | <p>4. External Audit.</p> <p>5. Statutory Inspection.</p> | | | |
|--|---|-------|---|--|--|--|


| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|-----------------------------------|---|---|-------------|---|
| SRP.RA.03.0 1 | Legal & Regulatory Compliance | Q4 16/17: 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-2018 |  |
| SRP.RA.03.0 2 | Annual Assurance Statement | Q4 16/17: Annual assurance statement prepared as part of the annual accounts process. | Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White | 31-May-2017 |  |
| SRP.RA.03.0 3 | Nursery hours increase to 1140hrs | Q4 16/17: Education preparing for the 1140 hrs. Physical space and teaching staff capacity. | Grace Vickers | 31-Jul-2020 |  |

SRP.RR.04 People risk


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|--|--------------------------------|---|------------|--------|---|
| SRP.RR.04 | <p>Risk cause</p> <p>Employees not suitably qualified or developed for the roles required of them.</p> <p>limited availability of qualified practitioners in certain sectors</p> <p>Change program not informed by all key stakeholders</p> <p>Ageing work force</p> <p>Employees unclear on expected behaviours.</p> <p>Employees constrained to innovate as a result of management practice</p> <p>Risk event</p> <p>Employees not engaged/consulted as part of organisational transformation.</p> <p>Experienced employees leaving the organisation</p> <p>Unacceptable behaviours demonstrated by employees</p> <p>Stated organisational culture not consistently reinforced by managers</p> <p>Risk effect</p> <p>Difficulties recruiting the right staff</p> <p>Challenges retaining quality staff</p> <p>Low skill levels</p> <p>Low morale, especially during change</p> <p>High absence rates, loss of experience in service areas.</p> <p>'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised,</p> | Chris Lawson; Marina Naylor | <p>01 - Focus on having the right people, performing and healthy</p> <p>02 - 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership</p> <p>02 - People Management policies reviewed as part of wider review of pay and grading</p> <p>03 - Making performance matter</p> <p>04 - A range of initiatives to keep staff informed of change (In brief, Staff Magazine, Espresso Sessions for Managers on new People Management Policies)</p> <p>05 - Workforce planning</p> <p>06 - Investing in our workforce board</p> <p>07 - Healthy Working Lives Gold Award</p> <p>08- Occupational Health provision in place</p> <p>09 - Employee Assistance and Physio therapy services to support employee health and attendance</p> <p>10 - Non-redundancy policy supported by SWITCH and Organisational Change Policy</p> | 3 | 4 |  |


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| | potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. | | | | | |
|--|--|--|--|--|--|--|

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 | <p>Risk cause</p> <p>Partners not engaged or focused to deliver specific outcomes.</p> <p>Public Sector Reform Agenda.</p> <p>Risk event</p> <p>Partners prioritising activity in areas not inline with delivery of defined outcomes.</p> <p>Community groups afforded legal right to make case to operate vacant properties for community use.</p> <p>Risk effect</p> <p>Delivery of outcomes delayed or not achieved</p> <p>Officer time to support the assessment of unsustainable business cases.</p> | John *Blair; Mary *Smith; Eibhlin McHugh | <p>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.</p> <p>2. Approved integration scheme.</p> <p>3. Service Directions in Place.</p> | 3 | 3 |  |

SRP.RR.06 Information Security


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|------------|---|------------|--------|---|
| SRP.RR.06 | <p>Risk cause</p> <p>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.</p> <p>Risk event</p> <p>The Regulation has been agreed with implementation due on 25 May 2018.</p> <p>Risk effect</p> <p>The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros which ever is greater.</p> | Ian Wragg | <p>1. Information Management Group</p> <p>2. Public Sector Network Compliance.</p> <p>3. Meta Compliance</p> <p>4. Information Management, awareness raising program (Private-i)</p> <p>5. General Data Protection Regulation Project Plan.</p> | 3 | 5 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|--|--|--------------|-------------|---|
| SRP.RA.06.04 | General Data Protection Regulation (GDPR) Preparation | Q4 16/17: GDPR preparations are progressing well, the Council are currently engaging with NSS (NHS National Services Scotland) to provide project management support. A report will be brought forward to CMT seeking to identify resource to deliver the requirements. | Phil Timoney | 30-Apr-2018 |  |



SRP.RR.07 Integration of Health & Social Care

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|--------------|---|------------|--------|---|
| SRP.RR.07 | <p>Risk cause</p> <p>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.</p> <p>Risk event</p> <p>Unless the focus and balance of care shifts from acute treatment the costs of providing these services will continue to rise and not provide the best possible outcomes for individuals.</p> <p>Risk effect</p> <p>The reactive demand led service may become financially unsustainable with a rising number of people requiring:</p> <ul style="list-style-type: none"> - care at home - frequent visits to GPs - greater number of home visits | Alison White | <p>Midlothian IJB Strategic Plan - focussed on rebalancing care.</p> <p>Transformation Change Program</p> <p>Strategic Core Group Oversight</p> | 3 | 4 |  |


SRP.RR.08 Asset Management – buildings, vehicles, roads and Digital assets/networks


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---------------------|----------------------------------|--|------------|--------|---|
| SRP.RR.08 | Risk cause | Ricky *Moffat; Garry *Sheret; | 1. There is provision in place within the capital plan for | 3 | 3 |  |

| | | | | | |
|---|--------------|--|--|--|--|
| <p>Many of the assets the Council own by their nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & buildings used to deliver services.</p> <p>Risk event</p> <p>Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p>Risk effect In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p> | Gary Fairley | <p>investment in the asset base.</p> <p>2. Asset register</p> <p>3. Conditional Survey</p> <p>4. Understanding of future asset needs</p> <p>5. Asset Strategy.</p> <p>6. Roads asset management plan</p> <p>7. Land register</p> <p>8. Vehicle maintenance schedules.</p> <p>9. Capital program - investment in estate.</p> <p>10. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users.</p> <p>11. Updated Digital Strategy and Digital Learning Strategy going to Council on 7th February 2017.</p> <p>12. Asset management plans for office and school digital devices</p> <p>13. Network Strategy</p> | | | |
|---|--------------|--|--|--|--|


| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|---|--|-------------|-------------|---|
| SRP.RA.08.02 | Appropriate investment in capital works and remedial maintenance over the lifespan of each asset. | Q4 16/17: Prioritise needs of assets against available spend. On going need to assess needs of assets, informed by conditional surveys. Survey well developed by maintenance Surveyors. | Gary Sheret | 30-Sep-2017 |  |
| SRP.RA.08.03 | Review of capital plan. | Q4 16/17: Well developed asset management plans, feeding into comprehensive review of asset management plan | Gary Sheret | 30-Sep-2017 |  |


SRP.RR.09 Emergency Planning and Business Continuity Management

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|--|--------------|--|------------|--------|---|
| SRP.RR.09 | <p>Risk cause</p> <p>The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event</p> <p>There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect</p> <p>Censure through non compliance with the Civil Contingencies Act</p> <p>Not adequately recovering from the loss of major accommodation (eg secondary school, main offices), computer systems and staff</p> <p>Not able to respond to a major emergency in the community</p> <p>Fatal Accident Inquiries</p> | Chris Lawson | <p><u>Potential</u> sub risks include:-</p> <p>01 – Civil Contingencies Risk Register used to highlight key risks and record response,</p> <p>- Council's plans developed and maintained in response to identified risks,</p> <p>- Contingency Planning Group support development, peer review and roll out of plans.</p> <p>02 – Establishment based incident response plans in place and maintained locally.</p> <p>03 – Emergency response plan setting out general approach to respond to a major emergency inline with key partner organisations.</p> <p>04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.</p> | 2 | 4 |  |


| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|--|---|--------------|-------------|---|
| SRP.RA.09.02 | Development of Emergency Planning Improvement Plan | Q4 16/17: Civil Contingencies Risk Register revised to assist the prioritising of a new forward program of Contingency Plan Reviews and Development to meet the needs of Midlothian Council. New Business Continuity Policy developed and being consulted through Contingency Planning Group. Contingency Planning Improvement Plan under development. | Chris Lawson | 31-Mar-2018 |  |

SRP.RR.10 Governance and Standards in Public Life



| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|--|-------------|--|------------|--------|---|
| SRP.RR.10 | <p>Risk cause</p> <p>Code of conduct for Members and employees actions falling short of International Standards.</p> <p>Risk event</p> <p>Failure in openness, accountability, clarity.</p> <p>Risk effect</p> <p>Service, partnerships and project outcomes not achieved</p> <p>Non compliance with conduct standards and reduction in standards in public life</p> | Alan Turpie | <p><u>Potential</u> sub risks include:-</p> <p>01 Macro governance at the top – failure in openness, accountability, clarity;</p> <p>02 Micro governance in services, partnerships and projects and outcomes not achieved</p> <p>03 Non compliance with codes of conduct and reduction in standards in public life</p> <p>04 Annual Assurance Statement.</p> | 3 | 4 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|------------------------------------|---|-------------|-------------|--|
| SRP.RA.10.02 | International Governance Standards | Q4 16/17: Current governance standards being reviewed in-line with new CIPFA/SOLACE Guide. Due to be reported to CMT in advance of reporting to Audit Committee. | Alan Turpie | 31-May-2017 |  |


SRP.RR.11 Corporate Policies and Strategies

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|--|---|------------|--------|---|
| SRP.RR.11 | <p>Risk cause</p> <p>Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> | Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian | <p>1. Single Midlothian Plan providing overarching direction</p> <p>2. Service plans aligned to Single Midlothian Plan.</p> | 2 | 3 |  |



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|--|--|---|---|--|--|--|
| | <p>Risk event</p> <p>Policies not monitored may become out of date</p> <p>Policies not reviewed to ensure alignment with strategic priorities.</p> <p>Risk effect</p> <p>Policies not monitored could result in non compliance with legislation</p> <p>Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p> | <p>Johnson; Joan Tranent; Grace Vickers; Alison White</p> | <p>3. Leadership team to ensure correct approaches are adopted to get the right results.</p> <p>4. Strategic housing investment plan, submitted to Scottish Government in December 2016, positive feedback with allocated funding.</p> <p>5. Community Safety Strategic assessment in progress.</p> | | | |
|--|--|---|---|--|--|--|

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|------------------------------|---|----------------|-------------|---|
| SRP.RA.11.0 2 | Developing a policy overview | Q4 16/17: Service review of Business Transformation, Performance Management, Quality and Scrutiny teams to incorporate to enhance capacity for oversight for corporate policies and strategies | Gary Fairley | 01-Aug-2017 |  |
| SRP.RA.11.0 3 | Community Safety Strategy | Q4 16/17: Community Safety Strategic assessment in progress. | Kevin Anderson | 31-Mar-2018 |  |

SRP.RR.12 Internal Control Environment


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|---|--|------------|--------|---|
| SRP.RR.12 | <p>Risk cause</p> <p>Work procedures/process inadvertently create the capacity for fraud and waste to occur.</p> <p>Internal Controls requiring more time, effort or cost</p> | <p>Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace</p> | <p>1. Services have been prompted to consider fraud and waste within Service Risk Registers.</p> <p>2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls.</p> <p>3. Internal Audit examine internal control arrangements based</p> | 3 | 3 |  |


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|--|---|-----------------------|--------------------------------|--|--|--|
| | <p>than the risk being managed.</p> <p>Risk event</p> <p>Persons exploiting opportunities to commit fraud</p> <p>Waste and errors</p> <p>Risk effect</p> <p>Waste and loss</p> <p>Risks over managed with risk controls costing more than the potential loss being managed.</p> | Vickers; Alison White | largely on the risk registers. | | | |
|--|---|-----------------------|--------------------------------|--|--|--|

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|----------------------------|---|----------------|-------------|---|
| SRP.RA.12.0 1 | Annual Audit Plan | Q4 16/17: Audit team completing 2016/17 Audit Plan to test a range of internal controls as agreed and approved by Audit Committee as reported. | Internal Audit | 31-Mar-2018 |  |
| SRP.RA.12.0 2 | Supportive business change | Q4 16/17: End to end process review of financial processes, adult and social care. Looking to implement new process in quarter 1 2017/18. All processing through Mosaic going forward. | Alison White | 30-Jun-2017 |  |


SRP.RR.13 Climate Change

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---------------------|------------|-----------------------|------------|--------|-----------------|
|-----------|---------------------|------------|-----------------------|------------|--------|-----------------|


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|-----------|---|-------------|---|---|---|---|
| SRP.RR.13 | Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act | 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 | 3 | 3 |  |
| | 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. | | | | | |


| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|-------------------|---|-------------|-------------|---|
| SRP.RA.13.0 1 | Adaptive Planning | Q4 16/17: Adaptive planning proposal to be brought forward to CMT. | Ian Johnson | 31-Mar-2018 |  |

SRP.RR.14 Scottish Child Abuse Inquiry


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|--------------|--|------------|--------|---|
| SRP.RR.14 | Risk Cause: Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children. During this time there is the potential that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who where employed to care for them. | Joan Tranent | The Council have set up an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise. The Project Team have established a Project Plan covering: 1. Residential establishments and legislation: identifying | 4 | 5 |  |

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| | <p>Risk Event: The Scottish Child Abuse Inquiry was set up on 1st October 2015. The inquiry will report to Scottish Government Ministers within 4 years with recommendations for the future to improve the law, policies and practices in Scotland.</p> <p>Risk Effect: If the inquiry finds historical cases that suggest incidents of abuse may have occurred within Midlothian, this would be passed onto Police Scotland for investigation. The risks to Midlothian Council could place doubt in the eyes of the public as to the safety of those young children and young people who are currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse.</p> | | <p>Children's homes in Midlothian over the last 100 years and researching historic legislation.</p> <p>2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules.</p> <p>3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry.</p> <p>4. The Claims Project Team have just began an exercise of mapping out how shall manage any future claims.</p> <p>5. Ascertaining the succession and insurance position in relation to potential historic child abuse claims.</p> | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|---|--|--------------|-----------|--|
| SRP.RA.14.0 1 | Response to request from the Inquiry Team | <p>Midlothian Council have now received two Section 21 requests from the Inquiry Team and are working to ensure that we meet the required timescales to return all relevant information.</p> <p>Two dedicated members of staff are working in a secure environment reading paper files and accessing and analysing electronic files to collate the relevant information required to return to the Inquiry Team</p> | Joan Tranent | July 2017 |  |

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|--|--------------|--|------------|--------|---|
| SRP.RR.15 | <p>Risk cause</p> <p>Investment to reduce in-work poverty need to improve flexibility, productivity and service quality.</p> <p>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.</p> <p>Risk event</p> <p>Council does not see improvements in productivity and flexibility across the workforce. Council services are not competitive against the voluntary 3rd or private sector.</p> <p>Risk effect</p> <p>Investment in pay and grading not translating into positive productivity gains for the Council.</p> | Gary Fairley | <p>1. Investing in our Workforce Project Board focussed on securing the gains.</p> <p>2. Governance on the 4 strands of work from Council: Life Long Learning, Policy, Pay, Non Financial Benefits.</p> <p>3. Launch of new People Policies on 1st March 2017.</p> <p>4. Communications plan to ensure all employees know what is changing and how this will impact them and service delivery.</p> | 4 | 4 |  |


SRP.RR.16 Growing Council

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|--|--|------------|--------|---|
| SRP.RR.16 | <p>Risk cause</p> <p>0-15 population increase, projected at 20%. Fastest rate increase in Scotland and 75+ population increase projected to increased by 100% between 2014 and 2039.</p> | <p>Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace</p> | <p>1. Local development plan</p> <p>2. Services planning future service provision on the basis of anticipated service demands</p> <p>3. The change program</p> | 4 | 5 |  |

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| | <p>Risk event</p> <p>Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>Risk effect</p> <p>Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector.</p> | Vickers; Alison White | | | | |
|--|--|-----------------------|--|--|--|--|


| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|--------------------------|--|---------------|-------------|---|
| SRP-RA-08-01 | Learning Estate Strategy | Q4 16/17: Education recognise the impact growing populations and the associated school roles are having on the availability of places at schools within Midlothian. This risk is currently being mitigated by the applications of limits on pupil intake and work to develop additional capacity in the communities showing the greatest need for additional capacity: Bonnyrigg, Mayfield and Dalkeith | Grace Vickers | 31-Mar-2018 |  |

SRP.RR.17 UK decision to leave the EU

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|--|--|------------|--------|---|
| SRP.RR.17 | <p>Risk cause</p> <p>UK vote to leave the European Union</p> <p>Risk event</p> <p>UK leaving the European Union</p> | Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison | 01 - the Council will monitor the implications of the UK's decision to leave the EU on the Council through its risk management approach and will develop approaches to respond to specific risks as further clarity on impact becomes clearer. | 3 | 4 |  |


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|--|--|-------|--|--|--|--|
| | <p>Risk effect</p> <p>The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear as negotiations progress following the triggering of article 50. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.</p> | White | | | | |
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SRP.RR.18 Political uncertainty - Education Governance Review


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|--|---------------|---|------------|--------|---|
| SRP.RR.18 | <p>Risk cause</p> <p>Delivering Excellence and Equity in Scottish Education: A Delivery Plan for Scotland</p> <p>Risk event</p> <p>Future decision by Scottish Government on the outcome of governance review, which seeks a move to regional based Education.</p> | Grace Vickers | <p>01 - Midlothian Council has made a formal response to the Scottish Government on its consultation.</p> <p>02 - Council has been kept informed of the Midlothian's response to the consultation</p> | 3 | 4 |  |

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|--|---|--|--|--|--|--|
| | <p>Risk effect</p> <p>Midlothian Council recognises that closing the attainment gap is not a task which can be achieved by schools or the Education Service alone but requires a total Midlothian approach. The delivery plan has made a commitment to regional working although is limited in detail on what this would look like. In the event the approach taken impedes the total Midlothian approach this could inhibit rather than support the efforts to close the attainment gap.</p> | | | | | |
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SRP.RR.19 Health & Safety

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|--|--------------|---|------------|--------|---|
| SRP.RR.19 | <p>Risk cause</p> <p>Statutory health and safety - duty of care over services users and employees not met.</p> <p>Risk event</p> <p>Employees required to undertake tasks they are not competent to.</p> <p>Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly.</p> <p>non compliance with policy and procedure</p> <p>Risk effect</p> <p>Negative impact on outcomes for customers/service users.</p> <p>Service users and employees exposed to hazards</p> | Chris Lawson | <p>01 - Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations</p> <p>02 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers</p> <p>03 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency</p> | 3 | 5 |  |

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| | where statutory requirements exist. | | | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|--|---|--------------|-------------|---|
| SRP.RA.19.0 1 | Health & Safety Management Arrangement Development | Q4 16/17: The Management Arrangement development program is nearing completion. The development of the final Management Arrangements has been carried out during Q4 with consultation and approval pending. Work being carried out to review Management Arrangements now due for review. | Chris Lawson | 31-Aug-2017 |  |

OPPORTUNITIES

SRP.OP.01 Shawfair

| Risk Code | Opportunity 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 | Opportunity 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 | 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 | 5 | 4 |  |

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| | labour markets in Edinburgh and the Borders. Also a catalyst for housing growth. | | potential of the new Railway. 3. Dedicated Inward Investment Co-ordinator post 4. Dedicated Tourism Development post. 5. Timely submission of bids for approval by the Blueprint Group. | | | |
| | Ensuring Midlothian secures appropriate levels of Blueprint funding. | | | | | |


SRP.OP.03 Easter Bush - Penicuik

| Risk Code | Opportunity 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 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|------------------------------|--|-------------|-------------|---|
| SRP.OP.03.A1 | A702 Trunk Road Improvements | Q4 16/17: Priority attention required to address the current strategic road access constraints, Council Officers to work with the Easter Bush Board, Transport Scotland and others. | Ian Johnson | 30-Sep-2017 |  |


SRP.OP.04 City Deal

| Risk Code | Opportunity Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|----------------------------|------------|-----------------------|------------|--------|-----------------|
|-----------|----------------------------|------------|-----------------------|------------|--------|-----------------|

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|-----------|---|-------------|--|---|---|---|
| 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 | <p>1. Key projects identified.</p> <p>2. Consortium submission made, including Midlothian Council in September 2015 with an update in December 2015.</p> <p>3. Heads of terms agreed by consortium for discussion with Scottish and UK Government Officials.</p> | 3 | 5 |  |
|-----------|---|-------------|--|---|---|---|

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
|---------------------|----------------------|---|-------------|-------------|---|
| SRP.OA.05.01 | City Deal submission | Q4 16/17: Expectation is that UK and Scottish Governments will agree a City Deal by Autumn 2017. | Ian Johnson | 31-Dec-2017 |  |

SRP.OP.05 Growing Council

| Risk Code | Opportunity Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---|---|--|------------|--------|--|
| SRP.OP.05 | Midlothian Council has been identified as one of the fastest growing Council's in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome. | Kenneth Lawrie; John Blair, Mary Smith; Eibhlin McHugh | <ol style="list-style-type: none"> 1. Community Planning Partnership 2. The Single Midlothian Plan 3. The Integration Joint Board | 5 | 5 |  |

Update of Midlothian's Devolved School Management Scheme (DSM) to reflect the latest Scottish Government Guidance**Report by Dr Mary Smith, Director, Education, Communities and Economy****1 Purpose of Report**

The purpose of this report is to inform the Audit Committee of actions undertaken to ensure that Midlothian's DSM Scheme complies with the Devolved School Management (DSM) 2012 Guidelines.

2 Background

Devolved School Management (DSM) was introduced by the Scottish Education authority in 1993. The Scottish Executive issued DSM Guidelines in 2006 and the Scottish Government issued revised guidelines in 2012 alongside a Devolved School Management Self Evaluation Toolkit. An Internal Audit Report of May 2016 observed that the Midlothian DSM Scheme had not been revised to take account of the latest guidelines and recommended that a self assessment of the scheme be undertaken.

The aims of the revised Devolved School Management guidelines are to empower head teachers to meet local needs and deliver the best possible outcome for young learners, in line with the objectives of Curriculum for Excellence, GIRFEC and the Early Years Framework. The guidelines are based on a number of principles which are grouped under four headings:

- Subsidiarity and Empowerment
- Partnership Working
- Accountability and Responsibility
- Local Flexibility

3 Progress

A self assessment of the Devolved School Management Scheme was undertaken in November 2016 using the Devolved School Management Self-Evaluation Toolkit.

The self evaluation group comprised four primary and three secondary head teachers, one secondary school pupil, one elected member, Senior Education Manager, School Group Manager (Early Years), Education Resource Manager and DSM Resource Officer. Although invited, no parent representative was available to participate.

The review concluded that Midlothian's Scheme of Devolved School Management supports the core values and principles of a robust DSM Scheme namely subsidiarity, openness, transparency and local accountability. The review further concluded that Midlothian's scheme would be strengthened by the implementation of the following recommendations:

- Review staffing models/staffing structures/management time allocations across schools.

- Provide schools with longer term staff planning horizons by providing schools with forecasts of pupil numbers.
- Introduce a regular, three yearly, review of the DSM Scheme to fit the changing requirements of Education delivery and Getting It Right For Every Child.
- Review the impact of Council procurement on schools' budgets.
- Define clearly in the Midlothian DSM Scheme the responsibility and authority of the Headteacher to take decisions.
- Reflect in the Midlothian DSM Scheme parental engagement at the local level.

The Midlothian DSM Scheme is being revised to take account of a number of these recommendations as well as those in the Internal Audit Report. The revised scheme will be published to coincide with the start of the 2017/18 academic year. An action plan is being developed to take forward during 2017/18 those recommendations which require further review and may lead to changes in the basis and or criteria for the allocation of resources to schools.

4 Report Implications

4.1 Resource

There are no resource implications arising directly as a result of this report.

4.2 Risk

This report provides an update on the actions taken to address the risks arising from Midlothian's DSM Scheme not reflecting current national guidelines.

4.3 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

4.4 Key Priorities within the Single Midlothian Plan

Getting it Right for Every Midlothian Child

- Children in their early years and their families are being supported to be healthy, to learn and to be resilient.
- Children and young people are supported to be healthy, happy and reach their potential.
- Inequalities in learning outcomes have reduced.

4.5 Impact on Performance and Outcomes

The DSM Scheme is key to providing head teachers with the resources they need to meet local needs and deliver the best possible outcome for young learners.

4.6 Adopting a Preventative Approach

The Council's adopts a preventative approach by providing head teachers with the resources they need to meet local needs and deliver the best possible outcome for young learners.

4.7 Involving Communities and Other Stakeholders

The group which carried out the self evaluation of Midlothian's DSM Scheme included representatives from schools, pupils and elected members as well as officers from the Education Service.

4.8 Ensuring Equalities

This paper informs Council of the actions undertaken to ensure that Midlothian's DSM Scheme complies with the Devolved School Management (DSM) 2012 Guidelines. The paper proposes no change to existing policy and procedure used and accordingly, no Integrated Impact Assessment has been prepared.

4.9 Supporting Sustainable Development

Regular review of the DSM Scheme will ensure its sustainability.

4.10 IT Issues

There are no IT issues arising directly as a result of this report.

5 Recommendations

The Audit Committee is asked to note the actions undertaken to ensure that Midlothian's DSM Scheme complies with the Devolved School Management (DSM) 2012 Guidelines.

Date 8 June 2017

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