

## Annual Governance Statement 2016/17

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

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

In order to achieve this, the Council has developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework and guidance on Delivering Good Governance in Local Government: Framework (2016). The Code has been reviewed and updated in line with the new International Framework of Good Governance in the Public Sector which was implemented on 1 April 2017. The Council also has a number of officials in statutory posts who monitor governance and the supporting processes during the year. These are the Head of the Paid Service, the Monitoring Officer, the Chief Finance Officer and the Chief Social Work Officer.

The Code of Corporate Governance details 7 core principles which are supported by 20 sub-principles and 91 behaviours and actions that demonstrate good Governance. A draft copy of the revised Local Code of Corporate Governance is pending approval by the Council. Elements of good governance included are:

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

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

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

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

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

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

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

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

The statement has also been informed by the work undertaken by Internal Audit who, following the requirements of the Local Authority Accounts (Scotland) Regulations 2014, conducted an annual review of the effectiveness of the Council's system of internal control. The Internal Audit Manager's overall Audit Opinion for the Annual Governance Statement is included within the Internal Audit Annual Assurance Report for 2016/17 and concludes that overall the Council's framework of governance, risk management and internal control over the period 2016/17 are of a satisfactory standard and have been implemented and are monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment.

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

The Head of Audit (the Internal Audit Manager) has responsibility for the Council's Internal Audit function and reports functionally to the Audit Committee and operationally to the Chief Executive to allow appropriate independence. There have been no threats to the independence of the internal audit activity during the period.

The Internal Audit Manager is professionally qualified and suitably experienced to lead and direct the Internal Audit team.

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment be conducted at least once every 5 years by a qualified, independent assessor from outside the organisation over the level of compliance against PSIAS by the Internal Audit Section. An external assessment was not undertaken in 2016/17 but will be undertaken in 2017/18 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). However, an assessment of Internal Audit's work is undertaken each year by the Council's external auditor as part of their annual audit. Their report in 2015/16 found this to be satisfactory.

A self evaluation of compliance with the Public Sector Internal Audit Standards by Midlothian Council's Internal Audit Section was undertaken by the Internal Audit Manager. This evaluation demonstrated that the key elements of the Standards were complied with during the year, but identified a small number of areas where performance could be improved. An action plan has been developed to address these issues and the majority have already been acted upon.

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

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

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

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

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

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

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

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

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

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

**Signed:**

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

**Date:**