

Appendix 1

Annual Governance Statement

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

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

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

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

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

Midlothian Council's financial management arrangements conform to the requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government. The Chief Financial Officer has overall responsibility for the

Council's financial arrangements and is professionally qualified and suitably experienced to lead the Council's finance function.

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

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

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

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

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

The statement has also been informed by the work undertaken by Internal Audit who, following the requirements of the Local Authority Accounts (Scotland) Regulations 2014, conducted an annual review of the effectiveness of the Council's system of internal control. The Audit Manager's overall Audit Opinion for the Annual Governance Statement is included within the Internal Audit Annual Report for 2015/16 and concludes that reasonable assurance could be provided on the Council's framework of control for the year to 31 March 2016 and that overall, internal controls had been implemented and were being monitored by management in line with Financial Directives, Council Policies and the other key essentials of a robust Internal Control Environment. The programme of Internal Audit work undertaken in respect of 2015/16 was sufficient in breadth and depth to allow a robust and balanced opinion to be formed.

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

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment be conducted at least once every 5 years by a qualified, independent assessor from outside the organisation over the level of compliance against PSIAS by the Internal Audit Section. An external assessment was not undertaken in 2015/16 but will be undertaken in late 2016/17 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). However a self evaluation of compliance with the Public Sector Internal Audit Standards by Midlothian Council's Internal Audit Section was undertaken by the Internal Audit Manager. This evaluation demonstrated that the key elements of the Standards were complied with during the year. The Council's external auditor conducts an annual review of the effectiveness of the Council's Internal Audit Service and arrangements and reports its findings to the Council within its Annual Audit Report. The latest available assessment (2014/15) was satisfactory.

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

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

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

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

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

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

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

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

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

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

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

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

□ responding to the impact of further Welfare Reform changes;

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

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

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

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

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

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

□ recovering costs incurred at Newbyres Crescent, Gorebridge

The Council is currently pursuing a claim in the Court of Session against three companies for losses which arises from the demolition of 64 council houses at Newbyres Crescent, Gorebridge. The houses were built without adequate protection to prevent the ingress of ground gas, particularly carbon dioxide which is a danger to human health. The claim is at a preliminary stage but is likely to proceed to a substantive hearing in financial year 2017/2018.

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

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

Area for Improvement	Proposed Action in 2016/17
Key priorities and Financial Strategy	To continue to progress the Council's key priorities and deliver the Financial Strategy
Procurement	To update all procedures and processes to comply with the new procurement legislation
Compliance with new Code of Corporate Governance	Updating the Code of Corporate Governance to allow full compliance with the new International Framework of Good Governance in the Public Sector
Compliance against the new CIPFA code of practice on Fraud and Corruption	Review the current Counter Fraud Policy and Strategy, Whistle-blowing Policy and create a separate Anti-bribery and Corruption Policy to allow full compliance against the new CIPFA code of

Area for Improvement	Proposed Action in 2016/17
	practice on “Managing the Risk of Fraud and Corruption”
Adoption of audit recommendations	To adopt the recommendations made by Internal Audit on the areas where significant weaknesses in control have been identified during the year (including Developer Contributions and Business Gateway)
Serious Organised Crime and Corruption	Undertake a high level assessment of the Council’s readiness in relation to the risks posed by Serious Organised Crime and Corruption. An improvement plan for recording, managing, and addressing areas of potential risk exposure has been developed and an Integrity Board will be convened to take this forward.
Disaster recovery plans	Ensure that disaster recovery plans have been adequately tested and to monitor the on-going testing of these.
Standing Orders	Updates are required to Standing Orders and the associated documents (Scheme of Administration and Scheme of Delegation) caused by the recent management review and subsequent changes to the Council Directorates
Brexit	To consider the effects on the Council if Article 50 of the Treaty on the European Union is triggered and to consider plans to ensure the Council’s readiness and to minimise risk to the Council in terms of resultant changes to procurement, data protection, planning, environmental legislation, employment law and grant funding.

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

Signed:

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

Date: