

# Notice of Meeting and Agenda



## Audit Committee

**Venue:** Virtual Meeting,

**Date:** Tuesday, 04 May 2021

**Time:** 11:00

**Executive Director : Place**

**Contact:**

Clerk Name: Janet Ritchie

Clerk Telephone:

Clerk Email: [janet.ritchie@midlothian.gov.uk](mailto:janet.ritchie@midlothian.gov.uk)

**Further Information:**

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

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## **1 Welcome, Introductions and Apologies**

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## **2 Order of Business**

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

## **3 Declaration of Interest**

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

## **4 Minute of Previous Meeting**

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|------------|---|---------|
| <b>4.1</b> | Minute of Meeting of the Audit Committee of 9 March 2021 submitted for approval | 3 - 10  |
| <b>4.2</b> | Action Log  | 11 - 12 |

## **5 Public Reports**

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- |            |  |         |
|------------|--|---------|
| <b>5.1</b> | Internal Audit Work to March 2021 - Report by Chief Internal Auditor                           | 13 - 22 |
| <b>5.2</b> | Internal Audit Annual Assurant Report 2020/21 - Report by Chief Internal Auditor               | 23 - 34 |
| <b>5.3</b> | Annual Governance Statement – Improvement Update - Report by Chief Officer Corporate Solutions | 35 - 48 |

## **6 Private Reports**

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No items for discussion

## **7 Date of Next Meeting**

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The next meeting will be held on Tuesday 22 June 2021 at 11 am

# Minute of Meeting

Audit Committee  
Tuesday 4 May 2021  
Item No: 4.1



## Audit Committee

Date	Time	Venue
Tuesday 9 March 2021	11.00 am	Virtual Meeting by MS Teams

### Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Hardie
Councillor Milligan
Councillor Smaill
Councillor Alexander (substitute for Councillor Parry)
Peter de Vink (Independent Member)

### In attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children, Young People and Partnerships
Morag Barrow	Joint Director Health and Social Care
Gary Fairley	Chief Officer Corporate Solutions
Derek Oliver	Chief Officer Place
Jill Stacey	Chief Internal Auditor
Stephen Reid	External Auditor, E.Y.
Grace Scanlin	External Auditor, E.Y.
Chris Lawson	Service Manager, Waste, Risk and Resilience
Alan Turpie	Legal Services Manager
Saty Kaur	Executive Business Manager, Place Directorate
David Gladwin	Financial Services Manager
Lisa Young	Accountant
Mike Broadway	Democratic Services Officer

## 1. Welcome and Apology

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The Chair, Mike Ramsay welcomed everyone to the meeting. Apologies for absence were intimated on behalf of Councillors Muirhead and Parry.

## 2. Order of Business

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

## 3. Declarations of interest

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No declarations of interest were received.

## 4. Minutes of Previous Meetings

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- 4.1 With reference to item 5.6 in the minutes of the meeting of 8 December 2020, Councillor Smaill explained that the point he and Mr de Vink had raised regarding the proposed suspension of further investments with approved counterparties, applied purely to deposits similar to those they had expressed concerns over rather than a blanket ban on all such investments as appeared to be implied by the wording used in the minute.

The Committee, on a proposal by Councillor Milligan, seconded by Councillor Cassidy, approved the minute as a correct record subject to this clarification being noted.

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

- (i) to close off as complete those action points addressed at either the December 2020 meeting or on today's agenda; and
- (ii) that the remaining actions be updated accordingly.

## 5. Public Reports

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Report No.	Report Title	Presented by:
5.1	Internal Audit Work to January 2021	Chief Internal Auditor
Outline of report and summary of discussion		
<p>There was submitted a report, dated 2 March 2021, by the Chief Internal Auditor providing details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.</p> <p>The Chief Internal Auditor outlined the main sections contained within the report and responded to questions and comments raised by Members, in particular those relating to Property Maintenance, which in view of the history of overspends was an area of particular concern to Members.</p>		

Decision
<p>The Committee:-</p> <ul style="list-style-type: none"> <li>(a) noted the Executive Summaries of the final Internal Audit assurance reports issued;</li> <li>(b) noted the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and</li> <li>(c) acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.</li> </ul>
Action
Chief Internal Auditor

Report No.	Report Title	Presented by:
5.2	Internal Audit Follow-up of Recommendations Progress	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report, dated 15 February 2021, by the Chief Internal Auditor was to provide an update to the Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports by the expected completion date. Details of the In Progress and Overdue actions were summarised in appendices to the report.</p> <p>The report explained that there had been a significant impact of Covid-19 response on Management's progress with the implementation of some of the Audit Recommendations due to capacity and delays in activity. In order to ensure that the 10 actions which were overdue (8 medium rated and 2 low rated) were completed within a reasonable time it was proposed that their due dates be extended to 30 June 2021.</p>		
Decision		
<p>The Committee, having heard from the Chief Internal Auditor, who responded to Members' question and comments:-</p> <ul style="list-style-type: none"> <li>(a) Acknowledged the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks; and</li> <li>(b) Endorsed the proposal to extend the due dates for the overdue recommendations; and</li> <li>(c) Noted that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.</li> </ul>		
Action		
Chief Internal Auditor		

Report No.	Report Title	Presented by:
5.3	Counter Fraud Controls Assessment	Executive Director Place
<b>Outline of presentation and summary of discussion</b>		
<p>With reference to paragraph 5.7 of the Minutes of 12 October 2020, there was submitted report, dated 18 February 2021, the purpose of which was to make the Audit Committee aware of the findings and necessary actions arising from the Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks.</p> <p>The Executive Director Place in presenting the report to the Committee highlighting the Self-Assessment findings and necessary actions arising from the Integrity Group's assessment. The Audit Committee acknowledged the work carried out by the Integrity Group and noted that the Group would carry out a further review of these fraud risks and any other emerging fraud risks relating to Covid-19 in due course, to ensure the controls continue to be effective in mitigating the risks.</p>		
<b>Decision</b>		
<p>The Committee:</p> <ul style="list-style-type: none"> <li>(a) Acknowledged the findings from the Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks; and</li> <li>(b) Endorsed the necessary actions to enhance the Council's resilience to fraud.</li> </ul>		
<b>Action</b>		
Executive Director Place		

Report No.	Report Title	Presented by:
5.4	Local Code of Corporate Governance	Chief Executive
<b>Outline of presentation and summary of discussion</b>		
<p>The purpose of this report was to provide the Committee with the opportunity to scrutinise the updated Local Code of Corporate Governance for Midlothian Council and recommend it for Council approval, to assist with the 2020/21 annual assurance process. The updated Local Code of Corporate Governance, which was consistent with the principles and recommendations of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and the supporting guidance notes for Scottish authorities (2016), provided an appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.</p> <p>The Chief Executive in presenting the report drew particular attention to the role played by the Corporate Management Team (CMT) in the review and finalisation of the updated Local Code of Corporate Governance, and to the main changes as detailed in the report.</p> <p>The Chief Internal Auditor then highlighted how the Code, once approved by Council would be used to assist with the 2020/21 annual assurance process.</p>		

Decision
<p>The Committee:</p> <ul style="list-style-type: none"> <li>(a) Noted the changes to the Local Code of Corporate Governance as outlined in the report;</li> <li>(b) Agreed to recommend to Council approval of the updated Local Code of Corporate Governance (Appendix 1); and</li> <li>(c) Note that the updated Local Code would be used for the 2020/21 annual assurance process.</li> </ul>
Action
Chief Internal Auditor

Report No.	Report Title	Presented by:
5.5	Audit Scotland Update "Covid-19: What it means for public audit in Scotland"	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this update, dated January 2021, by Audit Scotland entitled, "Covid-19: What it means for public audit in Scotland" was to set out the guiding principles that would apply through the next phase of the Covid-19 crisis.</p> <p>The report explained that whilst Audit Scotland would keep a dynamic approach as the pandemic progressed and the impacts became clearer over time, key focuses to their work would include issues such as the effect on inequalities in health, economic security and opportunities, and what public money had achieved in helping Scotland recover. They would also consider how innovations, such as using digital technology to deliver services and engage with communities, could be shared.</p>		
Decision		
The Committee, having heard from the Chief Internal Auditor, noted the Audit Scotland update.		
Action		
Chief Internal Auditor		

Report No.	Report Title	Presented by:
5.6	Provisional Annual Audit Plan Year ending 31 March 2021	External Auditors, EY
Outline of report and summary of discussion		
<p>The External Auditors submitted their Provisional Annual Audit Plan for year ending 31 March 2021. Stephen Reid External Auditor advised the Committee that this Annual Audit Plan prepared for the benefit of Council management and the Audit Committee, set out their proposed audit approach for the audit of the financial year ending 31 March 2021, the fifth year of their appointment. As a result of the impact</p>		

of Covid-19 their appointment had been extended by a further 12 months to include the financial year 2021/22.

In preparing this plan, they had updated their understanding of the Council through planning discussions with management, review of relevant documentation and committee reports, and their general understanding of the environment in which the Council is currently operating. He went on to explain that their responsibilities fell into two main areas, one in respect of the financial statements and the other in respect of their responsibility around the wider-scope public sector audit dimensions and highlighted some key sections from the Report.

Thereafter the External Auditors responded to questions and comments raised by members of the Committee.

#### Decision

The Committee noted the content of the report.

#### Action

External Auditors, EY

Report No.	Report Title	Submitted by:
5.7	Accounts Commission: Local Government in Scotland Financial Overview 2019/20 (January 2021)	Chief Officer Corporate Solutions
<b>Outline of report and summary of discussion</b>		
<p>The purpose of this report, dated 15 February 2021, by the Chief Officer Corporate Solutions was to provide the Committee with a summary of the Accounts Commission report, 'Local Government in Scotland: Financial Overview 2019/20' and the Council's position in relation to the report's findings; a link to the full report was provided in the report.</p> <p>The Chief Officer Corporate Solutions highlighted the key messages contained within the report. Thereafter he responded to questions and comments raised by Members of the Committee.</p>		
<b>Decision</b>		
The Committee noted the Audit Scotland report and the position of Midlothian Council in relation to the report's key messages		

Report No.	Report Title	Presented by:
5.8	Internal Audit Charter	Chief Internal Auditor
<b>Outline of presentation and summary of discussion</b>		
The purpose of this report, dated 17 February 2021, by the Chief Internal Auditor was to provide the Committee with the updated Internal Audit Charter for approval		



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

The Chief Internal Auditor presented this report highlighting the main sections contained within the report and advised that Appendix 1 details the Internal Audit Charter and provided a brief overview of this.

#### Decision

The Committee:

- (a) Noted the changes outlined in this report;
- (b) Approved the revised Internal Audit Charter shown at Appendix 1; and
- (c) Noted that the Internal Audit Charter would be reviewed annually.

#### Action

Chief Internal Auditor

Report No.	Report Title	Presented by:
5.9	Internal Audit Strategy and Annual Plan 2021/22	Chief Internal Auditor
<b>Outline of presentation and summary of discussion</b>		
<p>The purpose of this report, dated 19 February 2021, by the Chief Internal Auditor was to seek approval of the proposed Internal Audit Strategy and Annual Plan 2021/22 to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council and Midlothian Health and Social Care Integration Joint Board.</p> <p>The Chief Internal Auditor presented this report highlighting the main sections contained within the report and advised that Appendix 1 details the Internal Audit Strategy and Appendix 2 details Midlothian Council Internal Audit Annual Plan 2020/21.</p> <p>Thereafter the Chief Internal Auditor responded to questions and comments raised by the Committee.</p>		
<b>Decision</b>		
The Committee approved the Internal Audit Strategy (Appendix 1) and the Internal Audit Annual Plan 2021/22 (Appendix 2).		
<b>Action</b>		
Chief Internal Auditor		

Report No.	Report Title	Presented by:
5.10	Counter Fraud Annual Plan 2020/21	Chief Internal Auditor

Outline of report and summary of discussion
<p>The purpose of this report, dated 2 February 2021, by the Chief Internal Auditor was to seek approval of the proposed Counter Fraud Annual Plan 2021/22 to support the delivery of the Council's Counter Fraud Strategy and to demonstrate compliance with the Council's Counter Fraud Policy Statement.</p> <p>The Chief Internal Auditor in presenting the report drew particular attention to the planned Counter Fraud activity set out in the Plan, and thereafter responded to questions and comments raised by Members of the Committee.</p>
Decision
The Committee approved the Counter Fraud Annual Plan 2021/22 (Appendix 1).
Action
Chief Internal Auditor

Report No.	Report Title	Presented by:
5.11	Risk Management Q3 Update 2020/21	Service Manager, Waste, Risk and Resilience
Outline of report and summary of discussion		
<p>The purpose of this report, dated 23 February 2021, by the Risk Manager was to provide the Audit Committee with an update on the risk responses Midlothian Council had implemented during quarter 3 2020/21 to respond to the current risk climate. The Audit Committee had previously requested regular reports on the Council's Strategic Risks. The Strategic Risk Profile sought to provide a strategic look at the current issues and future risks and opportunities facing the Council.</p> <p>The Risk Manager highlighted the main sections contained within the report and thereafter responded to Members' questions and comments.</p>		
Decision		
The Committee, having considered the current response to the issues, risks and opportunities, noted the current risk landscape and organisational response to the most significant risks at this time.		
Action		
Service Manager, Waste, Risk and Resilience		

## 6. Private Reports

No private reports were submitted.

## 7. Date of Next Meeting

The next meeting will be held on Tuesday 4 May 2021 at 11.00 am

The meeting terminated at 12.54 pm

# Action Log

Audit Committee  
Tuesday 4 May 2021  
Item No: 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	<b>Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy</b>	22/06/2020	Agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy	Chief Officer Place	June 2021	Linked to update of Local Code. Internal Audit review of Risk Management underway in Q1 2021/22
2	<b>Annual Governance Statement 2019/20 – Financial Improvement Updates</b>	22/06/2020	Agreed that regular financial improvement updates would be provided by the Chief Officer Corporate Solutions (Section 95 Officer) to the Audit Committee	Chief Officer Corporate Solutions (Section 95 Officer)	June 2021	First update reported to the December 2020 meeting. Further report on agenda for May 2021.
3	<b>Financial Reports – Council Meeting - 25 August 2020</b>	18/08/2020	Send reports to the Independent Member of the Audit Committee	Democratic Services	Ongoing	Future Reports with a financial element relevant to Audit to be made available to the Independent Members of the Audit Committee.
4	<b>Internal Audit Recommendations</b>	09/03/2021	Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.	Chief Internal Auditor	June 2021	Two follow-up reports per year to Audit Committee as per approved Internal Audit Annual Plan.

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
5	<b>Local Code of Corporate Governance</b>	09/03/2021	Agreed to recommend to Council approval of the updated Local Code of Corporate Governance	Chief Executive / Chief Internal Auditor	March 2021	Approved by Council on 23 March 2021 Complete

**Internal Audit Work to March 2021****Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the Executive Summaries of the final Internal Audit assurance reports issued;
- b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

**2 Purpose of Report/Executive Summary**

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

The Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 10 March 2020, and revised Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 8 December 2020. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

**Date 20 April 2021****Report Contact:**

Jill Stacey                      Tel No  
[jill.stacey@midlothian.gov.uk](mailto:jill.stacey@midlothian.gov.uk)

### 3 Progress Report

- 3.1** The Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 10 March 2020, and revised Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 8 December 2020. Internal Audit has carried out the following work in the period from 1 February to 31 March 2021 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2** The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Schools Expenditure
  - DSM Budgets
  - Information Governance
- 3.4** An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

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

### Internal Audit Consultancy and Other Work

- 3.6** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- a) In its critical friend role provided an independent view and challenge at various forums including Capital Plan and Asset Management Board, and Information Management Group.
  - b) Learning and development during the research stage of new audit areas and through joining virtual audit forums and meetings.
  - c) Monitored publication of Audit Scotland reports and co-ordinated submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.

## Recommendations

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

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

- 3.8** The table below summarises the number of Internal Audit recommendations made during 2020/21:

	2020/21 Number of Recs
High	0
Medium	5
Low	0
<b>Sub-total reported this period</b>	<b>5</b>
Previously reported	23
<b>Total</b>	<b>28</b>
Recommendations agreed with action plan	27
Not agreed; risk accepted	1
<b>Total</b>	<b>28</b>

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

### **4.1 Resource**

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

### **4.2 Digital**

There are no digital implications arising from this report.

### **4.3 Risk**

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

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

### **4.4 Ensuring Equalities**

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

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

### **4.5 Additional Report Implications (See Appendix A)**



## APPENDIX A – Additional Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

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

### A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

### A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

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

#### **A.5 Involving Communities and Other Stakeholders**

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

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

#### **A.6 Impact on Performance and Outcomes**

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

#### **A.7 Adopting a Preventative Approach**

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

#### **A.8 Supporting Sustainable Development**

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

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Schools Expenditure</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 30 March 2021 Draft; 05 April 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to examine and evaluate: orders, invoice payment processes and expenditure across schools to ensure it is appropriate and in line with the Council's procurement policy and procedures; and payroll payments to ensure they are in accordance with approved staffing establishment.</p> <p>The Council's Education services within People and Partnership is responsible for the operation of 39 schools (32 primary schools, 6 high schools and 1 special school) delivering education to approximately 13,500 pupils (including 4,547 additional support needs (ASN) pupils). SEEMiS, a system used by schools, is a limited liability partnership (of which Midlothian Council is a member) which controls all system software updates. System management is controlled by the Council's Business Applications team. The Employment and Reward Team and Business Applications team maintain employee data within and software updates of the Payroll system (iTrent). Reconciliation of SEEMiS and iTrent systems is undertaken as part of the annual census exercise. Due to the ongoing response to the Covid-19 pandemic, it was agreed not to contact schools staff or Head Teachers during the audit. Transactions below £5k have not been reviewed as quotes are maintained within schools. Segregation of duties and authorisation controls are maintained through the use of Integra (the Council's financial system).</p> <p>Internal Audit considers the level of assurance we are able to give is substantial. The majority of payments we sampled were compliant with procurement regulations and had reasonable explanations; however payments made to 15 suppliers had no contracts or non-competitive action (NCA) forms which indicates that procurement regulations are not always being followed. Improvements could be made by reinforcing procurement compliance through training sessions. Staff establishment discrepancies between the SEEMiS and iTrent systems were identified in our data match testing, such as an employee having different names on both systems or missing from the database, which were resolved during the audit.</p> <p>Internal Audit made the following recommendation:</p> <ul style="list-style-type: none"> <li>Education Services should liaise with the Procurement team and ensure appropriate NCAs and contracts are put in place for the non-contractual spend that Internal Audit have identified. (Medium)</li> </ul>	0	1	0	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendation within acceptable timescales.</p> <p>Further work on schools will be covered within the Internal Audit Annual Plan 2021/22 including how payments are processed within schools.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Devolved School Management (DSM) budgets</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 01 April 2021 Draft; 20 April 2021 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of the audit was to ensure that Devolved School Management (DSM) budgets set for 2020/21 are sustainable and based on realistic plans and that appropriate scrutiny is undertaken to enable service delivery within approved budget.</p> <p>The Council's DSM scheme is being reviewed and adapted with the expectation that a refreshed scheme compliant with the 2019 guidelines will be in place within the revised timescales set by Scottish Government.</p> <p>Head Teachers receive an annual budget allocation statement which sets out their schools devolved budget for the ensuing year. Due to the pandemic restrictions there were no school establishment visits and we have not been able to contact Head Teachers to ascertain the extent to which their school budget allocation was explained to them. It is clear however that there is an opportunity for Head Teachers to discuss budgets and spend during regular scheduled meetings with Finance Staff.</p> <p>Internal Audit considers that the level of assurance we are able to give is limited. The current DSM scheme does not consistently result in the allocation of devolved budgets that are equitable or sustainable. Relative deprivation has only a modest impact on the budget allocation, although it is clear that PEF funding can provide some mitigation against this. School management structures and staffing allocations derived from the DSM scheme are revised to reflect school contexts and the growth across Midlothian. In some instances, funding may not be adequate to deliver good outcomes for school children. It was ascertained during the review that budget monitoring reports do not always meet the needs of users and it would be desirable for school budget information to be more widely communicated within the Education Service. Liaison with officers to redefine what financial information they require and the frequency of reporting is being reviewed by and focused through the CYPP Strategic Finance Group.</p>	0	4	0	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations within acceptable timescales, some in alignment with the planned review of the DSM Scheme.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Subject: Devolved School Management (DSM) budgets (cont'd)	<p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• The new DSM scheme currently being developed under the 2019 guidance should redress inequalities inherent in the application of the current DSM scheme and ensure that allocations consistently and reliably reflect school contexts and the growth across Midlothian. (Medium)</li> <li>• Clear boundaries in the new DSM scheme should be set and reinforced through awareness training and monitoring of expenditure to ensure that the use of funds clearly supports schools objectives. Head Teachers, particularly those new to post, would also benefit from raising awareness of the operation of the DSM scheme, Financial Regulations, budget management, etc. (Medium)</li> <li>• Liaison with officers in the Education Service should be undertaken to redefine what financial information they require and the frequency of reporting. (Medium)</li> <li>• The provision of a senior accountant / finance business partner for Education (a 2018/19 Internal Audit recommendation) and a DSM Resource Officer should be considered as part of the Corporate Solutions and Education service reviews. (Medium)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Information Governance Update and Follow-up of Records Management Audit Actions</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 22 March 2021 Draft; 06 April 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The Council must comply with a range of information governance legislation including The Data Protection Act 2018 (GDPR), The Public Records (Scotland) Act 2011, the Freedom of Information Act 2000, and the Environmental Information Regulations 2004. In Internal Audit's review of the Council's Information Governance Framework and GDPR issued 22 February 2019, it was recommended that an Internal Auditor join the Council's Information Management Group (IMG) as a virtual member and attend meetings at least quarterly. This would allow monitoring of completion of any improvement actions being progressed by Management as part of continuous auditing and is line with Internal Audit's strategy as a 'critical friend'. The frequency of contact with the IMG increased in 2021.</p> <p>The IMG has recently undertaken a self-assessment against their previous Information Governance strategy, developed a new risk register documenting the Council's exposure to information governance risks, and connected these to a detailed action plan to mitigate the identified risks. This exercise has helped refocus the IMG and highlight gaps and further improvements that should be made since the completion of the Council's General Data Protection Act project in August 2018. Areas of focus in the draft IMG action plan includes: revised self-assessment processes, introduction of 'data protection audits', improvements to the Council's Information Asset Registers, more frequent reporting to Management on cyber security and data protection issues, and a revised training plan.</p> <p>Internal Audit reviewed progress with the actions from the audit of Records Management (issued 27 August 2020). Two low-rated actions in relation to the update of guidance on identification of Vital Records and roll-out of new staff training are on track for completion by 31 March 2021. One low-rated action on reviewing the Council's approach for archiving electronic records is encompassed in the IMG's new action plan. The two remaining actions (one medium-rated; one low-rated) on the update of the Council's Records Management Plan and progress in addressing outstanding record reviews have, with agreement of Internal Audit, had their due dates extended to take into account the external deadline for the update of the plan with the Keeper of the Records of Scotland and to reflect the complexity of extracting and analysing the Council's records data.</p>	0	0	0	Management have agreed to the factual accuracy and acceptance of findings.

**Internal Audit Annual Assurance Report 2020/21****Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the Internal Audit Annual Assurance Report 2020/21 (Appendix 1), and assurances contained therein; and
- b) Provide any commentary thereon, including any further actions required by Management.

**2 Purpose of Report/Executive Summary**

The purpose of this report is to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2021 which includes the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.

The Public Sector Internal Audit Standards (PSIAS) require that the chief audit executive, the Council's Chief Internal Auditor, provides an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement. This is in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance.

To meet the requirements of the PSIAS, the Internal Audit Annual Assurance Report 2020/21 (Appendix 1) includes the Chief Internal Auditor's annual opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.

**Date 15 April 2021**

**Report Contact:**

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### **3 Background**

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the organisation.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) 2017 require that:  
“The chief audit executive [MLC’s Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.  
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.  
The annual report must incorporate:
- the opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”
- 3.3 The Terms of Reference of the Midlothian Council Audit Committee states:
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.

### **4. Internal Audit Annual Assurance Report 2020/21**

- 4.1 The Internal Audit Annual Assurance Report 2020/21 (Appendix 1) includes the Chief Internal Auditor’s independent and objective opinion regarding the adequacy and effectiveness of internal control within Midlothian Council to fulfil the statutory role of Internal Audit, provides details of the Internal Audit activity that supports the opinion and of the performance during the year, and summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).
- 4.2 The Internal Audit Annual Assurance Report 2020/21 provides assurances in relation to the Council’s corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Single Midlothian Plan and will be used to inform the Annual Governance Statement 2020/21.



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

### **5.1 Resource**

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). There is currently a staff resource of 4.64 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 1.42 FTE Other shared Internal Audit resources), Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). Each member of the Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to perform the plan.

Staff resources have been adversely affected during the year, most notably due the continued part-time deployment throughout the year of the two Internal Auditors to assist with the administration of support grant payments as part of the Council's emergency response associated with Covid-19. Adjustments were made to the Internal Audit Plan: additional assurance work on new risks associated with the Covid-19 emergency response; some assurance work was re-phased; and some audits have been deferred to 2021/22. The audit work within the revised Internal Audit Annual Plan 2020/21, which was approved by the Audit Committee on 8 December 2020, is reflected in the Internal Audit Annual Assurance Report 2020/21 (Appendix 1).

There is a commitment by Midlothian Council to provide resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) as part of the Council's commitment to partnership working. Separate plans and reports are presented to the MIJB Audit and Risk Committee. The audit opinion based on work undertaken during the year to meet that commitment will be presented in a separate annual assurance report to the MIJB Audit and Risk Committee and MIJB to fulfil that role.

Budget monitoring of the Service is discussed by the Chief Internal Auditor and the Principal Internal Auditor with the Financial Services Manager on a quarterly basis to address any budgetary pressures.

### **5.2 Digital**

There are no digital implications arising from this report.

### **5.3 Risk**

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The Chief Internal Auditor's opinion on the systems of internal control, risk management and governance is set out within section 2 of the Internal Audit Annual Assurance Report 2020/21 (Appendix 1).

Internal Audit provides assurance to the Corporate Management Team and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, and to highlight good practice and recommend improvements. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and range and breadth of audit areas for inclusion within the Annual Plan.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years.

Delivery of the Internal Audit services in conformance with the PSIAS will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

#### **5.4 Ensuring Equalities**

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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. This includes compliance by those within the Internal Audit function with the Code of Ethics, set out in the PSIAS, and the Seven Principles of Public Life (the Nolan Principles), set out in the Employees' Code of Conduct. This is appropriate for the profession of Internal Audit, founded as it is on the trust placed in its independent and objective assurance about risk management, internal control and governance.

#### **5.5 Additional Report Implications (See Appendix A)**

## **APPENDIX A – Additional Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), by providing an independent and objective annual assessment of the adequacy of the entire control environment, Internal Audit supports the Council to achieve its objectives.

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

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

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

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

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

### **A.4 Delivering Best Value**

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council's

own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

#### **A.5 Involving Communities and Other Stakeholders**

Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives for the benefit of Midlothian's communities and other stakeholders.

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

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management have been advised to take this report, audit opinion and findings from associated work during the year into account when completing their annual self-evaluation and assurance process for the Council's Annual Governance Statement 2020/21.

#### **A.6 Impact on Performance and Outcomes**

The Findings and Recommendations from Internal Audit work during the year, which are designed to maintain and / or enhance internal controls, governance arrangements and risk management, assists the Council in improving its performance and outcomes.

#### **A.7 Adopting a Preventative Approach**

Having robust internal controls, governance arrangements and risk management in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Internal Audit assurance and consultancy activity is designed to improve operations and assist the Council in accomplishing its objectives.

#### **A.8 Supporting Sustainable Development**

This report does not relate directly to supporting sustainable development. Good governance, including the provision of an Internal Audit service, is important to enable Midlothian Council to achieve its objectives.

## **Chief Internal Auditor's Annual Assurance Report and Opinion 2020/21 for Midlothian Council**

### **1 Introduction**

- 1.1 It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line, is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.
- 1.4 The Objectives of Internal Audit are set out in its Charter:
- “Internal Audit's responsibility is to report to Midlothian Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit Committee (the 'board' for the purposes of Internal Audit activity).
- Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.
- As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives”
- 1.5 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
- “The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must incorporate:
- the opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”
- 1.6 This Annual Assurance Report provides the annual internal audit opinion to fulfil the statutory role of Internal Audit and summarises the work carried out by Internal Audit during the year to 31 March 2021 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan 2020/21. The report also states the outcomes of assessments of the Internal Audit service against the PSIAS.

## **2 Opinion on the systems of Internal Control, Risk Management and Governance**

- 2.1 My opinion is that, based on our reviews, risk assessments and knowledge, the systems of internal control, risk management and governance are generally adequate. There is more work to be done with the implementation of Internal Audit recommendations made in previous years associated with the strategic governance arrangements that underpin procurement and contract management, financial management, and workforce development to address the identified risks.
- 2.2 The Council's Local Code of Corporate Governance complies with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). The Council's Corporate Management Team (CMT) were provided the opportunity during the year to engage in the review and finalisation of the updated Local Code of Corporate Governance. This was part of Internal Audit's assessment of internal control and governance to include comprehensive evidence against each of the seven principles of good governance and sub-principles. The updated Local Code was approved by Council in March 2021. This will ensure that this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.
- 2.3 The Audit Committee received quarterly update reports from the Service Manager Waste, Risk and Resilience on the most significant and emerging risks. The Committee Report template includes a section on risk implications to provide information to Elected Members. The Risk Management Policy (approved February 2014) and guidance/quick guide (dated 2012 and 2013) need to be reviewed and updated, along with a Strategy for the implementation of risk management policy requirements. An Internal Audit review of Risk Management is scheduled for completion in 2021/22.
- 2.4 The Financial Regulations (approved July 2012), and associated policies, procedures and guidelines need to be reviewed, updated and developed, as appropriate, to reflect changes arising from organisation structures and systems and then be kept under regular review. Findings from some of the Internal Audit reviews during the year have indicated some gaps and updates are required. Further work is required to implement recommendations made in previous years' audits relating to budget monitoring, and internally provided financial management information.
- 2.5 Improvements over the Council's procurement and contract management are required as there were examples of contracts not being retendered when the existing contract had expired, Non Competitive Action forms not always being completed for single source suppliers, and Services not always using existing framework suppliers. There is no system in place to manage contracts from cradle to grave and no dedicated resource to undertake contract monitoring to ensure that the controls are operating effectively. Further work is required to implement recommendations made in previous years' audits.
- 2.6 A long term Capital Investment Strategy is in place. New Capital projects >£1M are subjected to a gateway review by the Capital Plan and Asset Management Board (CPAMB). A more in-depth Internal Audit review of Capital Investment is scheduled for completion in 2021/22.
- 2.7 Further improvements in internal control, risk management and governance have been agreed by Management, as highlighted in Internal Audit reports and through recommendations made during the year or outstanding from previous years. There is an opportunity for Management to monitor and oversee the implementation of Internal Audit recommendations on a regular basis to demonstrate continuous improvement and to address identified risks.

### **3 Internal Audit Annual Plan 2020/21 Delivery**

- 3.1 Internal Audit staff resources have been adversely affected during the year. Most notably the whole team have been and continue to be working from home due to the ongoing response to the Covid-19 pandemic. This has impacted on how Internal Audit work has been delivered, though this has been facilitated by the use of MS Teams and access to network drives and business applications. There were reduced days capacity due to the continued part-time deployment throughout the year of the two Internal Auditors to assist with the administration of support grant payments as part of the Council's emergency response associated with Covid-19. This has resulted in the level of Actual Audit days being lower than plan (80%). There has been no impairment to the independence or objectivity of the Internal Audit function arising from the deployment to this non-audit work or from consulting work during the year.
- 3.2 Adjustments were made to the Internal Audit Plan: additional assurance work on new risks associated with the Covid-19 emergency response; some assurance work was re-phased; and some audits have been deferred to 2021/22. The revised Internal Audit Annual Plan 2020/21 was approved by the Audit Committee on 8 December 2020. The following Audits from the 2020/21 Audit Plan have been deferred to 2021/22:
- Income Collection (Assurance - Cyclical);
  - Roads Maintenance Service (Assurance - Cyclical);
  - Homelessness (Assurance -Cyclical);
  - Learning and Physical Disabilities Services (Assurance – Risk)
  - School Excursions (Assurance – Risk)
  - Automated Invoice Payments (Assurance - Risk).
- 3.3 The range and breadth of Internal Audit work that has been performed during the year, which is listed below, is sufficient to inform the Internal Audit assurance opinion.

#### **Cyclical Audits**

- 3.4 To provide assurance on the internal controls in place and perform testing of transactional data relating to service areas and systems selected from the Audit Universe on a cyclical basis within a 5-year period, reviews included:
- Annual Assessment of Internal Controls and Governance (Continuous audit approach to follow-up on implementation of actions for Areas of Improvement set out in the Annual Governance Statement 2019/20; work with CMT from August to December 2020 on each of the 7 core principles and sub-principles to refresh the Local Code of Corporate Governance. Test a sample of the key elements in the Local Code to determine whether these are operating as described. Prepare this annual assurance report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming the statutory opinion on adequacy of the Council's arrangements for risk management, governance and internal control).
  - Fleet Management (Review asset management planning and maintenance of the Council's fleet ensuring that fleet repairs and replacement decisions represent value for money. Include a review of the controls over fuel management).
  - Property Maintenance (Review of the in-house building maintenance team undertaking repairs to the Council's housing and non-housing buildings. Include a review of jobs from creation through to billing).
  - Council Tax (Review the adequacy of controls over the Council Tax System with coverage limited to liability, billing and collection).
  - Information Governance (Continual audit approach to review the information governance framework including roles and responsibilities, policy development and implementation, specifically on information security).



- Schools Expenditure (Review orders, invoice payment processes and expenditure across schools to ensure it is in line with procurement policy and procedures; and that Payroll payments are in accordance with approved staffing establishment).
- Social Housing Rents (Review the management arrangements and the adequacy of controls over the collection of Council house and garage rents).
- Trading Standards (Review the business practices and ways of working within Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed).
- DSM Budgets (Assess whether DSM budgets set for 2020/21 are sustainable and based on realistic plans and that appropriate scrutiny is undertaken to enable service delivery within approved budget).

### **Risk Based Audits**

3.5 To provide assurance on the internal controls, risk management and governance arrangements associated with strategic and operational frameworks in place for the efficient and effective delivery of objectives, reviews included:

- Change and Transformation Programme (Monitor implementation of improvements to the governance and accountability arrangements for the change and transformation programme including processes for benefit (financial and other) identification, tracking and realisation).
- Business Planning, Budget Setting and Monitoring (Evaluate the implementation of improvements to ensure 2020/21 budgets are sustainable and based on realistic plans, and that appropriate scrutiny and challenge is undertaken on revenue budget monitoring reports to enable service delivery within approved budgets).
- Workforce Planning (Follow-up on implementation of previous recommendations to improve workforce strategy and planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives – carry out as part of audit on Business Planning, Budget Setting and Monitoring).
- Procurement and Management of Contracts (Monitor the implementation of improvements recommended and quality assurance arrangements through cross reference with other related audit work).
- Passenger Transport (Review over the governance, controls, costs and management of passenger transport services across the Council including end to end processes for client and provider).
- Capital Investment (High level review of the established control framework and governance arrangements in place to plan Capital Investment projects).

### **Legislative and Other Compliance Audits**

3.6 To test compliance with the terms of the funders' service level agreements or other requirements as part of the wider assurance framework, reviews included:

- EU Funded Programme Tyne Esk LEADER (Annual requirement to review the controls in place to deliver the EU Funded Programme Tyne Esk LEADER and to undertake compliance related work as defined by the Service Level Agreement).

### **Consultancy**

3.7 In its 'critical friend' role provided an independent view and challenge at various forums including Business Transformation Board, Capital Planning and Asset Management Board, and Information Management Group. Audit Consultancy work carried out on request and in agreement by the Chief Internal Auditor; undertake audit consultancy work relating to community resilience funds, infrastructure developments, participatory budgeting, and housing allocation policy.



### **Other Audit Work**

- 3.8 During the year resources were deployed in undertaking the following other audit work in support of the Internal Audit function meeting its wider objectives as set out in the Internal Audit Charter:
- PSIAS Self-Assessment (Undertake an annual self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS) and report its findings to Management and the Audit Committee).
  - MLC Audit Committee Self-Assessment (Provide assistance to the Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance).
  - MLC Recommendation Follow-Up Reviews (Undertake two reviews. The first includes a sample check of Audit Recommendations which are flagged as closed, to check that they have been implemented and to ensure that the new controls had the desired effect on improving internal controls, risk management and governance; and the second assesses performance against closing Audit Recommendations by the agreed due date).
  - Help Desk Enquiry System (Provide guidance and advice on request to Management and Staff on internal controls and governance).
  - MLC Administration of Audit Scotland Reports (Monitor publication of Audit Scotland reports and co-ordinated submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant).
  - Risk Management and Integrity Groups (Attend and provide support in the form of relevant Internal Audit updates and advice to the Groups to fulfil their roles).
  - MLC Boards / Committees (Prepare for and attend Audit Committee meetings and other Boards/Committees as relevant).
  - MLC Audit Planning for 2021/22 (Review and update the Internal Audit Charter and Internal Audit Strategy, and develop the proposed coverage of the Internal Audit Annual Plan for 2021/22 for Midlothian Council, incorporating the deferred audits from 2020/21 due to the impact of the Covid-19 pandemic).

### **Non MLC Work**

- 3.9 The MLC Internal Audit team has carried out assurance work during the year for the Midlothian Integration Joint Board (MIJB) based on a plan approved by the MIJB Audit and Risk Committee in March 2020. An annual assurance report, including audit opinion on the adequacy of the MIJB's arrangements for risk management, governance and control of the delegated resources, will be presented to the MIJB Audit and Risk Committee and then to the MIJB in due course.

## **4 Public Sector Internal Audit Standards and Quality Assurance & Improvement Plan**

- 4.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) include:
- Definition of Internal Auditing;
  - Code of Ethics;
  - Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
  - Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress; Communicating the Acceptance of Risks).

- 4.2 The annual self-assessment 2020/21 of Internal Audit practices against the Standards, as required by the PSIAS, was carried out in February/March 2021 taking into account the progress with implementation of the improvement actions arising from the previous year's self-assessment, as set out within the Quality Assurance and Improvement Plan (QAIP).
- 4.3 The 2020/21 self-assessment has indicated Internal Audit 'Fully Conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards. The following improvement arising from the 2019/20 self-assessment was implemented in April 2020: streamline audit engagement planning and performing using new templates for audit work files to facilitate more concise reporting. The following improvements arising from the 2020/21 self-assessment have been implemented in recent months:

(a) Update the Internal Audit Charter to include the following explicit references: the PSIAS Mission Statement; a high level reference to statutory officers; compliance with the Seven Principles of Public Life; the professional qualifications and competences of the Chief Audit Executive; the aims of the Internal Audit Strategy, and the risk-based Internal Audit planning process; and arrangements to ensure Internal Audit independence and objectivity is not impaired;

(b) Update the Annual Declaration and templates for audit engagement planning to reflect behaviour in compliance with Seven Principles of Public Life and arrangements to ensure Internal Audit independence and objectivity is not impaired; and

(c) State progress against any improvement plans, the Quality Assurance and Improvement Plan (QAIP), in the annual report.

The remaining improvement actions in the QAIP arising from the 2020/21 self-assessment are as follows:

(1) Archive electronic audit files in line with retention policy and record in register;

(2) Update the Audit Manual to reflect new operating arrangements; and

(3) Update the Audit Universe to reflect organisational changes and work of other assurance providers (internal and external). The latter provides an opportunity to create an up-to-date assurance map that reflects in more detail the Council's assurance framework that is set out in the Internal Audit Strategy.

These improvements will be implemented during 2021 and progress reported to the Audit Committee within the Internal Audit Mid-Term Performance Report 2021/22.

- 4.4 PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. To achieve this, an "EQA Peer Review Framework" was developed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), with Midlothian Council's first EQA in March 2018 carried out by Highland Council. SLACIAG has refined its "EQA Peer Review Framework" based on lessons learned and a programme for the second phase has been finalised. Midlothian Council's EQA is expected to be carried out by East Renfrewshire Council during 2022, and certainly before March 2023 to meet the requirements. In addition during 2022, Midlothian Council is scheduled to carry out the EQA of East Lothian Council.

**Jill Stacey BA (Hons) ACMA CGMA**  
**Chief Internal Auditor**  
**13 April 2021**

## **Annual Governance Statement – Improvement Update**

### **Report by Gary Fairley Chief Officer Corporate Solutions**

#### **Report for Noting**

#### **1 Recommendations**

Audit Committee are asked to note this update on the improvement actions as set out in the 2019/20 Annual Governance Statement, the completion of which enhances compliance with the Council's Local Code of Corporate Governance.

#### **2 Purpose of Report/Executive Summary**

At its meeting on 22 June 2020 the Audit Committee, when considering the draft of the Annual Governance Statement (AGS) for 2019/20, agreed that the Chief Officer Corporate Solutions would provide regular updates on the financial improvement actions. An update in respect of the financial improvement actions was provided to Audit Committee on 8 December 2020. This further update has been expanded to include all of the thirteen items set out in the 2019/20 AGS with a draft noted by the Corporate Management team on 21 April 2021.

**22 April 2021**

#### **Report Contact:**

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### 3 Background

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE framework, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' is to ensure that:

- Resources are directed in accordance with agreed policy and according to priorities;
- There is sound and inclusive decision making; and
- There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

An annual review of the adequacy and effectiveness of the Council's overall governance framework is carried out with the output of this being the Annual Governance Statement, which is presented as an integral part of the Financial Statements.

For 2019/20 the collective review activity identified areas where improvement in governance arrangements could be made to enhance compliance with the Council's Local Code of Corporate Governance and to demonstrate Best Value, including financial sustainability, financial management and service transformation.

The final 2019/20 Annual Governance Statement highlighted that significant progress had been made in terms of the improvement actions agreed as follows:

1. The medium term financial strategy was approved by Council in June 2019.
2. The Council have worked hard to develop and sustain more constructive relationships between members and between members and officers. The cross-party Business Transformation Steering Group (BTSG) is driving forward the medium term financial strategy including supporting transformation plans. Throughout the Covid-19 pandemic emergency phase, the Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed.
3. The workforce strategy was approved by Council in December 2019 and further work, as part of the Covid-19 recovery phase, is now taking place to ensure that workforce planning reflects both the medium term financial strategy and the Council's future plans.
4. The capital programme has been accelerated in line with the Midlothian Route Map Through and Out of the Crisis which was approved by Council in June 2020. Supporting capital projects were approved by Council in June and August 2020.

5. The Council is continuing to implement financial planning arrangements to address remaining budget gaps, underpinned by robust financial budgeting and monitoring arrangements with a quarterly financial monitoring board now meeting to scrutinise in year and future year savings.
6. The Compact has been developed in partnership with the Third Sector in light of the outcome of consultation work through Services with Communities and will be presented to Council in October 2020.
7. Work is underway with elected members in light of the recommendation to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.
8. Reviews are progressing to continue to build on positive elements of community empowerment; increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

The statement also noted additional improvement actions that were agreed during the year in order to enhance compliance with the Council's Local Code of Corporate Governance:

9. Strengthen resource capacity and skills in the Procurement function to better support service managers to comply with the Council's procurement strategy and procedures, and to undertake contract monitoring to demonstrate delivery of value for money.
10. Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
11. Review and update the Financial Regulations and policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations to reflect changes arising from organisation structures and systems.
12. Provide ongoing leadership training for officers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.
13. In 2019/20 meeting dates were aligned in order that reports would go to CMT or Financial Monitoring prior to Audit Committee, or Council where appropriate. Unfortunately, the reporting process did not improve to the extent anticipated and therefore it is essential moving forward that both CMT and Audit Committee are given their place in terms accurate and timeous reports being provided to allow full analysis and scrutiny of financial matters which will help to ensure greater transparency of practice and stronger governance.

The aim of all these actions being to improve governance arrangements in 2020/21.

The update provided by this report builds on that provided in December 2020 and encompasses all of the thirteen items above.

## 4 Update on Improvement Actions

### **AGS 1: Medium Term Financial Strategy (MTFS)**

In addition to the position reported in December 2020, the Council agreed on 28 February 2021, on the recommendation of the BTSG, the 2021/22 budget.

As reported previously BTSG unanimously endorsed the adoption of a corporate solution to secure financial balance for the 2021/22 and 2022/23 budgets. Therefore in setting the budget in February members did not have to consider further service reductions when determining the budget, representing a significant departure from previous years.

The adoption of the corporate solution for the 2022/23 budget, the remaining budget that falls within the term of this Council, allows officers to commence work on developing a MTFS for the term of the next Council for consideration after the elections in May 2022.

### **AGS 2: Relationships between members and between members and officers and AGS 7: Member scrutiny**

The introduction of cross-party working groups represents positive progress. These working groups support development of relationships between members themselves and provides access to appropriate officers, which adds depth to their scrutiny role outside formal committees. As referenced above, the cross-party BTSG has been fundamental to securing recommendations to Council in respect of the 2021/22 budget and also in continuing to drive forward the medium term financial strategy.

During the pandemic, to support members' transition to a virtual meeting environment, a new protocol and reporting template were introduced. The return to the delivery of critical service provision and the suspension of a range of Council meetings was supported by the Chief Executive's weekly meeting with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed.

In December 2020, an update on the Elected Member Development Programme was presented to CMT. Themes for the development programme were identified through elected member engagement, with further consultation taking place with members to inform the detailed programme to be delivered. Personal development plans have been issued, with a number of members having completed these, and briefings/seminars have been delivered. A central record of attendance is held to better inform elected member development.

It is recognised that in the run up to the Scottish Government Elections in May 2021 there will be increased political debate between the political groups of elected members within the Council. It is important that the quasi-judicial and scrutiny roles of some specific committees are respected.



As the Council enters the final twelve months of its current term it is important that efforts continue to further strengthen the relationships between members themselves, and between members and officers, and that this extends to the essential role of the members of the Audit Committee to constructively support scrutiny activity.

### **AGS 3: Workforce plans**

The Council's Workforce Strategy was refreshed and presented to Council in December 2020. Service workforce plans were expected to be updated to reflect both MTFS and new leadership structure but this has been disrupted by the focus on the response to the pandemic.

Services are currently preparing new service plans reflecting the new leadership structure, route map and approved Nesta recommendations all of which will positively inform service workforce plans. Whilst not necessarily captured in documented workforce plans, a number of key actions are being progressed to strengthen our workforce planning arrangements as outlined below:

- Work is ongoing with Nesta to transform the way we deliver neighbourhood services. This work involves considering the content of job roles to ensure the delivery of both customer service excellence and job enrichment; development of career pathways within and across teams; and more visible entry routes into Midlothian Council for those who may face barriers to employment opportunities.
- With the introduction of 1140 hours in the early years sector, much work continues to be undertaken on introducing modern apprenticeships into the Council to ensure this growth area is resourced.
- Within the Midlothian Health and Social Care Partnership, an interim workforce plan will be submitted to the Scottish Government by 30 April 2021 examining the existing workforce plans for service areas, reviewing what the strengths, opportunities and challenges are with the current workforce to compile a strategic direction with outcome focussed actions to deliver an effective and efficient workforce.
- Much work has also been undertaken within Building Standards, with Midlothian contributing to the national work in this area.

The agreement of the 2021/22 budget, as set out above, provides greater certainty on which to develop these service specific plans.

### **AGS 4: The capital programme**

On 23 February 2021 the updated General Services Capital Plan was agreed. This includes pipeline projects, investment in essential infrastructure, new schools and continued new build social housing; and will see investment of £0.8 billion over the period of the plan. The plan also includes two successful bids for projects in Learning Estate Investment Programme Phase 2 with three new build secondary schools and one refurbishment.

In recognition of the extent of the forward investment the Council has appointed two Heads of Development and is further strengthening its capacity to support the delivery of the programme.

The Capital Plan and Asset Management Planning Board maintains oversight of the capital plans and oversees the delivery of the wide range of investment projects provided for in the plans. The board has implemented a gateway review and reporting process (at this point for all projects over £1m). This has subsequently been complemented by the roll out of project flash reports to allow BTSG oversight of progress in delivering capital projects and to keep all members informed of progress in their ward. The gateway review process is designed to strengthen the overall governance of projects, provides a means to more effectively monitor projects against the agreed milestones and allows risks to be monitored and managed effectively. Whilst the framework is in place, work continues to ensure it is fully embedded across all £1m plus projects to ensure consistency.

#### **AGS 5: Financial planning arrangements and financial budgeting and monitoring arrangements**

Financial Monitoring CMT meetings continue to take place with those meetings receiving both the draft quarterly financial monitoring report and appendices for scrutiny and challenge. Also, where appropriate, additional information which outlines the basis of financial projections and the key risks associated with these is also provided.

Financial Strategy meetings attended by the Chief Executive, Executive Director Place, Chief Officer Corporate Solutions and Financial Services Manager continue on a fortnightly basis and provide a forum to review and refine the financial strategy and address issues as they emerge.

To support the wider scope assessment for Financial Management and Financial Sustainability (and the Annual Governance Statement) work has commenced on a self-assessment against the CIPFA Financial Management Code. The Code provides guidance for good and sustainable financial management in local authorities and by complying with the principles and standards within the code, the Council will be in a better position to demonstrate financial sustainability and be a step closer to securing a green rating as part of the wider scope assessment by EY.

Although the Code comes into effect from April 2020, in recognition of the pressures facing local authorities, 2021/22 will be the first full compliance year so we have a shadow year to work towards full implementation. Adoption and compliance with the Code is not just a finance team issue, but is for the whole leadership team, therefore an approach similar to that adopted for the review of the Code of Corporate Governance will be taken to collate evidence and engage with CMT.



## **AGS 6: Compact with the Third Sector and AGS 8: Community empowerment**

The updated Compact was presented and agreed in October 2020.

Community councils have taken ownership of neighbourhood plans in rural communities where they are now a standing item on agendas. Some community councils have co-opted community groups to membership through the powers in the revised constitutions. In respect of the Citizen's Panel an additional 350 children and young people took part in a modified citizen's panel process.

Four community asset transfers have now been agreed and three formal participation requests have been received. Town centre master planning in Mayfield is being led by five anchor community organisations supported by the Council.

A place standard approach involving residents in defining core issues in their communities has been undertaken in Bonnyrigg, Mayfield, Gorebridge, Dalkeith and Penicuik. The Bonnyrigg place standard weekend engagement event involved slightly over 2,500 people.

The Midlothian Integrated Joint Board undertook an extensive public engagement process to devise its most recent plan. Stakeholder joint planning groups continue to influence planning of adult health and social care services. Reviews are progressing to continue to build on positive elements of community empowerment; increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

## **AGS 9: Procurement**

The actions reported in December 2020 included:

- Strengthening the capacity and skills in the Procurement Team by recruiting an additional Procurement Officer.
- Regular meetings in place across the Directorates.
- An update on the position with expired contracts, noting that twelve had been identified as requiring retendering and in this regard the Procurement team were supporting service leads to progress these and had ensured that interim arrangements were appropriate.

Since December 2020 further additional capacity has been secured through the recruitment of a second Procurement Assistant, who will start on completion of their notice period in May 2021. The additional capacity provided by this appointment will assist in ensuring that the provider fitness checks arrangements put in place are sustainable (a recommendation arising from the Following the Public Pound 2018/19 audit). From the 20/21 fitness provider checks, 14 remain outstanding (11 Adult Health & Social Care, 3 Children Services). Work is ongoing to complete these checks and it is acknowledged that providers in these services areas have experienced significant challenge over th

last year which has impacted on their ability to meet the expected deadlines. Provider fitness checks for 2021/22 have also commenced.

The procurement officers meet regularly with the service managers in their respective categories across all three divisions. This enables service managers to identify future procurement needs and all parties to agree procurement strategies and timetabling as well as allowing discussion on current contract performance.

Despite the impact of the pandemic on capacity across services, positive engagement continues with Scotland Excel to develop plans for the future delivery of the procurement service and ensure there is sufficient capacity to deliver an effective and efficient service. It was hoped to secure resources directly from Scotland Excel to provide the capacity and skills to take forward a range of key actions however this has proved to not be feasible.

To support the continued improvement of the Council's procurement arrangements and to ensure that our focus and investment is targeted on the right areas, a Strategic Procurement Review from Scotland Excel was commissioned and completed with a final report provided on 12 March 2021.

This review set out the following three options for the Council to consider:

- Add additional resource to the team in its existing form and governance
- Develop a strategic partnership and operate a shared procurement service with another organisation's procurement team
- Develop a strategic partnership with Scotland Excel to deliver a transformation programme

As previously reported attempts to develop a strategic partnership and operate a shared procurement service with neighbouring Councils has proved unsuccessful so this option has been discounted in the short term.

On receipt of the draft report from Scotland Excel recruitment of a Procurement Manager commenced, recognising the need to further strengthen capacity to maintain and develop the service and to progress the strategic partnership with Scotland Excel to deliver a Procurement transformation programme. Recruitment interviews are scheduled for 23 April 2021.

A meeting with the Chief Executive of Scotland Excel took place on 30th March 2021 to discuss the findings of the report and discuss the way forward with continued support from the Scotland Excel team. The Procurement Review Report will form the basis for the immediate action plan to be progressed by the Procurement Manager when in post.

The 2019/20 Internal Audit report on the procurement and management of contracts identified that contract and supplier management processes require to be strengthened, including a system to manage contracts, resource to monitor and manage contractors, and sufficient performance measures built into every contract for adequate monitoring. This aspect of procurement activity was covered by the Scotland Excel report which acknowledge that Contract and Supplier Management (CSM) as a key development area for the Council.

*The report states that “it is widely recognised that CSM is an area of considerable weakness within the public sector generally. For local authorities this is clear from the most recent results from the Procurement & Commercial Improvement Programme (PCIP), where the CSM section is the lowest rated subject area and, in considering historical results from previous assessments is the least advanced area over the last number of years. In line with national trends, Midlothian Council did not score well in areas relating to CSM and should prioritise this as an area for improvement.*

*There are three main operating models of CSM within Local Authorities:*

*1. Central Procurement Only*

*In this model, CSM is undertaken by the central procurement team. Whilst this allows for greater control, it does entail significant procurement resource to operate effectively.*

*2. Delegated Services Only*

*In this model, CSM is undertaken by the service areas. Whilst this reduces pressure on central procurement resource, it is more difficult to control to ensure that CSM is being conducted appropriately.*

*3. Hybrid Model*

*A hybrid model allows for a mix of the two approaches outlined above. In a Scotland Excel Cross Sector workshop, it was found that 68% of organisations adopt a hybrid model with input from central procurement and service teams”.*

Scotland Excel recommend that a corporate approach to CSM is developed. If we consider CSM by value, 98 suppliers represent 80% of the total influential spend for Midlothian Council and Scotland Excel suggest that this would be a good place to start CSM activity. This will progressed by the new Procurement Manager alongside the work to progress the actions arising from the last PCIP assessment (in preparation for the next assessment).

The areas covered by the Scotland Excel report provide external assurance on where the focus should be as regards the activity required to further improve the Council’s procurement arrangement and supports the developed and implementation of these in a way which ensures that the necessary improvement actions are defined and can be implemented successfully to secure continuous improvement.

## **AGS 10: Enhance the performance management framework**

The Performance team is now the Continuous Improvement Team in order to drive continuous improvement, utilising the Customer Service Excellence Standard.

The self-evaluation calendar of activity was agreed by CMT in March 2020, however programme delivery was suspended given the focus on critical service delivery. In September 2020 a revised 2020/21 calendar and approach for CMT was agreed, with the intention to revisit and refresh the previously identified service level self-evaluation programme, reflecting the changes introduced by the new Senior Leadership restructure. Activities relating to progressing both areas were impacted by the further lockdown introduced late 2020.

Given the period of time and significant structure changes introduced since identification of the previous self-evaluation programme a refresh/re-engagement session focusing on the Midlothian Excellence Framework (corporate self-evaluation model) was delivered to Leadership Forum on 30 March 2021.

Following the Leadership Forum self-evaluation session, CMT agreed that a future programme of self-evaluation be developed and that this would be informed by self-evaluation being a key element of the Service Plans for 2021/22, currently being developed for presentation to June Council. In addition, CMT members will consider and identify examples of good practice reflecting self-evaluation to be shared across the Council.

Continuous improvement activity has continued during this time. In February 2021 the Building Standards Customer Service Excellence assessment took place with the service continuing to meet Customer Service Excellence standard and achieved three additional compliance plus ratings.

In addition, an update on the Best Value Assurance Report was presented to Council in December 2020 outlining the ongoing progress against the action plan.

## **AGS 11: Financial Regulations**

The effective financial governance arrangements adopted from the onset of the pandemic, and as summarised in the report to Audit Committee in December 2020, remain in place.

This has been particularly relevant given the 80+ individual grant funding streams that have been rolled out by Scottish Government. These bring a significant additional reporting and accounting burden, some where the Council acts as “agent” in making payments to recipients on behalf of Government, which increases the complexity of the 2020/21 financial year end and preparation of accounts.

It was acknowledged in the December report that the Council’s Financial Regulations would benefit from an update. As an interim measure these have been updated to reflect changes in the Council’s Leadership structure and the wider changes, as indicated by EY, will be

now be undertaken in the early part of 2021/22 as priority has been given to concluding the budget and the additional complexities for closure of financial year 2020/21.

### **AGS 12: Leadership training for officers**

In 2019/20 Midlothian successfully ran an Uplifting Leadership Programme for approximately 50 members of the Council's Leadership Forum. In 2020/21 the Resilient Leadership Programme consisting of core and supplementary modules, has helped our leaders to have greater confidence in who they are and what they do, being prepared for uncertainty, seeing opportunity and taking decisive actions. Discussions are currently underway on the content for our 2021/22 leadership programme.

A post within the HR team will be advertised in the early summer with a focus on leadership development, highlighting the investment the council is making in developing its leaders and leaders of the future.

Much progress has also been achieved in our management development programme. Funding was secured via the Flexible Workforce Fund in 2019/20 to run a series of management development modules. Enhanced funding has been secured for 2020/21 allowing a bespoke management development programme to be run, starting in June, in partnership with Edinburgh College.

In response to the pandemic, work continues to be undertaken to develop the suite of on-line learning available to our workforce.

### **AGS 13: Alignment of meeting dates**

As reported in December 2020 the schedule of meeting dates now fully supports the quarterly financial monitoring reports being presented to a dedicated Financial Monitoring meeting of CMT and the three treasury management reports being presented to Audit Committee for consideration before being reported to Council.

## **5 Report Implications (Resource, Digital and Risk)**

### **5.1 Resource**

There are no direct resource implications arising from this report. The continued areas of improvements will be met from existing resources.

### **5.2 Digital**

There are no direct digital implications arising from this report.

### **5.3 Risk**

There are no specific risk arising from this report. The progress outlined in the report strengthens the Council's governance arrangements and in turn supports effective mitigation of risk.

**5.4 Ensuring Equalities (if required a separate IIA must be completed)**

There have been no changes to policies which require an IIA to be completed.

**5.5 Additional Report Implications (See Appendix A)**

See Appendix A

**Appendices**

Appendix A – Report Implications

## APPENDIX A – Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

Maintaining financial governance and effective internal controls is central to demonstrating strong financial management and financial sustainability and it is on these foundations that delivery of the priorities in the Single Midlothian Plan is based.

### A.2 Key Drivers for Change

Key drivers addressed in this report:

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

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☐ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious
- ☐ None of the above

### A.4 Delivering Best Value

Effective Financial Governance is a core principal of Best Value.

### A.5 Involving Communities and Other Stakeholders

There has been no external engagement in preparing this report.

### A.6 Impact on Performance and Outcomes

In the main the arrangements set out in the report do not have a direct impact on performance or outcomes.

### A.7 Adopting a Preventative Approach

Maintaining an effective Financial Governance and internal control arrangements is central to the prevention of error and or the risk of fraud.

### A.8 Supporting Sustainable Development

No direct impact.

