

Notice of meeting and agenda



Audit Committee

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

Date: Tuesday, 20 September 2016

Time: 11:00

John Blair
Director, Resources

Contact:

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Further Information:

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

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

1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declarations of Interest

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

4 Minutes of Previous Meeting

- | | | |
|------------|--|---------------|
| 4.1 | Minutes of 21 June 2016 submitted for approval | 5 - 10 |
|------------|--|---------------|

5 Public Reports

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| 5.1 | Annual Report to Elected Members and the Controller of Audit for the financial year ended 31 March 2016 - Report by External Auditors | 11 - 58 |
| 5.2 | Letter of Representation to Grant Thornton - Financial Statements to 31.03.2016 | 59 - 62 |
| 5.3 | Midlothian Council - Introduction to EY | 63 - 70 |
| 5.4 | Risk Management - Report by Risk Manager (To Follow) | |
| 5.5 | Annual Governance Statement - Report by Chief Executive | 71 - 80 |
| 5.6 | Internal Audit Report - Self-Directed Support - Report by Internal Audit Manager | 81 - 98 |
| 5.7 | Internal Audit Report - Transformation Programme Follow-up Review - Report by Internal Audit Manager | 99 - 114 |
| 5.8 | Internal Audit Report - Review of Controls Operating Over Petty Cash, Follow-up Review - Report by Internal Audit Manager | 115 - 136 |

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1, 6, 9 and OF PART 1 OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973 - THE RELEVANT REPORT IS THEREFORE NOT FOR PUBLICATION; AND (B) TO NOTE THAT NOTWITHSTANDING ANY SUCH RESOLUTION, INFORMATION MAY STILL REQUIRE TO BE RELEASED UNDER THE FREEDOM OF INFORMATION (SCOTLAND) ACT 2002 OR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

6 Private Reports

6.1 Internal Audit Report - Review of Controls operating over Care at Home - Report by Internal Audit Manager

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

The next meeting of the Audit Committee will be held on
Tuesday 13 December at 11 am

Minute of Meeting

Audit Committee
Tuesday 20 September 2016
Item No 4.1



Audit Committee

Date	Time	Venue
Tuesday 21 June 2016	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

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

In attendance:

Kenneth Lawrie	Chief Executive
John Blair	Director Resources
Mary Smith	Director Education, Communities and Economy
Gary Fairley	Head of Finance and Integrated Service Support
Chris Lawson	Risk Manager
Elaine Greaves	Internal Audit Manager
Heather Mohieddeen	Senior Auditor
Kevin Anderson	Head of Housing and Customer Services
Janet R Ritchie	Democratic Services Officer

1. Apologies

- 1.1 Apologies were received from Councillor Parry

2. Order of Business

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

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

- 4.1 The minutes of the Audit Committee meeting of 10 May 2016 were submitted and approved as a correct record.

5. Reports

Report No.	Report Title	Presented by:
5.1	Risk Management, Update for 1 January 2016 – 31 March 2016	Risk Manager

Outline of report and summary of discussion

There was a report submitted to the Audit Committee from the Risk Manager dated 1 June 2016 providing the Committee with 2015/16 quarter 4 update, covering the period 1 January to 31 March 2016. The Risk Manager presented the Report to the Committee highlighting Appendix 1 the Strategic Risk Profile Report and Appendix 2 the Single Midlothian Plan Risks. Thereafter the Risk Manager responded to questions raised by the Committee:

- An explanation on why the Climate change noted in the Strategic Risk Profile Summary as a high risk but on the following chart 'Top issues' this was not noted. The Risk Manager stated the top issues were current risks and climate change is a future risk. It was also explained that it is voluntary reporting on compliance with the climate change duties until November 2016.
- An explanation was also requested on the difference in scoring from the Strategic Risk Profile Summary and the Top issues on Balancing Budgets and why the impact figure was different for 2017/18 and future years. This is due to there being greater confidence in the figures for 2017/18 budget whereas with future years there is less clarity on the definitive nature of the potential risk.

Decision

The Audit Committee noted the quarter 4 2015/16 Strategic Risk Profile report and considered the current response to the risks and opportunities highlighted.

Report No.	Report Title	Presented by:
5.2	Annual Report from the Chairman – Year ended 31 March 2016	Peter Smaill, Independent Chair

Outline of report and summary of discussion

There was a report submitted to the Audit Committee from the Independent Chair to inform the Council of the work carried out by the Audit Committee during the financial year 2015/16. The Independent Chair presented the Report to the Committee including Appendix 1, Audit Committee Self Assessment, Appendix 2 Annual Governance Statement 2015/16 and Appendix 3 Core Areas of Knowledge.

The Conclusion of the Report was:

- The Committee, in tandem with the Internal Audit function, has taken steps to streamline its workload by way of a more planned approach to subject scrutiny. It retains the flexibility to probe specific unanticipated problems, and increasingly views its work as related to assessing risks and not just enforcing good housekeeping as deficiencies become apparent, important though that function remains.
- The Committee in 2016/17 will thus continue to question any perceived weaknesses in internal controls and will also focus on the Council's forward-looking strategy for stabilising the Consolidated Income and Expenditure account. In this a continuing emphasis on Value for Money harmonises the aims of balancing the Council's financial position while generating optimal public benefit from the Council's operations.
- The Audit Committee has also been monitoring progress with the roll out of the new Health and Social Care Integration Joint Board and has received an Internal Audit report on the financial assurance process undertaken over amounts delegated by the Council to the new Board. The Audit Committee will be involved in scrutinising the outturns from this in future years.

Decision

The Committee agreed to note the Report.

Report No.	Report Title	Presented by:
5.3	Internal Audit Report on Follow up review of Audit Recommendations	Internal Audit Manager

Outline of report and summary of discussion

There was a report submitted to the Audit Committee by the Internal Audit Manager on Follow up of Audit Recommendations. The Internal Audit Manager presented this report to the Committee highlighting that the purpose of the report was to review the recommendations that had been signed off as complete in 2015/16. The majority of Audit actions were identified as being completed satisfactorily, however, one action had not been adequately completed, and some actions were reported as complete but testing revealed that these were only partially completed.

Thereafter the Committee raised questions on the following recommendations:

- The recommendation made in September 2015 that training should be delivered annually to ensure managers understood the Construction Industry Scheme (CIS) and are aware of the importance of classifying construction suppliers as subcontractors and checking the materials and labour split on the sub contractors' invoice. This recommendation was not complete and the training had been delivered in 2014 but annual training had not been delivered to staff. Discussion took place regarding this recommendation and it was agreed that a training programme should have been put in place and this will be addressed at the next Management meeting.
- The recommendation on accurate records should be maintained on the number of garage sites under Council ownership and this recommendation was not yet complete. It was clarified by the Head of Housing and Customer Services that all garage sites have been identified and rents collected and this was completed as from 20 June 2016.

Decision

The Committee agreed:

- The training for Managers on the Construction Industry Scheme will be raised at the next Management meeting and the Audit recommendation of annual training will be followed through.
- To otherwise note the Report.

Action

Director of Resources

Report No.	Report Title	Presented by:
5.4	Internal Audit Report on Follow up of Controls Operating over Developer Contributions	Internal Audit Manager

Outline of report and summary of discussion

There was a report submitted to the Audit Committee dated 7 June 2016 by the Internal Audit Manager on the Internal Audit Report on the Follow up of Controls Operating over Developer Contributions. The Internal Audit Manager presented this report to the Committee highlighting that the purpose of the report was to respond to the Audit Committee's request that Internal Audit follow up on the monitoring recommendations reported in the review of controls operating over Developer Contributions reported to the Audit Committee in March 2016.

Thereafter the Committee raised questions on the following:

- A new system to record all of the development and stages of completion. A procurement exercise is currently being undertaken to source the system. It is hoped this new system will be in place within the year but at the moment Financial Services and the Planning Service are working together to

complete an in depth analysis of contributions received.

- The Committee asked for confirmation that all Developer's contributions have been accounted for and there is no possibility that some of this information has been lost or destroyed.
- The Committee felt that the report lacked evidence and information on the progress of recording and monitoring of Developer's contributions and details of any loss of contributions. The Director of Education, Communities and Economy highlighted that there are several services involved in this work and that all Developer Contributions identified have either been collected or are in the process of being collected. The Internal Audit Manager advised that the purpose of the report was to give an update on the progress made in implementing the monitoring recommendations, to date, and that it was perhaps premature to follow up the recommendations as the expected completion date for many of the actions had not yet been reached.

Decision

The Committee agreed:

- That a fuller report would be brought to the Audit Committee on the recording and monitoring of Developer's Contributions once the Compliance Officer is recruited and the new system in place.
- To otherwise note the Report.

Action

Internal Audit will produce a follow up report in due course.

6. Private Reports

No private reports were submitted to this meeting.

The meeting terminated at 11:46 am

Midlothian Council

Annual Report to Elected Members and the Controller of Audit for the financial year ended 31 March 2016

20 September 2016



Key messages

Midlothian Council ('the Council') has achieved a small deficit on the provision of services of £0.270m for the year ended 31 March 2016, which is in line with budgeted actual net service expenditure of £193.3m. The financial statements were presented to us in line with the specified deadline and our audit testing has been completed earlier than last year. There have been only a few amendments made to the financial statements resulting from our audit.

The Council's Financial Strategy is interlinked with the Single Midlothian Plan, the Delivering Excellence Programme and the People Strategy and Effective Working in Midlothian (EWiM) Plan. The Strategy recognises the significant challenges facing the Council including Council tax freeze; decreases in grant funding, an ageing population and resultant pressure on services, all of which impact on the projected budget shortfall by 2017-18 of £11.2m, rising to £36.9 million by 2020-21.

The Council recognise that they need to deliver savings of between £6million to £8million per year. Each directorate is working to identify savings proposals of £5m for 2017-18 and beyond to put before Members in autumn this year. Delivering sustainable and significant savings is the biggest challenge facing the Council.

ISA 260 requirements

We intend to issue an unqualified opinion on the 2015/16 financial statements.

We did not have reason to change our audit plan during the year. We did identify a few weakness in the Council's systems of internal control, based on our work undertaken.

We have identified a few amendments to the financial statements which are set out in appendix A.

We have also identified issues on Journal processes (page 17), PPE valuations (Page 12) and Employee Debt (Page 17).

Public Sector Audit impact dimensions

Our external audit work is undertaken in accordance with the Audit Scotland Code of Practice (May 2011). Our annual report is structured to reflect our wider responsibilities under the Code, and this year we have shaped this around the 4 Public Sector impact dimensions reflected in the Audit Scotland Corporate Strategy 2015/2018.

Financial management

The Council continues to budget accurately, with the year end position in line with the budget set at the start of the financial year. Budget monitoring reports are provided to Members on a quarterly basis. The monitoring reports would be strengthened with more detailed explanations for the underlying causes of variations together with a sensitivity analysis demonstrating the impact of the changes in key assumptions.

The General Fund Reserve at the 31 March was £24.6m of which £7.8m is earmarked for specific projects with a balance of £16.7m held as a contingency. This represents approximately 8.7% of budgeted net expenditure.

The Council's Transformation Programme Savings target for 2015-16 was not achieved. There remains scope to improve the Council's reporting of savings targets to Members throughout the year and this will become even more vital in the challenging years ahead.

The Finance Team will have a key role to support and challenge future service savings programs. Schemes will need to be appropriately risk assessed, challenged and subject to formal approval with clear milestones set out which are subject to frequent and timely monitoring.

Key growth projects are having a positive impact with funding from Council tax £0.25m above budget and an improvement of in year collection rate to 94.4%, which is an increase of 0.6% from the previous year.

Financial sustainability

The future financial and service sustainability of all local authorities is an on-going area of question, with the Council identifying a £36.9 million funding gap through to 2020-21.

The strategic focus of Finance and Integrated Service Support is on delivering transformational change in service provision as a means to secure financial sustainability and achievement of priority outcomes.

The key programmes which support this are:

- The Review of Local Government Workers Pay and Grading
- Delivering Excellence
- The Council's Financial Strategy

The transformation and repositioning of services is critical to the Council maintaining a sustainable financial and service delivery strategy during a period of continued pressure on public sector finances. As yet the Council does not have a good overall record of delivering savings on a year on year basis, though there is a strong record of delivering savings in some service areas.

The Leadership Team recognise that it will become increasingly difficult for the Council to achieve financial balance without a more fundamental change to the way the Council operates. The Council will need to look into the potential of sharing back office facilities as a method of generating savings to limit the impact on front line services, whilst continuing to secure a shift in culture and behaviours across the Council, adapting and innovating in response to the many challenges services face in the future.

Governance and transparency

The Council has undertaken a review of the effectiveness of its governance arrangements and internal controls to support the Annual Governance Statement, identifying further areas to be strengthened in 2016/17.

The Council's internal auditors review the effectiveness of its governance arrangements and compliance against the Local Code of Governance on an annual basis. We concluded that the Council's Annual Governance Statement is balanced and in line with CIPFA requirements. During the audit process, we asked the Council to disclose the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide. We also requested disclosures on the impact of BREXIT and to add an update on the Newbyres gas incident and replacement houses.

One of the key aspects of the Council's governance framework is the approach to management of risk. During 2015-16 work has been undertaken on the Council's Corporate Risk Register through a benchmarking exercise with other local authorities. A strategic risk profile approach has been refreshed which has identified current issues and emerging risks that have also been used to inform the revised Risk Register. The Council will need to ensure that this remains a live and dynamic process subject to rigorous scrutiny throughout 2016/17.

The Council's committee structure includes an Audit Committee and Performance Review and Scrutiny Committee which conduct the scrutiny function. Members are increasingly engaged and challenge management appropriately. The Audit Committee is well attended by officers and Members and is well supported. The Audit Committee has an independent Chair, who provides additional perspective and financial acumen.

From the internal audits undertaken in 2015/16, a number of areas that required improvement to the internal controls were identified. While a small number of areas were rated as weak, these were confined to certain control objectives within specific audits for example Developer Contributions and Business Gateway for which follow up audits have been undertaken. The majority of reviews throughout the year have shown either average or good internal controls.

Internal audit is compliant with the requirements under Internal Audit Standards and delivers the specified plan, but as a function it will need to become a more proactive change agent to assist the Council in facing the challenges ahead. This will include undertaking consultancy work to assist with reviewing and commenting on proposals for new ways of delivering services and reviewing savings proposals.

We have no concerns around arrangements currently in place to mitigate against fraud and corruption. We note that significant progress has been made against the 2014/15 NFI matches.

Best value and value for money

The Single Midlothian Plan incorporates the five following overarching thematic groups which support the achievement of outcomes and is used for quarterly performance reporting and the themes are as follows:

- Adult Health, Care – Responding to growing demand for the adult social care and health services;
- Community Safety – Ensuring Midlothian is a safe place to live, work and grow up in;
- Getting it Right for Every Midlothian Child – Improving outcomes for children, young people and their families;
- Improving Opportunities for People in Midlothian – Creating opportunities for all and reducing inequalities;
- Sustainable Growth and Housing – Growing the local economy by supporting business growth and responding to growing demand for housing in a sustainable environment.

During 2015/16 the Council demonstrated significant progress towards these priorities. Reports are presented to the Special Performance, Review and Scrutiny Committee on a quarterly basis. The reports provide details on work undertaken and planned across the themes which is supported by key performance indicators which detail performance against target for the year, and a comparison to prior year outcomes.

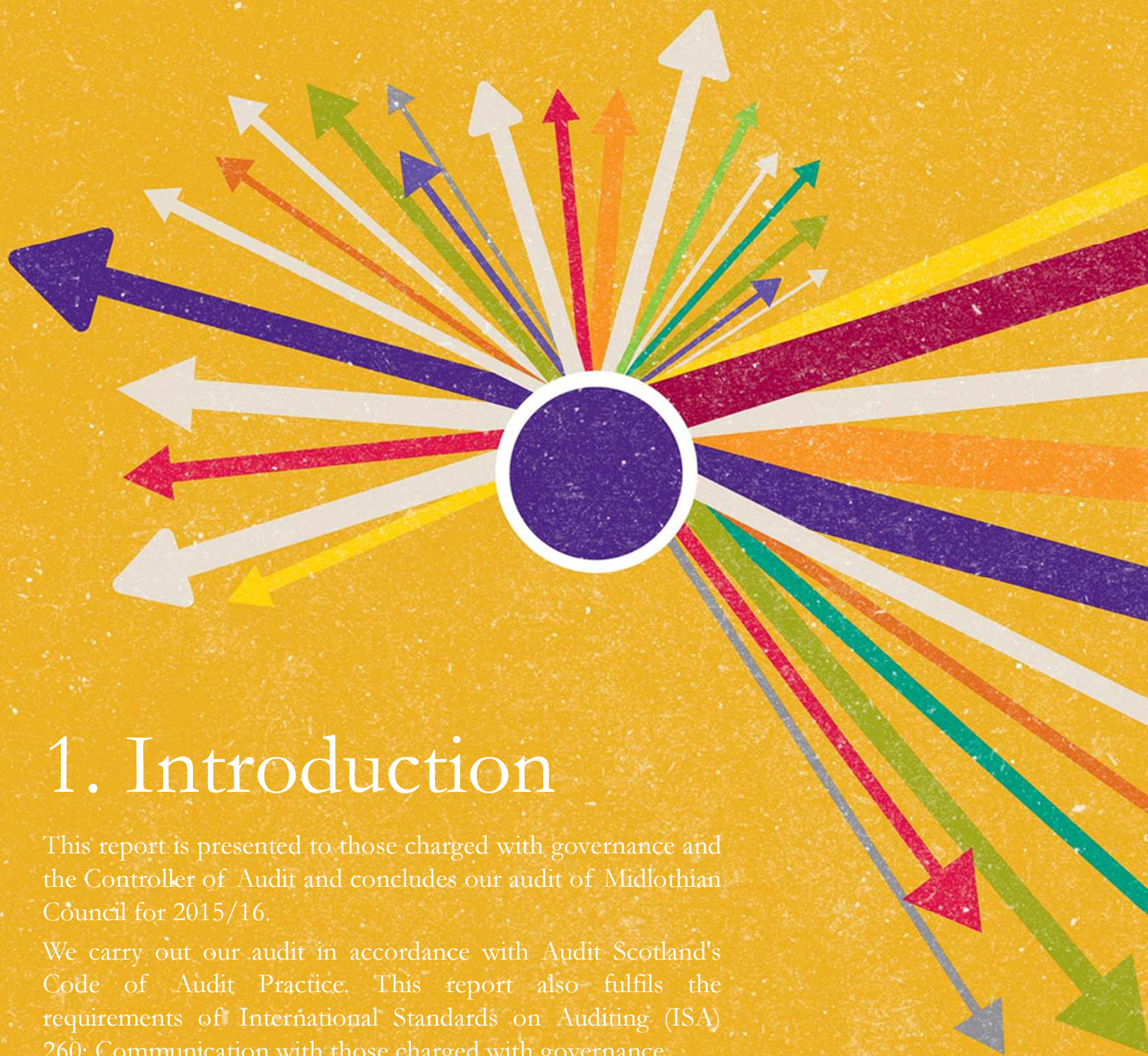
Areas of highlight for 2015/16 are:

- The Scottish Government approved the proposed Midlothian Integration Scheme in June 2015. The Midlothian Integration Joint Board met for the first time in August 2015. The Board is responsible for strategic planning in relation to the delivery of Health and Social Care services in Midlothian. In December 2015 it approved a three year strategic plan. From 1st April 2016 Health and Social Care budgets were delegated to the Joint Board and directions on their use were issued by the Board. At an operational level work is ongoing to implement joint management structures. In our view the IJB has made a good start.
- The Borders Rail line opened in September 2015 and passenger numbers have exceeded initial expectations. With the 0.5 million passenger mark having been passed and an average of 23,000 passengers using the line on a weekly basis it is predicted that final passenger numbers for the first year will exceed 1.2 million.
- During the year the Council undertook a Review of Local Government Workers pay and grading arrangements and in June 2016 secured a collective agreement. Implementation is now underway for 1 October 2016.

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1. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Midlothian Council for 2015/16.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

Audit Scotland appointed Grant Thornton UK LLP as auditor of the Council for the period 2011/12 to 2015/16. The appointment is made under the Local Government (Scotland) Act 1973.

Our annual audit report is addressed to those charged with governance at the Council and the Controller of Audit under our Audit Scotland obligations.

In our report, we summarise our opinion and conclusions on significant issues arising from our external audit for the year ended 31 March 2016.

The Council's responsibilities

It is the Council's responsibility to prepare the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the CIPFA Code)

The Council must:

- prepare financial statements which give a true and fair view of the financial position of the Council and its income and expenditure for the year to 31 March 2016
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The Council is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value are achieved in the use of resources. We note that delivery of best value is a statutory obligation for the Council.

Our responsibilities

We are required to meet the requirements of the Code of Audit Practice ('the Code') May 2011, including consideration of the wider scope of public sector audit.

We provide an opinion on the Financial Statements and Annual Governance Statement. Under the Code we also review and report on the governance arrangements as well as wider financial management, value for money and performance considerations.

International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance requires us to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report, together with other reports to the Audit Committee throughout the year, discharges our ISA 260 commitments.

Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Head of Finance and Integrated Service Support, the Financial Services Manager, the Finance Team and all other staff who supported us during the course of our work.

Our responsibilities under the Code of Audit Practice:

Financial statements



Provide an opinion on:

- whether the financial statements provide a true and fair view of the financial position of the Council
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements

Review and report on:

- other information published within the financial statements, including the remuneration report

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Corporate governance



Review and report on the Council's corporate governance arrangements as they relate to:

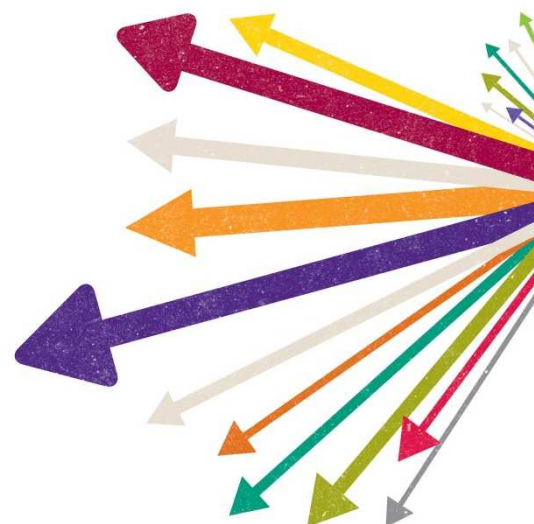
- the Council's overarching corporate governance arrangements and systems of internal control, including reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Best value and performance



- The Local Government (Scotland) Act 2003 places a statutory duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning
- We are required to review and report on other aspects of the Council's arrangements to manage their performance as they relate to economy, efficiency and effectiveness in the use of resources
- We review and report on the Council's arrangements for preparing and publishing statutory performance information
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the Council at a local level or a review of the Council's response to national recommendations. In 2015/16 we have completed a baseline assessment of workforce planning arrangements.



2. ISA 260 communication to those charged with governance



Financial statements overview

Introduction

We have not had to alter or change our audit approach, which we set out in our Audit Plan, which was presented to the Audit Committee on 15 March 2016. However, on receipt of the draft financial statements we updated our materiality calculations (see page 10).

Our audit is substantially complete although we are finalising our procedures in the following areas:

- receipt of direct confirmations in respect of investment balances
- completion of the WGA pack.
- sign off of, Housing Benefit and Non Domestic Rates grant claims
- completion of final review procedures
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review as part of our concluding procedures, to the date of signing the opinion.

Our review of the financial statements

The draft financial statements continue to improve, although we still identified a few misstatements.

We reviewed the narrative elements of the financial statements (including the Management Commentary, Statement of Responsibilities, Annual Governance Statement and Remuneration Report). We review these statements for compliance with recommended CIPFA Code disclosures, for consistency with other areas of the financial statements and our knowledge of the Council.

Financial statements opinion

Our audit identified 3 misstatements that were above our trivial level of £0.201m. These are set out in Appendix A.

We intend to issue an unqualified opinion on the financial statements for the financial year ended 31 March 2016.

Grants certification

The Criminal Justice Social Work claim was certified within the required timescale during the year, with no issues arising. The Education Maintenance Allowance was certified in the timescale with a very minor amendment.

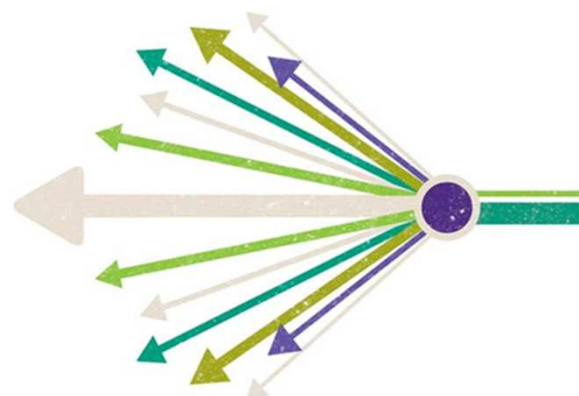
The Non Domestic Rates grant work is well advanced and we expect to certify the claim in September 2016. The Housing Benefit grant claims will be signed following completion of our audit work in September and October 2016..

Whole of Government Accounts

The Council submits a WGA pack for the financial year ended 31 March 2016.

For 2015/16 the Council is below the testing threshold and therefore full audit assurance is not required.

In accordance with the WGA guidance we will complete the required assurance statement and submit that to the National Audit Office (NAO) once this work has been completed.

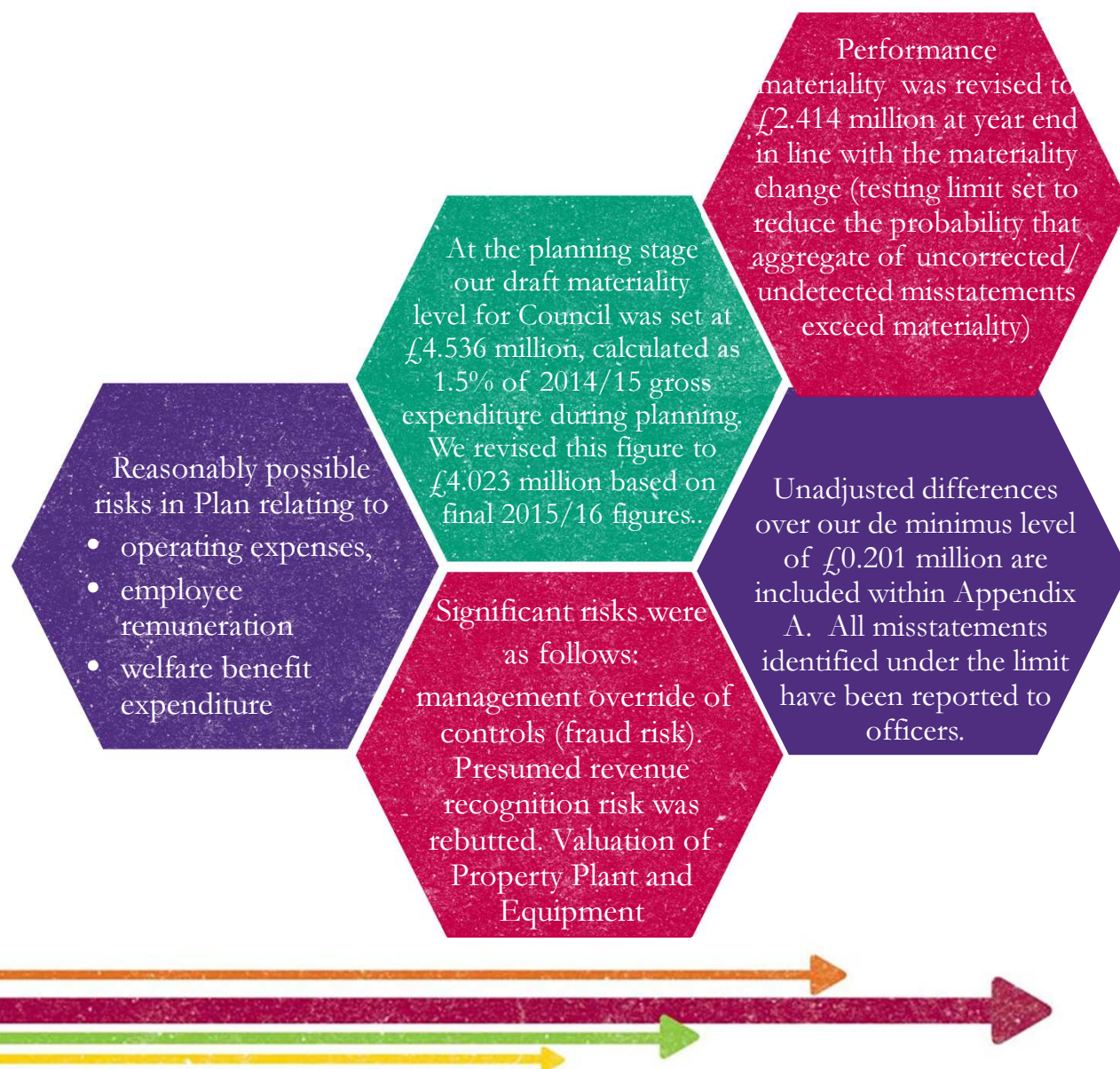


Our audit plan: a reminder

Scope of the Audit

We consider the inherent risks to the Council and how these may result in a material misstatement in the accounts. We identified three significant risks and three reasonably possible risks, which are outlined on pages 11 to 14.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample testing of balances.



Change of materiality from Audit Plan

We revised our materiality downwards in the year in line with the reduction in gross expenditure in the 2015/16 unaudited accounts. This resulted in final materiality of £4.023 million and final performance materiality of £2.414 million.

Audit findings against significant and reasonably possible risks

Set out below is our response to the significant risks of material misstatement identified in the Audit Plan. There are two presumed significant risks which are applicable to all audits under auditing standards but, as set out in our plan and below, we rebutted the presumed risk around revenue recognition.

Significant Risks identified in our audit plan	Work completed	Assurance gained
<p>1 Management override of controls</p> <p>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> Review of accounting estimates, judgements and decisions made by management including pension assumptions and property valuation Testing of journal entries Review of unusual and/or significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. We have highlighted control issues in relation to journals on page 17.</p>
<p>2 The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<ul style="list-style-type: none"> Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we determined the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. The most significant area of revenues was general grant funding from the Scottish Government totalling £123.4 million. We have substantively agreed grant funding to confirmation from the Scottish Government. The remainder is made up of £32.8 million of NDR redistributions (agreed to funding correspondence and cash receipts), £35.4 million of council tax income (tested analytically and reconciled to Council Tax system) and £38.8million revenue and grants and release of £8.2m capital grants (sample tested to grant agreements and receipt). In addition, we have conducted sample testing of fees, charges and other income to trace to cash receipts. 	<p>Our work confirmed that revenue had been recognised appropriately in the financial statements.</p>



Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

Audit findings against significant and reasonably possible risks

Significant Risks identified in our audit plan	Work completed	Assurance gained
<p>3 Valuation of property, plant and equipment is not correct</p> <p>The Council revalues its assets as part of a five year rolling programme. In 2015-16 a new revaluation programme was planned to ensure the requirements of the Code are met in full.</p> <p>The Code of Practice on Local Authority Accounting requires that the Council ensures the carrying value of assets at the balance sheet date is not materially different from current value. This is a significant judgement which is informed by the Council's in house valuers and should be disclosed accordingly in the financial statements.</p>	<ul style="list-style-type: none"> Reviewed the competence, experience and objectivity of management experts used Reviewed the Council revaluation programme to ensure all assets are covered within the 5 year period required by the Code Reviewed the valuer's processes and assumptions for calculating the estimate Reviewed the instructions issued by the Finance Team to the valuer and the scope of their work Interviewed the valuer regarding the basis for the valuations and challenge of key assumptions Tested the revaluations in year to ensure correct input into the Council's asset register and financial statements. 	<p>Our audit work has confirmed that the valuation of property plant and equipment is materially stated.</p> <p>We identified that the Council applied the incorrect social housing discount factor to additions to housing stock (applying 69% rather than 64.5%). The financial impact of this was to understate the value of the Council Houses by £0.572m which is an unadjusted error.</p> <p>The Council did not carry out a detailed assessment on those assets that had not been valued in the year to determine whether the carrying value at the balance sheet date was not materially different from current value. We requested the Council to undertake this review. The Council used indexes that estimated the potential increase to assets not revalued in the year at £0.640m which equates to 0.1% of the total Property Plant and Equipment value and not material.</p> <p>This is an annual uplift applied to all general fund assets (not subject to revaluation between 1 April 2015 to 31 March 2016. The uplift does not reflect potential changes in asset values for those assets that had not been subject to revaluation between 1 April 2011 to 31 March 2015. Applying the uplift to previous years results in an estimated value well below materiality and therefore no adjustment to the financial statements is required.</p>

Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).



Set out below is our response to the other 'reasonably possible' risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of Reasonably Possible Risks	Work completed	Assurance gained
Operating expenses	<p>Creditors understated or not recorded in the correct period</p> <ul style="list-style-type: none"> Midlothian Council is responsible for the delivery of a range of services to the local area. Purchasing is decentralised across service lines with the budgetary responsibility with the senior managers to ensure monies are recorded correctly. 	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> Review and walkthrough of key processes and controls around creditors cycle Reconciliation of the creditors system to the general ledger and financial statements Sample testing of post year end transactions to test for unrecorded liabilities. 	<p>We gained sufficient assurance over the operating expenditure control environment and balances to conclude that there is not a material understatement of creditors.</p> <p>Our testing of unrecorded liabilities identified 3 items that had not been accrued for. The Council justified these decisions based on the size of the transactions (the largest item being £108). The rationale of not accruing small items is justifiable, however, there is no documented de-minimis level below which Midlothian Council do not accrue. Implementing a policy would assist officers in making their assessments and documenting judgements.</p>
Employee remuneration	<p>Employee remuneration accruals understated:</p> <ul style="list-style-type: none"> Employee costs are the Council's most significant expenditure item in the financial statements. There are a large number of transactions processed throughout the year and the Council relies on numerous controls including monthly reconciliations and segregated duties when compiling employee remuneration batches to ensure that the employee costs are recorded correctly in the financial statements. 	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> Review and walkthrough of the processes and controls in operation for payment of staff Substantive testing of employee remuneration accruals at the year end Testing a sample of 52 employees to the HR system for existence, and recalculating employer costs for accuracy Undertaking a trend analysis of employee remuneration in comparison to expectations Review of the relevant disclosures relating to staff costs within the financial statements including the remuneration report. 	<p>We gained sufficient assurance over employee remuneration processes to conclude that there are no material misstatements.</p>

"Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work"





Set out below is our response to the other 'reasonably possible' risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of Reasonably Possible Risks	Work completed	Assurance gained
Welfare benefit	<p>Welfare benefit expenditure improperly computed</p> <p>In 2015-16 the Council paid £26.8 million for housing benefits. The systems to establish entitlement to housing and council tax reductions are complex and rely on a number of controls to provide assurance that the benefits are awarded and recorded correctly.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> • Review and walkthrough of the processes and controls in place to calculate, pay and record benefit expenditure • Analytically review the benefit expenditure in comparison to auditor expectations and investigated any significant variations • Sample testing of housing benefit payments • Testing the reconciliation between the benefits system and the amounts recorded in the financial statements. 	<p>We gained sufficient assurance over welfare benefit processes to conclude that there are no material misstatements.</p>

"Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work"






Accounting estimates and significant judgements

Accounting area	Summary of policy	Commentary	Our assessment
Revenue recognition	<ul style="list-style-type: none"> • Grants receivable: Government grants, third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments. • Sale of goods: Recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits will flow to the Council. • Provision of Services: Recognised when the Council can measure reliably the percentage of the completion of the transaction. • Council Tax and Non Domestic Rates: Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably. 	<ul style="list-style-type: none"> • The revenue recognition policies are appropriate under the CIPFA Code of Practice on Local Authority Accounting. 	 Green
Property, plant and equipment	<ul style="list-style-type: none"> • The Code of Practice on Local Authority Accounting permits assets to be revalued on a rolling basis. Assets are normally revalued once every five years for each class of assets, provided that carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The Council needs to undertake an exercise to evidence that the carrying values are not materially different from the current value at the end of each reporting period. • During 2015-16, £427.4million (67%) of the other land and buildings was revalued. 	<ul style="list-style-type: none"> • The revaluation policies are in line with requirements. • The Council had not carried out a detailed assessment on those assets that had not been valued in the year to determine whether the carrying value at the balance sheet date was not materially different from current value as part of the accounts preparation process. An analysis was provided during the audit. 	 Amber

Assessment

- Material accounting policy which could potentially attract attention from stakeholders
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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Accounting area	Summary of policy	Commentary	Our assessment
Provisions	<ul style="list-style-type: none"> The Council recognises provisions where an event has taken place that gives the Council a legal or constructive obligation that will probably require a settlement by transfer of economic benefits or service potential. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation. 	<ul style="list-style-type: none"> We are satisfied the policy is appropriate under the CIPFA Code of Practice on Local Authority Accounting. The Council has recognised provisions for two items: <ul style="list-style-type: none"> insurance provision (£1.640million) debtor provisions (£32.468 million). We have reviewed the reasonableness of management's judgements in line with our knowledge of the Council. We have conducted a detailed review of the debtors provision, including re-performance of calculations and review of assumptions. We identified that the Council tax bad debt provision of £16.161m is not based on collection rates or the age of the debt. The Council has agreed that the methodology needs revising for future years. The current provision represents 88% of the outstanding debtor balance of £18,450k so is not materially understated. 	 Amber
Pension fund valuations and liabilities	<ul style="list-style-type: none"> In accordance with International Accounting Standards the Council is required to account for retirement benefits when it is committed to giving them. This involves recognition in the Balance Sheet of the Council's share of the net pension asset or liability together with a pension reserve. Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries (Hymans Robertson) is engaged to provide the Council with expert advice about the assumptions to be applied. 	<ul style="list-style-type: none"> We have reviewed the accounting policies and confirmed they are in line with the guidance in the CIPFA Code and IAS 19. We have reviewed the competence, capability and objectivity of Hymans Robertson, who have been used as management's expert in year. We have relied on an auditors expert, PriceWaterhouseCoopers (PwC) UK LLP, to provide assurance over the reasonableness of assumptions and judgements applied by the actuary. We are satisfied pensions have been disclosed appropriately. 	 Green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards 	<ul style="list-style-type: none"> Disclosures were in line with the CIPFA Code and considered reasonable. Review of the accounting policies noted that there is no capitalisation threshold in place. 	 Green

Other areas of audit focus

Internal controls

We update our understanding of the Council's key financial controls and overall control environment on an annual basis.

We considered internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate to our financial statements audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. We undertook walkthrough testing related to:

- property plant and equipment valuation
- employee remuneration
- operating expenditure
- welfare expenditure
- journal entries
- IT control environment

We did not identify any significant deficiencies or material weaknesses arising from our limited testing of the financial controls, however we did identify minor deficiencies relating to journals procedures. The deficiencies identified were:

- The use of manual entry of journal numbers, which means that journals are not always consecutive
- Gaps in the journals listings
- Manual entry of who has posted and approved individual journals
- One side journals to correct errors in payroll posting

Control weaknesses over the financial ledger potentially expose the Council to risk of fraudulent journals. While our testing provides assurance that the accounts are not materially misstated, there is a residual risk that the individuals could exploit the system deficiency.

Our testing of Related Party Transactions identified that the Council does not hold a register of interests for senior management, nor have the senior management team been requested to disclose any potential related party interests for disclosure within the financial statements.

An action plan is in place to address our control findings reported.

IT control environment

Our testing identified the following deficiencies relating to the IT control environment which have been reported in a separate letter to the Digital Services Manager.

- The Council should explore the options to relocate the secondary server room to a more remote location. The Council's contingency planning group are aware of this ongoing risk and will explore and consider costed Business cases to mitigate this risk.

- The primary and secondary server rooms should be serviced by an electric generator as this would greatly assist the recovery of IT operations in the event of a power outage. The Council are aware of the risk and considering this as part of the wider IT strategy.
- The Council should test the recovery of the Open revenues, Integra, Tribal and Itrent systems at least on an annual basis. An incremental testing approach is now being considered.
- The Lumension software should be used to restrict access to personal USB sticks from PCs and Laptops. The global policies across the citrix estate have now been updated to restrict personal USB sticks.
- System administrator access is only granted to members of staff that require it to fulfil their job responsibilities. User accounts and access rights have since been updated.
- Login activity, unauthorised access attempts, access provisioning activity created by the Council's systems should be proactively and formally reviewed for the purpose of detecting inappropriate or anomalous activity. The Council plans to evaluate and consider software products and speak to other councils to consider solutions for monitoring audit logs.
- The Council should perform a gap analysis against the requirements of the latest version of PCI-DSS (a proprietary information security standard for any organisation that processes, transmits or stores card holder information). Any gaps identified from this analysis should be subject to remediation work. All card processing is performed using PCI DSS compliant providers, QSA consultant days purchased to review CDE architecture and identify compliance gaps, there is still dependency on third party (card processors) being able to facilitate some of the change.
- Management should perform periodic, formal reviews of the user accounts and permissions within the Active Directory, Integra, Itrent and application databases. The Council proposes to target key systems on an annual basis.

Other areas of audit focus

Employee Debt

The Council continues to employ staff that owe the Council monies. The total amount is estimated at the time of our audit was £999,152 in July 2015. The Council has recently updated their statistics which show:

- Staff debt outstanding has reduced to £897,767
- Staff debt scheduled for collection by mandate is £433,148
- Staff debt on Local Arrangement (not by mandate) is £118,560
- Staff debt non complying cases subject to recovery is £314,917

Our testing identified the following issues with the controls/processes:

- We identified one new employee that the Council had concluded on appointment that they did not owe them money. It transpired that they owed the Council
- One new employee with known debt was allowed to take up their position and was not required to pay back any of their debt to the Council. The rationale for the employee not requiring to pay back the debt was due to the low number of hours that the employee was due to be working at the Council so it was felt it would be unfair to reduce their salary.
- The employee debt spreadsheet was created and maintained by a single employee from a number of records held by the Council. We identified that one employee had their records duplicated within the spreadsheet thus overstating the debt. This gives us concerns on the accuracy of the data.
- The spreadsheet is updated on an adhoc basis. This is because there are no reporting tool or deadlines internally and the process is a labour intensive one. As a result, it is difficult to get an employee debt figure at a single point in time.

Other financial Statement amendments

Our audit also identified the following amendments:

- The Long Term Investments balance of £3.382m within the balance sheet is based on the value of Lothian Buses for which the Council has a 5% shareholding. The balance of £3.382m was based on Lothian Buses prior year financial statements as the current year financial statements were not published until after the Council's draft accounts were submitted. An amendment of £1.807m is required.
- The following amendments were required to the National Non Domestic Rates Return:
 - Unoccupied property relief amended by £333,653
 - Bad doubtful debts now collected adjustment from £1,165,532

Total increase in contributable amount £0.832m which reduces creditor balance.

Going concern

We considered going concern and obtained assurance through:

- review of financial factors including levels of debt, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures. The Council business plan sets out indicative financial forecasts through to 2017/18 and beyond

Overall we conclude that it is appropriate for the Council to prepare the financial statements on a going concern basis.

3. Financial management



Financial management

2015/16 out-turn

The Council approved a balanced 2015/16 budget in February 2015, in accordance with statutory deadlines.

Budgeted Net Services expenditure in 2015-16 was set at £193.3m which equated to the actual net service expenditure for the year. Funding from council tax and grants from the Scottish government resulted in higher than budgeted income of £0.251m.

Financial savings

The 2015-16 budget was set following adoption of the Council's Medium term Financial Strategy. The Financial Strategy, and related transformation delivery plans identified savings of £1.5m

The Business Transformation Steering Group is responsible for monitoring progress against the Transformation Delivery Plan. Updates were also provided within the Financial monitoring reports to Council. The initial budget is detailed in the table below

Area	£m
Integrated Service Support	0.750
Energy	0.151
Income Maximisation	0.075
Education	0.150
Services to Communities	0.050
Children's services	0.350
Total	1.526

The Council approved utilisation of £5.868 million of General Fund Reserves to fund costs associated with the ongoing transformation programmes.

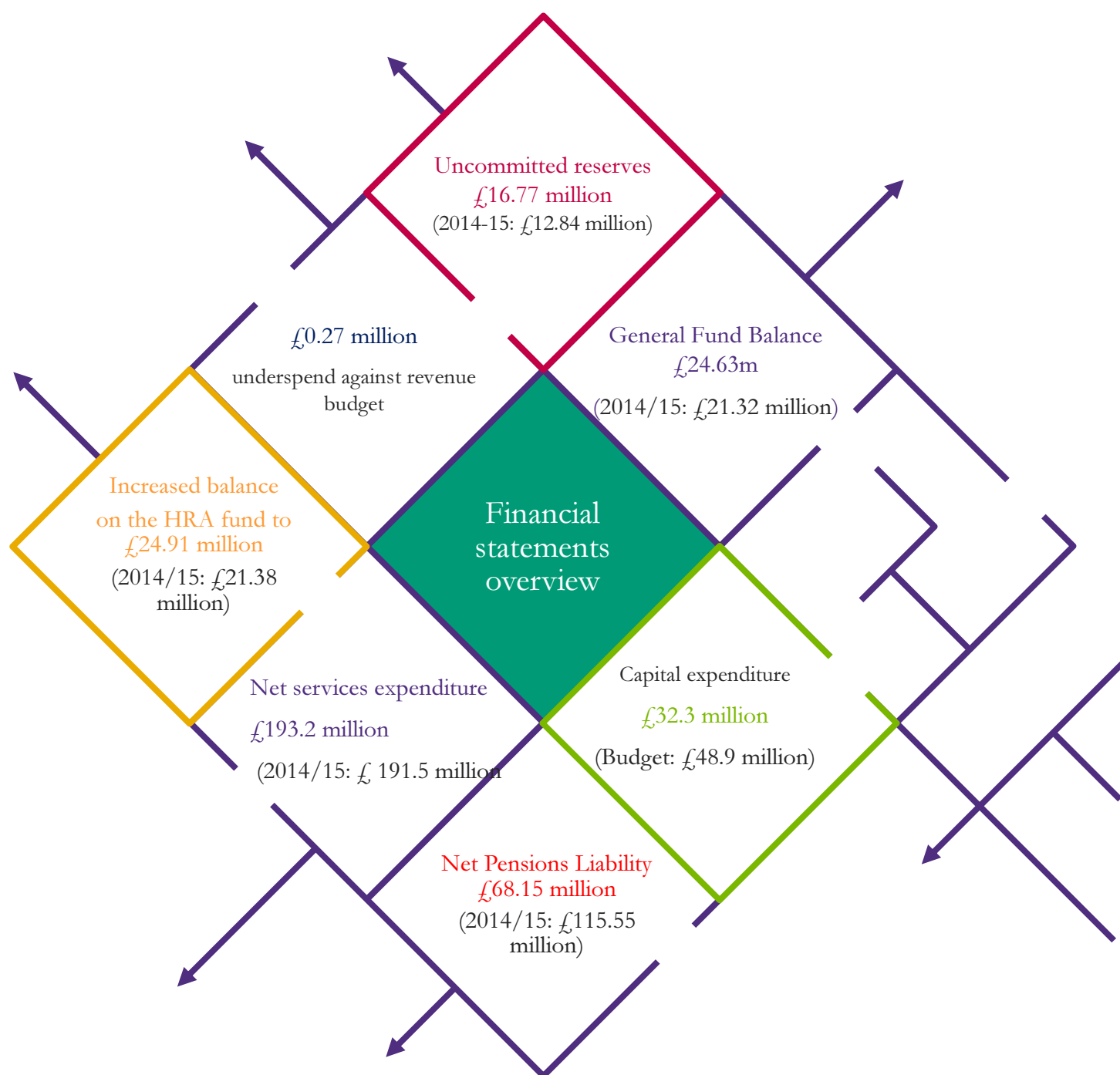
At the year end £2.950 million of this has been applied with future commitments of £0.715 million identified for 2016/17 and 2017/18. This leaves £2.203 million as uncommitted. This balance is within the £5.579m earmarked projects carried forward shown in the table opposite.

Movement on General fund reserve	£million
Reserve at 1 April 2015	21.315
Less earmarked reserves utilised in 2015/16	- 5.851
Planned Enhancement	2.764
Supplementary estimates	- 0.315
Scottish government funding previously earmarked	1.339
Transformation costs	- 0.368
One off costs VSER	- 0.376
Workforce reduction	0.056
Finance discipline	0.416
Earmarked budgets carried forward	5.579
Boarders rail	- 0.181
Other	- 0.023
Underspend	0.270
Total	24.625

The Council continues to budget accurately, with the year-end surplus in line with budget monitoring reports in the year. The Council has sought to continue to build reserves, with uncommitted general fund reserve as at 31 March 2016 representing 8.7% of annual net budget. The Council is continuing to focus on achieving savings over and above those needed to balance the budget. This will allow for further investment in the Council's strategic priorities and provide financial support for any emerging cost pressures.

Overall the Council's financial position for 2015/16 has strengthened and the Council are in a comparatively good position going into 2016/17. We note that the reserves position has been built in recognition of the greater challenges that face the Council in future years. The scale of the savings required mean that careful monitoring will continue to be key to ensure delivery against increasingly challenging savings targets. As yet the Council does not have a good overall record of delivering savings on a year on year basis, though there is a strong record of delivering savings in some areas, and 2016/17 represent a challenging position, albeit one buffered by strong reserves.

Key Financial Statement highlights for the financial year ended 31 March 2016 were:



Finance position – Budget against actual

The Council has a good track record of delivering its revenue budget. During 2015/16, routine budget monitoring reports presented remained within 0.7% of the revised budget and final outturn.

Service Area	Budget 2015-16 £000s	Outturn 2015-16 £000s	Variance 2015-16 £000s
Children Services	14,863	15,558	695
Communities and Economy	4,633	4,235	- 398
Education	77,653	76,957	- 696
Adult Social Care	36,894	37,234	340
Customer and Housing Services	12,004	12,400	396
Commercial Services	15,753	15,304	- 449
Finance and integrated support	12,100	12,304	204
Properties and Facilities Management	13,608	13,166	- 442
Investment income	- 180	- 300	- 120
Loan charges	7,493	7,077	- 416
Other Expenditure/ income	- 1,541	- 675	866
Net service outturns	193,280	193,260	- 20
Council Tax Income	- 40,000	- 40,251	251
Scottish Government Grant	- 156,320	- 156,320	-
Total Net Expenditure	- 3,040	- 3,311	- 271

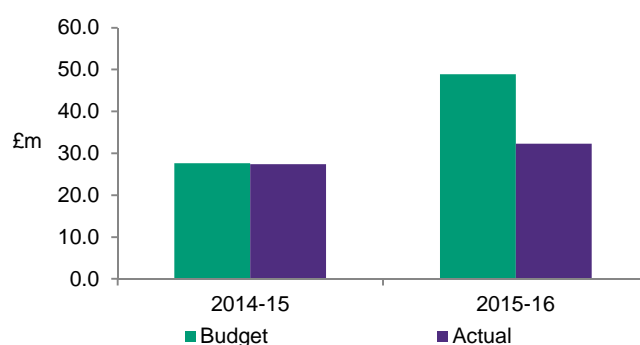
As at 31 March 2016 there was a £0.271 million underspend against the net cost of services budget. The main variances include:

- Underachievement of other expenditure/income £0.866m due to higher insurance costs and under achievement of savings targets.
- An overspend of £0.695 million on children's services for both residential and secure placements and due to the duration of secure placements continuing longer than anticipated.
- An underspend of £0.696m on Education due to a number of factors, including a lack of availability of supply teachers. This has led to staff absence being covered by school management staff resulting in underspends. In addition, the unit cost of utilities used within PPP was lower than expected.
- An underspend of £0.449m on commercial services due to additional income from external jobs and lower fuel prices.
- An underspend of £0.442m on properties due to increased income from the ski slope and reductions in catering costs.
- An underspend of £0.416m on loan charges due to re-phasing of projects which has allowed deferral of long-term borrowing, reduction in borrowing costs through lower than forecast interest rates, and increase in projected investment returns through utilisation of higher yield investment products.

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Capital programme

The Council incurred capital expenditure of £32.313 million, for the year with main projects being new school builds, road maintenance improvements and introduction of energy-efficient street lighting.



Due to the underspend, £14.287 million will be required to be carried forward to 2016/17 this was caused by:

- Contaminated land issues and necessary remediation works on New Social Housing Phase 2 sites have resulted in delays within the programme and resulted in slippage of £5.257 million.
- £0.162 million is required to be carry forward for New Social Housing Phase 1 for Solar Panel Replacements.
- Difficulties in gaining access to a number of properties to carry out works will result in slippage of the Sanitary Ware Replacement Programme of £3.754 million.
- General slippage in the SHQS Repairs Programme, Upgrades of Central Heating Systems and Energy Efficiency Programme of £3.114 million, £1.164 million and £0.264 million.

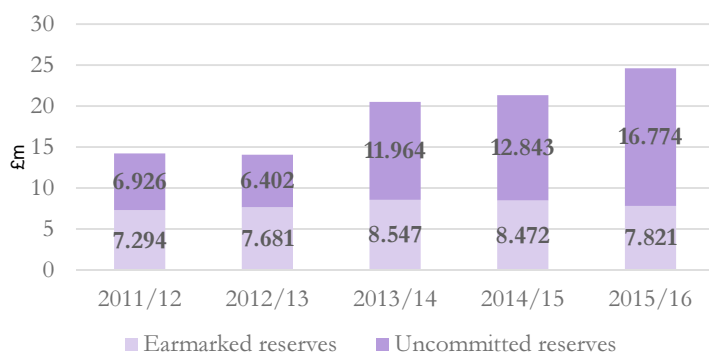
Housing Revenue Account

Expenditure in 2015/16 totalled £27.8 million (2014/15 £55.7 million), including impairment and depreciation charges of £15.6 million (2014/15 £43.5 million). Income has increased 10.8% year on year as a result of approved rent increases and additional grant income. The net surplus is £3.5m (2014/15 £3.0m).

Reserves position

Un-earmarked reserves as at March 2016 were £16.774 million which was an increase on prior year (£12.84 million).

The earmarked element of the General Fund decreased in year to £7.821 million (2014/15: £8.472 million).

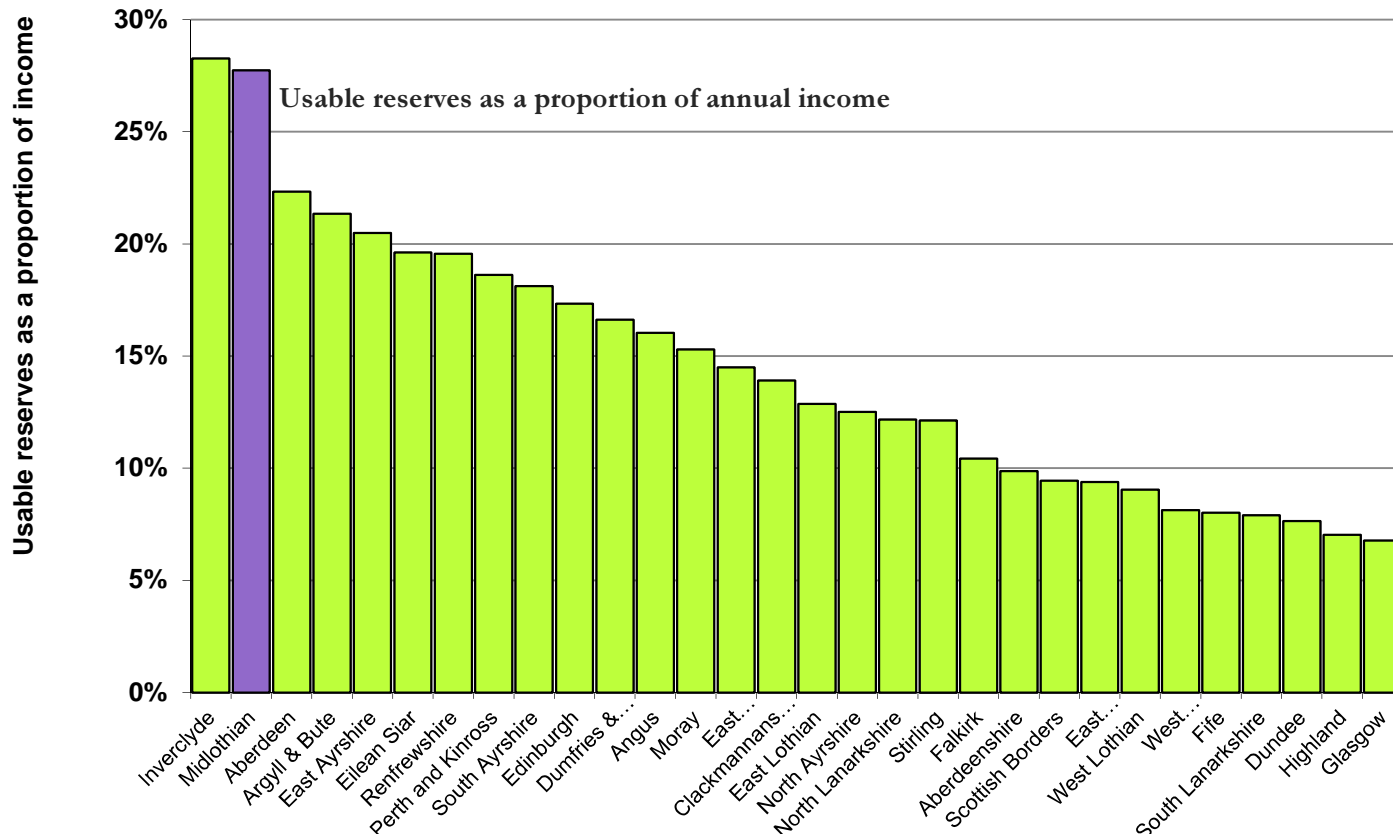


Source: Midlothian Council Abstract of Accounts 2011/12 to 2015/16

Earmarked purposes include:

- Ring fenced funding from partner organisations of £2.811m.
- Budgets provided for specific purposes where funding has slipped into 2016/17 of £1.747m
- Budgets for schools in accordance with the Scheme of Devolved School Management of £1.020m
- Funding to support the transformation program of £2.203m
- Funding to support the economic development opportunities offered by the opening of Borders Rail line of £0.069 million.

We note below that the level of usable reserves as a proportion of income is within the upper range of Councils in Scotland. However, those Council's that have a HRA Reserve will be at the higher end. Midlothian has a £24.9m HRA Reserve, almost all of which is committed to support new house building.



Source: Audit Scotland Technical Database July 2016

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3. Financial Sustainability



Financial Sustainability

2016/17 and 2017/18 Budget

The 2016/17 budget was approved by Council on 8 March 2016. The budget was balanced, but included utilisation of £2.668 million from reserves. The Financial Strategy for 2016-17 to 2020-21 was presented to and approved by the Council on 22 September 2015. The strategy was revised in June 2016. For 2017-18 the Strategy projects a budget shortfall of £11.2m, rising to £36.9 million by 2020-21. Throughout the course of the plan, the deficit position is expected to grow with some savings identified, but significantly more will need to be done in this area in order to achieve budgetary balance.

The Council continue to review the longer term financial plans and are relatively flexible at adapting to changes as notified by the Government. When the funding settlement was announced for 2016/17 the Council acted and found the necessary savings by re-assessing plans and utilising reserves.

Cumulative savings proposals of £3.172 million have been identified for consideration through its part of the plan. These are shown in the table below

Service	2017 /18	2018 /19	2019/ 20	2020/ 21
	£m	£m	£m	£m
Children's Services	0.076	0.350	0.350	0.350
Services to communities	0.200	0.800	1.050	1.050
Education	0.269	0.292	0.765	0.765
Customer Service	0.175	0.175	0.350	0.350
Integrated Service Support	1.555	1.555	1.555	1.555
Totals	2.275	3.172	3.172	3.172

In addition to these options, work is ongoing to identify further options to bridge the financial gap. With the growing deficit, careful monitoring of savings against targets and actions to address shortfalls will be a key to ensure the stability of the financial position.

The expectation is that the Scottish Government will publish its budget proposals in the autumn of 2016 covering the three years 2017/18 to 2019/20. However given the shift in responsibility for tax revenues and the result of the EU referendum there is a significant likelihood that the Government's budget may be published later in 2016 and or that it will only be a one year budget encompassing 2017/18. The central planning assumption adopted for the Scottish Government grant projections is based on a reduction, similar to that experienced in the current year, of 3.3 % per annum. It is also assumed that government will continue to direct resources to Integrated Health and Social Care Boards via the NHS.

The Council does not have a strong overall record of delivering savings, but recognises that 2016/17 needs to be a year when savings start to come through. We believe it now has the leadership from both officers and Members to drive this forward but it will happen quicker in some parts of the Council than others

Given the extent of savings anticipated to secure a balanced budget for 2017/18 and the continued challenge for later years the Chief Executive has instructed each Director to bring forward as a minimum savings proposals of £5 million for consideration by the Strategic Leadership Group (SLG) in the autumn. Proposals, once agreed by SLG will then be presented to the Business Transformation Steering Group (BTSG) for their consideration before being presented to Council.

Our national work with local authorities has identified that Local Government is, so far, continuing to deliver despite significant financial challenges. This is replicated at Midlothian Council, but the Leadership Team recognise that maintaining services within budget will become increasingly challenging over the next five years. The Delivering Excellence Framework aims to support the repositioning of services while maintaining financial stability.

Delivering Excellence

The Delivering Excellence framework aims to reposition services to have a greater emphasis on the priorities and outcomes within the Single Midlothian Plan. Delivering Excellence is supported by an updated Financial Strategy, which provides initial budget projections to 2020-21. Based on the assumptions set out within the Financial Strategy, the projected budget gap over the period is estimated at £37 million.

To achieve financial sustainability in the context of the projections requires the repositioning of services and a focus on priorities. The framework recognises that the achievement of savings of this level will be dependent on policy decisions taken by the Council. Key decisions will be needed to prioritise services and identify others that will no longer be funded or will be provided by alternative approaches. To deliver excellence across the organisation, leadership and culture will be critical.

PPP and PFI contracts

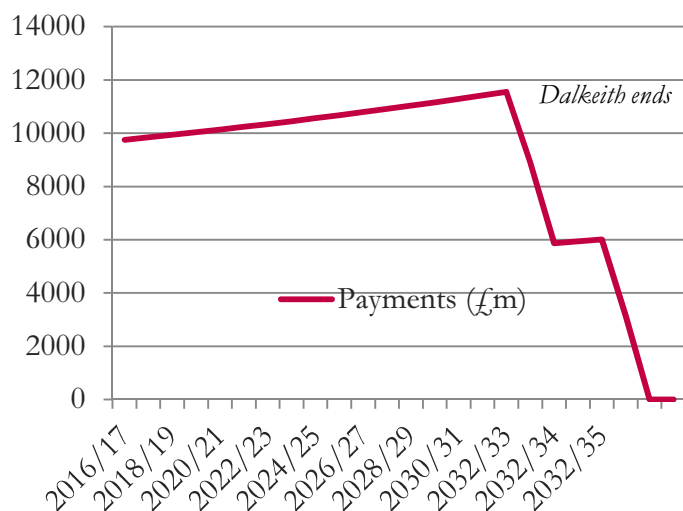
The Council entered into Public Private Partnerships for Dalkeith School Campus and Primary Schools the value of the assets and liabilities are held on the Council's balance sheet.

The Council pays a unitary charge which covers service costs, interest payments and repayment of debt. The total annual unitary charge for 2015/16 was £10.2 million of which a proportion is met by Scottish Government within the overall grant settlement. Over the remaining life of these contracts, the Council expects to pay £210 million in charges. This represents a significant portion of the overall budget settlement and is built into long-term financial plans to ensure that the unitary charge can be afforded over the life of the contract.

PPP Commitments over life of the contract

Element	Dalkeith Campus £m	Primary Schools £m	Total £m
Principal charge	24.4	31.7	56.1
Interest charge	29.1	32.1	61.2
Service Charge	40.5	52.1	92.6
Unitary Charge	94.0	115.9	209.9

Combined PPP Commitments



Workforce Planning

As part of our wider Code work during the year we were required to complete a return on Workforce Planning for the Council. This took the form of a follow-up to the November 2013 report published by Audit Scotland. A number of good practice areas were identified in the report, such as the Council have reviewed good practice and held conversations with other Councils and Audit Scotland the results of which are being incorporated into the Council's Workforce Plan.

From our work we identified that there is currently no organisation wide workforce plan to support the people strategy, but this is in development. Heads of Service will be using workforce plans as a central part of their short and long term vision and planning with SLG sessions from September to October 2016 helping form a new set of workforce plans resulting in wider organisational plans for late 2016, early 2017.

The relevance of workforce planning will increase as the shape of the organisation evolves and the budgetary pressures increase. There has been a focused approach over the last year with the Integration of Health and Social Care where workforce planning has been essential in the planning and delivery of integrated services

The Council are developing the workforce strategy first at a service level and then will pull together into an organisation wide plan. The Plan will need to include:

- Forecast expected staff numbers, skill needs and costs on a rolling basis.
- The impact of any service redesign on the workforce needs to be measured and monitored within the plan
- There will need to be scenario planning completed at a formal level or included in the plans.
- The plan will need to be evaluated and reviewed

Performance against other local authorities

Audit Scotland complete an annual analysis of all 32 local authorities based on the unaudited financial statements against a series of measures. Our review noted that performance against other local authorities was generally in the middle of the range, but there were some areas the Council were considered as an outlier.

These included:

- Second highest Usable Reserves as a proportion of net revenue as noted on page 23 and eleventh highest in the movement within the year on the same ratio. We note that those Council's that have a HRA Reserve will be at the higher end. Midlothian has a £24.9m HRA Reserve, almost all of which is committed to support new house building.
- The Council were the highest for movement on the HRA balance in 2015/16 as a proportion of dwelling rents. This is mainly due to decreases in expenditure (impairment and depreciation) charges in 2015/16. The Council has the largest balance on HRA carried forward as a percentage of dwelling rents.
- The Council has the lowest amount of capital expenditure financed from general fund as a proportion of net income in 2015/16.
- Top quartile for capital financing requirement as a proportion of net external debt. The provision for repayment of debt as a proportion of net external debt is lower than the majority of other Councils.
- The Council has one of the lowest proportions interest payable and similar charges as a proportion of gross external debt. This is recognition that the Council has obtained favourable rates with lenders.

In their Overview of Local Government in Scotland 2015, Audit Scotland stated that most of the local authorities, like Midlothian, are reporting funding gaps. At this stage, the Council, in common with other Local Authorities, faces continued uncertainty over whether planned savings will be sufficient to cover gaps.

We have followed up against each key area highlighted below:

Issue raised	Impact on Midlothian
Spending more money than planned	Cost control and management of resources remains a key area of focus for the Council. Budgets will need to closely monitored. In 2015/16 the performance generally tracks closely to budgets. Budget monitoring information for services and budget managers across the Council are prepared and discussed on a monthly basis. As part of this any potential risk areas are picked up and acted upon. However, as at the end of August 2016 there have not been any summary budget monitoring reports presented to Council for 2016-17. The first quarter report will be presented in September.
Not making savings as planned	This will be a key area of focus for Midlothian.
Having to compromise unexpectedly on the quality of services they deliver, without having worked with service users to review and evaluate other options	Both quality of service and community engagement are key pillars of the Council approach. Consideration will need to be given to a variety of savings options and there will need to be consultation with key stakeholders.
Being unable to meet increasing demand for future services	The Council remain focused on medium and long-term financial planning and incorporate forecast increases in demand for future services into these plans.
Not having enough money in their reserves that they can use if required	This will need to be a clear area of focus for the Council, with a strategic focus on ensuring long term financial stability.

4. Governance and transparency



Governance and transparency

Annual Governance Statement

Elected Members and senior management are responsible for the governance of the business affairs of the Council and have 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.

The framework includes a requirement that an Annual Governance Statement (AGS) should be prepared; that this be included as part of the Financial Statements; and that the AGS be authorised by the Leader of the Council and Chief Executive.

The level of compliance with the Code of Corporate Governance is monitored by requiring Heads of Service (including the statutory post of Section 95 Officer) to complete a self-assessment against the key elements of the Code. Input from the Monitoring Officer is also sought. Internal Audit independently reviews a sample of control elements from the Code, as well as using evidence from its own reviews of Council performance undertaken during the year. Internal Audit concluded that the Council's framework of governance, risk management and control over the period 2015/16 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.

We reviewed the Council's AGS as part of our audit procedures and concluded that the disclosures were in line with the CIPFA Code and our knowledge of the Council. The statement is sufficiently balanced, reflecting key aspects of the Council's governance structure as well as key areas for future development. We recommended some minor changes in relation to disclosure of BREXIT, Newbyres gas incident and an indication of the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide.

Audit committee

In June 2015, the Audit Committee conducted a self-assessment of its effectiveness against CIPFA's Audit Committee - Practical Guidance for Local Authorities.

The self-assessment found a strong level of compliance against the guidance. Specific amendments were highlighted relating to the Committee's Terms of Reference relating to ethics, the Committee's role in Treasury Management and specific service reviews. In addition, individual Audit Committee members have been asked to complete a Core Knowledge Self-Assessment to allow any training needs to be identified.

Our own observations of the Audit Committee are good. The Committee is well-attended, both by members and by senior Council officers. The Committee is also supported by internal audit, and by the Independent Chair, who provides additional perspective and financial expertise to the Committee.

Scrutiny arrangements

Scrutiny arrangements are in place with the lead taken by Audit Committee and Performance Review and Scrutiny Committee. The performance review and scrutiny committee receives regular performance reports that detail progress against the key themes in the Single Midlothian Plan.

Internal Audit

The Council has an in-house Internal Audit function and they confirmed compliance with Public Sector Internal Audit Standards as part of their Annual Report.

For the majority of the year (April 2015 to early March 2016) the Internal Audit Section has had a resource of 4 and is led by the Internal Audit Manager, who reports to the Chief Executive and has direct access to the Chair of the Audit Committee and Audit Committee members. The Internal Audit Section also took over responsibility for the two Accredited Counter Fraud Specialist officers who, from October 2015, have been used to review and identify the threats of Corporate Fraud and to provide support to the Internal Audit team and assist with the National Fraud Initiative. The Internal Audit Manager is also the Chief Internal Auditor for the IJB.

Internal Audit is required to provide an annual opinion to the Audit Committee on the assurance framework. In 2015/16 the Internal Audit Manager issued the following opinion:

"It is my view that overall the Council's framework of governance, risk management and control over the period 2015/16 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".

From the Audits undertaken in 2015/16, Internal Audit have identified a number of areas that required improvement to the internal controls. While a small number of areas were rated as weak, these were confined to certain control objectives within specific audits (for example Developer Contributions). The majority of reviews have shown either average or good internal controls.

Recognising the increasing financial constraints of the Council, and the change programmes that will need to take place in the foreseeable, it is even more important that internal audit activity remains aligned to the strategic risks facing the Council.

Internal audit will play a key role in highlighting to officers gaps in controls as well as importantly highlighting areas of over-control, or where controls may not be proportionate to the level of risk. This will help Officers re-direct support to areas of under control, within the total available resources they have, strengthening the control environment. As the Council's risk management arrangements are further developed, internal audit can place greater emphasis of these arrangements to drive the annual and 3 year strategic plan, whilst still ensuring compliance with PSIAS.

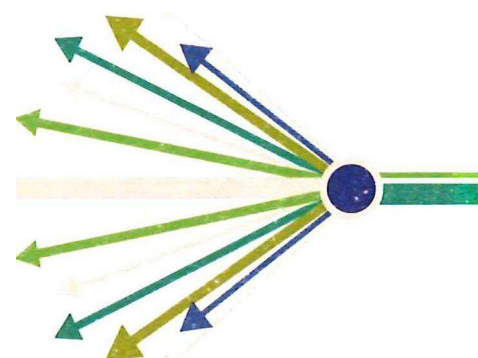
Across all areas of the Council there will need to be an increasing focus on delivering services more efficiently. Internal audit should continue to review the level of resourcing in place aligned to outcomes, continuing to look at whether reviews can be done more efficiently in fewer days, for example through increased use of analytics; reviewing annual vs. every 3 year coverage and also considering the time spent on management and oversight of the internal audit function.

As set out in our audit plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2015/16.

Overall Internal Audit have completed their plan for 2015/16 as agreed with the Audit Committee and have provided detailed regular updates to Committee.

Internal Audit have followed up a sample of 40 recommendations during 2015/16 that have been signed off as complete to determine whether they had been implemented satisfactorily and thus give assurance over the ongoing improvement of internal control.

The majority of audit actions have been completed satisfactorily. From the 40 recommendations tested, 26 (65%) were found to have been completed satisfactorily, 1 (2.5%) was found to be unsatisfactory and 13 (32.5%) were partially completed.



Prevention and detection of fraud and irregularity

The Council has a Fraud and Corruption Strategy which is designed to promote an anti-fraud and anti-corruption culture. This is supplemented by the Council's Public Interest Disclosure (Whistleblowing) Policy. The Council recently appointed a Fraud and Audit Officer to support and further develop the Council's arrangements, including an update of the current Fraud and Corruption strategy (December 2015) and this is reflected in the Annual Governance Statement as a future area of focus.

Audit Scotland published a National Fraud Initiative (NFI) report in June 2016. Key findings were:

- since last reported in the June 2014 fraud and error outcomes valued at £16.8 million have been recorded and the cumulative outcome is now £110.6 million for Scotland
- the 2014/15 review included 104 Scottish bodies across three sectors, with 585 datasets submitted generating 347,715 data matches for further investigation.
- There are 2,522 investigations in progress and action being taken to recover £4.2 million of overpayments.

Internal Audit have a designated resource for counter-fraud and as part of the duties this involves carrying out the checks on the National Fraud Initiative matches.

Our enquiries of management and the Council's internal audit identified a total of £16,153 in overpaid benefits and discounts. The total from the previous review was £38,556

There were 6,073 matches with 5,987 cleared, 60 were errors and 26 referred to fraud officers for investigation.

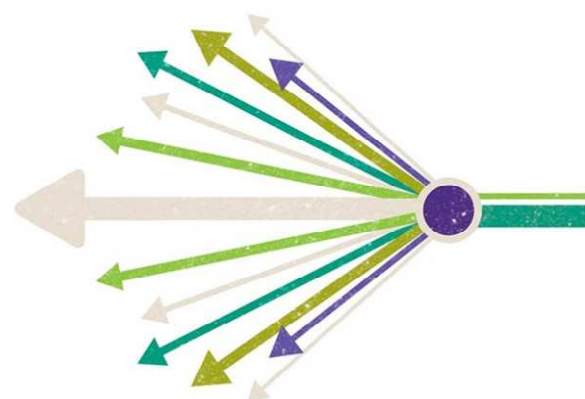
2016/17 National Fraud Initiative

The 2016/17 process will shortly be commencing, with data submission between October and December 2016 and matches being made available to the Council for investigation from late January 2017. Key changes for the 2016/17 return include:

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

Arrangements for maintaining standards of conduct

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Council has established a Code of Ethical Standards and the specific Code of Conduct for Councillors as approved by the Scottish Government. A register of interests is available for each Councillor on the Council's website, and declarations of interest are made at each Council meeting. We have no concerns about the arrangements currently in place.



5. Best value and value for money



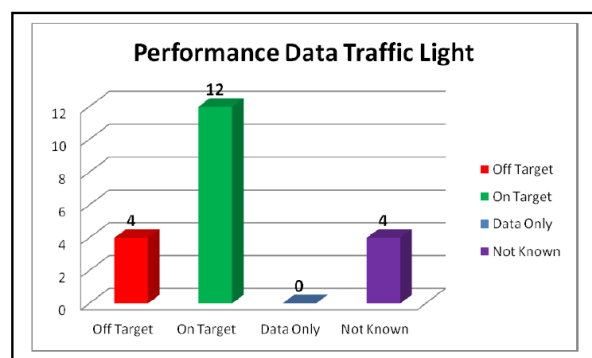
Achieving Best Value

Single Midlothian Plan

The 2015/16 plan year saw the end of a 3 year cycle of prioritising working together to improve outcomes for young people leaving school, improve lives of children in early years and their families, and improve the local economy. 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.

As part of the ongoing strategic review of planning and performance management, officers looked at revisiting the use of the Balance Scorecard which had been on the periphery of performance management previously, but had not been fully embedded. This exercise ensured a future focus on delivering against outcomes which require a different way of conceiving and using performance measures.

The review further noted that outcome indicators should show the overall benefit of the Council's work and not simply be a measure of day-to-day activities and outputs. The Council has 20 key performance indicators identified for the Single Midlothian Plan and under each of the perspective headings of the Balanced Scorecard. Detailed performance data is available in the quarterly service performance reports. The performance report for the final quarter for 2015/16 for the indicators.



The four indicators off target are:

- Town Centre vacancy rates are 6.7% although performance is below the target vacancies have reduced.
- New business start ups of 173 is below target of 200
- The number of looked after children and young people placed out of area of 55 is above target of 51, but Significant work has been done in this area and as at the end of quarter four there were no young people in secure accommodation.
- Increase percentage of school leavers in positive destinations to 93% from 89.2% slightly off target.

The Community Planning Partnership has undertaken a review and engagement process in 2015 /16 resulting in changed priorities for the next three years 2016-19. Taking into consideration evidence about the comparative quality of life of people living in Midlothian, where it is clear that less well off residents experience poorer health, have fewer or no choices in how they use low incomes, and where there is an proven relationship between these factors and their learning; as a result the top three priorities for 2016-19 that were determined were:

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

Three approaches to how the council works with its communities have been agreed – preventive intervention, co-production and capacity building and localising/ modernising access to services.

In addition to the three key priorities and three approaches the Council will also focus on reducing the gap between outcomes for residents living in parts of the county which for many years have shown a significant gap between their outcomes and the average outcomes for Midlothian and Scotland as a whole. The areas targeted are Dalkeith Central/Woodburn; Mayfield/Easthouses and Gorebridge

This vision and three year outcomes will only be achieved through close interagency working with the wider Community Planning Partnership and through genuine partnership working and capacity building with local communities.

Ambitious Midlothian: Midlothian Economic Recovery Plan (MERP)

The economic recession that started in mid/late 2008 and the economic downturn that followed created enormous challenges for CPP partners such as the Council, Scottish Enterprise, Edinburgh College, the Federation of Small Businesses, and Midlothian and East Lothian Chamber of Commerce. Whilst significant progress has been made in Midlothian in terms of addressing the adverse socio-economic impact of the economic downturn, challenges still remain – not least the ongoing impact of public sector budget cuts.

At a national level, the Scottish Government (SG) reacted to the economic and budgetary challenges through the launch of a refreshed SG Economic Strategy in March 2015. This refreshed strategy sets out an overarching framework for a more competitive and a fairer Scotland.

Achieving Best Value

The strategy reaffirms the commitment to creating a more successful country with all of Scotland to flourish through increasing sustainable economic growth. It sets out an overarching framework for achieving the two mutually supportive goals of increasing competitiveness and tackling inequality

The strategy is underpinned by the following four priorities:

- Investing in our people and our infrastructure in a sustainable way
- Fostering a culture of innovation and research and development
- Promoting inclusive growth and creating opportunity through a fair and inclusive jobs market and regional cohesion
- Promoting Scotland on the international stage to boost trade and investment, influence and networks.

Following the launch for the SG Economic Strategy in September 2011, Ambitious Midlothian: Midlothian Economic Recovery Plan was prepared by the Council and CPP Partners. This followed extensive engagement/consultation with the business communities of Midlothian. Ambitious Midlothian is the overarching strategic economic recovery plan for Midlothian, shaping the current and future economic development work of the Council and its CPP Partners.

Key topics included within the plan include:

- Maximising the socio-economic benefits of the construction of the Borders Railway
- Support the local economy through implementation of the plan
- Promote Midlothian to visitors and business
- Maximise next generation broadband roll-out
- Support the development of Easter Bush as a world class scientific research centre
- Support town centre regeneration

Community Engagement

The Council has actively sought to increase community engagement in the community planning process. The CPP engages with local communities through Neighbourhood Planning arrangements, a bi-annual Citizens Panel, and stakeholder joint planning. Service users also help to shape services through formal user groups within community care and community learning and development services.

Midlothian Moving Forward, the Community Planning Partnership, is committed to placing communities at the heart of community planning, and has committed itself to developing and delivering Neighbourhood Plans in each of the sixteen Community Council areas within Midlothian. The objectives of Neighbourhood Plans are to:

- Support delivery of real change and improvements at local level.
- Engage with and involve communities in identifying and addressing local priorities.
- Provide a focus for action on local priorities.
- Encourage effective service delivery by Council
- Services and Community Planning partners, working singly or jointly, whichever ensures best results.
- Encourage services to work together.

The neighbourhood planning process is designed to help a variety of agencies to work together with local people to build strong, safe and attractive communities. As the future financial pressures will impact on the way that the Council delivers future services to the community it will be vital that open, honest and timely engagement continues with all key stakeholders.

Shaping Our Future is a major community engagement drive as part of the Delivering Excellence programme. The Council are asking residents to tell them what the priorities are for them, their families and their communities – in order to help the Council reshape services to meet those priorities.

Health and Social Care Integration

The Council has made good progress on delivering Integrated Health and Social Care, with its partners in NHS Lothian. Partnership working has historically been strong, and the Midlothian Community Planning Partnership has met national delayed discharge targets in recent years.

In August 2015, the inaugural meeting of the Midlothian Integrated Joint Board (IJB) was held, which formally appointed the Chief Officer. The Board has two categories of members, voting members and non-voting members. The voting members are nominated representatives from key partners as follows:

- Midlothian Council: 4 members
- NHS Lothian: 4 members

The Board has formed an Audit and risk Committee that meets on a regular basis. The IJB had no financial allocations made to it in 2015/16 by either Midlothian Council or NHS Lothian. The IJB did not expend nor direct any expenditure and there are, therefore, no financial transaction for 2015/16. Accordingly, the IJB did not keep any books of account. The notional financial resources expended to support the IJB in 2016/17 have been identified.

The main task of the IJB in 2015/16 was the preparation, agreement and publication of its Strategic Plan. As required, the IJB set up a Strategic Planning Group which met during the financial year. This plan lays out the ambitions for the delivery of the functions delegated to the IJB by the partners per the Integration Scheme. The goals of the IJB's Strategic Plan are in line with the Scottish Government's nine national outcomes are will be delivered through :

- Shifting the balance of care to provide more care delivered at home or in a homely setting rather than in hospital or other institutions.
- Ensuring care is person centred, with a focus on the individual and not just specific health and social care needs.
- Further improving the joined up approach to working across professions and bodies delivering health and social care functions
- Ensuring citizens, communities and staff involved in providing health and social care services will have a greater say in how these services are planned and delivered.

The Strategic Plan, having been consulted on as required by the regulations, was agreed by the IJB at its meeting of 10th December 2015. The Council has made a budgetary offer for 2016/17 to the IJB along with an indicative position for 2017/18 and 2018/19.

NHS Lothian have not, made a further, 'formal' offer to the IJB for 2016/17. NHS Lothian have now submitted their LDP (Local Development Plan – basically the financial plan) to the Scottish Government which is not balanced and has a gap of about £20m. It not yet clear how much of this gap relates to the services delegated to the IJB nor what, if any, proposals NHS Lothian will make to manage this financial risk.

NHS Lothian and Midlothian Council have now set operational budgets for their services and the Partnership is finalising its financial plan which, having achieved its efficiency schemes, projects a break-even position in 2016/17. It should be noted that additional (albeit non-recurrent) resources have been made available to support the GP Prescribing budget which was the Partnership's most significant financial pressure.

Its clear from the financial plans and statements that there are significant financial challenges in 2016/17 for both NHS Lothian and Midlothian Council and, therefore, for the functions that both these bodies have delegated to the IJB. The national financial outlook for 2017/18 and beyond will, in financial terms, present an even greater challenge.

The key issues for the IJB in 2016/17 will be :

- Ensuring that the impact of efficiency schemes planned by the partners in 2016/17 will not impact on the ability of the IJB to deliver its strategic plan
- Ensuring that the social care fund resources are used in line with the ambitions of the Scottish Government in a way that will build additional capacity in the system and allow redesign and the ability to improve the cost base in future years
- Ensure that the IJB can take the financial planning lead for those functions for which it is now responsible for.

Edinburgh and South East Scotland City Region Deal

The Council and five of the other local authorities that make up the Edinburgh and South East Scotland City region are working collectively on a bid to the UK and Scottish Governments for a City Region Deal.

The City Region Deal is a mechanism for accelerating growth by pulling in significant government investment. By investing this funding in infrastructure, skills and innovation our economic performance will be significantly improved, which will not only generate funds to pay back this initial investment but also draw in significant additional funding from the private sector. It is also about greater autonomy and decision making powers for the region to help deliver public services more effectively and to tackle inequality and deprivation. The ambition is to secure £1bn of funding and it is estimated that an additional £3.2bn worth of private sector investment could be leveraged if the bid is successful. The Council will need to work with its partners to ensure proposals meet the expectations of Midlothian in the areas of infrastructure, housing, skills and innovation. The Council should also have alternative strategies in place should the deal not be approved.

Review of Local Government Workers Pay and Grading

The overarching aims of the proposed local government working Pay and Grade package is to:

- Tackle in-work poverty;
- Positioning Midlothian as an employer of choice in the employment market;
- The need to ensure that the Council has a pay and grading structure which can sustain future increases in the Living Wage and which maintain differentials across pay grades;
- Adopting terms and conditions and an HR Policy Framework which supports and facilitates service change, ensuring that services can be adapted to continue to meet customer needs;
- Adopting terms and conditions and an HR Policy Framework which will bring improvements in attendance and productivity across the Council.

Increasing the hourly rate for staff at the lower end of the pay structure will directly alleviate the impact of low pay and also facilitates a shift away from a culture in some service areas where regular overtime is the norm, in order to support service provision and to supplement contractual earnings.

The review of pay and grading builds upon this increase with a proposal to improve the minimum pay point to £8.97 per hour from 1 October 2016, together with increases in hourly pay rates for approximately 1,900 staff across grades one to four. Overall the minimum pay point will have increased by £1.32 per hour compared with the hourly rates which were in place on 24 March 2015.

The scope of the review included securing specific changes in the organisational culture that facilitates greater flexible working, the delivery of 24/7 services and an improved customer experience. This complements the Council's approved People Strategy, reflecting the employee proposition - 'The give and the get', designed to support positive change across the workforce.

The pay and grading changes mentioned above would put significant pressure on the Council pay bill but they would not fail to address issues around flexibility. They would in all likelihood however, continue to support a culture where service provision is reliant on overtime working. As such the negotiations with the Trade Unions have sought to identify a number of changes to the terms and conditions which go some way to making the overall cost more sustainable and also facilitate significant improvements in flexibility.

The proposed changes are as follows:

- A reduction to four recognised public holidays (two at Christmas and two at New Year) with the remaining five public holidays becoming part of employees annual leave entitlement.
- Contracted Saturday and Sunday working are paid at the standard hourly rate (except 10pm – 6am) rather than the current time and a fifth.
- Contractual night working between the hours of 10pm to 6am continues to be paid at time and a fifth.
- Raising the threshold before overtime premium applies from 36 hours to 40 hours in any week.
- Reducing the overtime premium paid for hours worked above 40 hours per week from time and a half to time and a quarter.
- Annual Leave entitlement enhanced by one additional day.

On 25 May 2016, after introducing changes to the pay protection arrangements, agreement was reached with all three Trade Unions that they would ballot their members on whether to enter into a collective agreement in respect of the pay and grading strand of the review only. All three ballot results supported acceptance of the proposal.

Having secured a collective agreement, arrangements are now being progressed to prepare for the implementation effective from 1 October 2016. In this respect an Implementation Board Chaired by the Chief Executive has been set up.

Newbyres incident

In prior years we reported that the Council faced a significant challenge, relating to carbon dioxide gas affecting houses in Newbyres Crescent.

In 2014-15, the Council considered the results of an options appraisal for the future of the site and, based on recommendations from technical advisors, opted to demolish the site and rebuild the housing as part of the Phase 2 social housing programme.

The demolition of the properties commenced in March 2016. The majority of the waste generated, such as the brick, timber and plastic, will all be recycled. Appropriately designed, installed and verified gas defence systems will be included within the building structures and within the site itself to avoid a risk of CO₂ exposure. All affected households have been supported by the council to find suitable accommodation. In addition, those required to be rehoused are being offered the opportunity to return to a new build development once completed. The next development in Gorebridge on Stobhill Road is due to be completed spring 2017.

The Council is currently pursuing a claim in the Court of Session against three companies for losses which arises from the demolition of the 64 houses. The claim is at a preliminary stage but is likely to proceed to a substantive hearing in financial year 2017/2018.

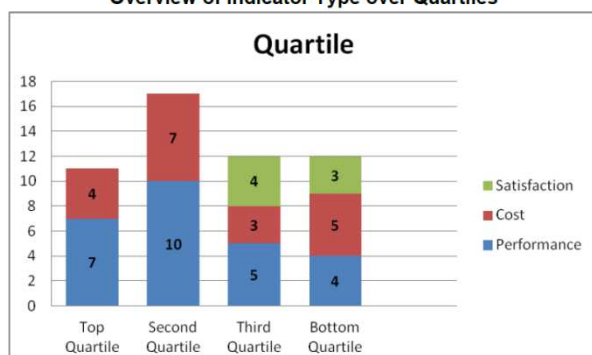
Local Government Benchmarking Framework

As required by the Local Government Act 1992 Publication of Information (Standards of Performance) Direction 2013, the Council has collected and reported information on Corporate Management (SPI 1), Service Performance (SPI 2) and the Local Government Benchmark Framework (LGBF SPI 3).

The LGBF comprises a suite of performance indicators which are collected for all councils across Scotland to create a database of comparable data. The Council's performance data, which was reported into the 2014/15 LGBF is available on the Council website. In 2014/15 there were 55 indicators as part of the LGBF and the Council has showed mixed results with a much greater proportion falling in quartiles 1 and 4 than noted in the 2013/14 analysis performed last year.

Indicators in the bottom quartile include Older Persons Home Care Costs, Percentage of Pupils Gaining 5+ Awards at Level 6, Gross Cost of Children Looked After in a Community Setting, Proportion of internal floor area of operational buildings in satisfactory condition, Corporate and democratic core costs per 1,000 population and Percentage of income due from council tax received by the end of the year

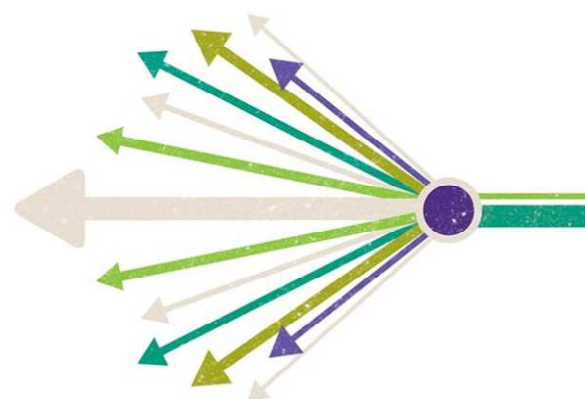
Overview of Indicator Type over Quartiles



Scottish ranking	Percentage of indicators falling within each quartile	
	2014/15	2013/14
Top quartile (ranked 1-8)	21% (11/52)	24% (12/51)
2nd quartile (ranked 9-16)	33% (17/52)	31% (16/51)
3rd quartile (ranked 17-24)	23% (12/52)	25% (13/51)
bottom quartile (ranked 25th and below)	23% (12/52)	20% (10/51)

This chart highlights that indicators in a national context remains mixed with 21% in the first quartile (2013/14 24%), but 23% within the bottom quartile (2013/14 20%).

Areas performing well include: The Gross Cost of "Children Looked After" in Residential Services, Proportion of Pupils Entering Positive Destinations, Teacher Sickness Absence Days, Net cost of waste collection per premises.



Appendices

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Appendix A: Identified misstatements

We are required to report to those charged with Governance any identified adjustments, over and above our trivial level of £0.201 million, which we have reported to Officers but have not subsequently been reflected in the final version of the Financial Statements. We have 1 adjusted item and 2 uncorrected adjustments to report, which are outlined below.

Adjustment type	CIES £m	Balance sheet £m	Reserves £m	Account balance	Reason for not adjusting
Adjusted					
The Long Term Investments balance of £3.382m within the balance sheet is based on the value of Lothian Buses for which the Council has a 5% shareholding. The balance of £3.382m was based on Lothian Buses prior year financial statements as the current year financial statements were not published until after the Council's draft accounts were submitted. An amendment of £1.807m is required.	-	1.807	- 1.807	Dr Investments Cr Reserves	Not applicable
The following amendments were required to the National Non Domestic Rates Return: <ul style="list-style-type: none"> Unoccupied property relief amended by £333,653 Bad doubtful debts now collected adjustment from -£1,165,532 Total increase in contributable amount £0.832m which reduces creditor balance.	0.832	0.832		Dr Creditors Cr Income and Expenditure	Not Applicable
Unadjusted					
The Council applied the incorrect social housing discount factor to the new build housing stock (applying 69% rather than 64.5%). The financial impact of this was to understate the value of the Council dwellings by £0.572m.		0.572	0.572	Dr Council House Cr Revaluation Reserve	Not applicable
Net impact	0.832	3.211	2.379		

Appendix B: Action plan

Issue and risk	Priority	Recommendation
<p>1 Journal control weaknesses</p> <p>During our testing on journals, we identified the following control weaknesses:</p> <ul style="list-style-type: none"> The manual entry of journal numbers, which means that they are not always consecutive Gaps in the journals listing Manual entry of who has posted and approved individual journals One side journals to correct errors in payroll posting <p>Risk</p> <p>The existence of control weaknesses over the financial ledger exposes the Council to a risk of fraudulent journals. While our testing provides assurance that the accounts are not materially misstated, there is a risk that individuals could exploit the weaknesses for personal benefit.</p>	Low	<p>Recommendation</p> <p>The Council needs to strengthen journal controls to ensure completeness, and accuracy over entries onto the financial ledger.</p> <p>Management response:</p> <p>The issue of manually entering journal numbers and failing to have consecutive numbers was as a consequence of a system glitch. An upgrade to the ledger system due to be applied in the autumn will provide opportunity to improve workflow management and control.</p> <p>Responsible Officer: David Gladwin.</p> <p>Implementation date: 31st December 2016</p>
<p>2 Errors in accruals</p> <p>During testing of unrecorded liabilities we identified 3 items that had not been accrued for. The Council justified these decisions based on size of the transactions (the largest item being £108). The rationale of not accruing small items is justifiable, however, there is no documented de-minimis level below which the Council do not accrue.</p> <p>Risk</p> <p>There is a risk of inconsistency and inefficiency in processing of accruals during the year end processes.</p>	Medium	<p>Recommendation</p> <p>The Council should implement a de minimis level to assist officers in making their assessments and documenting judgements.</p> <p>Management response:</p> <p>The accruals policy will be reviewed as part of the preparation for the 2016/17 accounts. The current absence of guidance on de-minimis values is to recognise that in some areas a very small value will be material to the budget holder.</p> <p>Responsible Officer: David Gladwin</p> <p>Implementation date: 28th February 2017.</p>
<p>3 Capitalisation Policy</p> <p>Our review of the accounting policies identified that there is no capitalisation de-minimis threshold in place. Our testing identified one low value item that could have been regarded as revenue expenditure.</p> <p>Risk</p> <p>There is risk that revenue expenditure is inappropriately capitalised.</p>	Low	<p>Recommendation</p> <p>Implement a de-minimis capitalisation policy. Ensure this is disclosed within the Council's accounting policies and that all officers are made aware of the policy and comply with the requirements.</p> <p>Management response:</p> <p>The lack of a de-minimis capitalisation policy is to provide maximum flexibility to class items as Capital as materiality for budget holders varies greatly. We currently review all transaction posted to Capital to ensure they meet the proper definition of Capital Expenditure. Consideration will be given to the suitability of introducing a de-minimis policy in 2016/17.</p> <p>Responsible Officer: David Gladwin.</p> <p>Implementation Date: 28th February 2017.</p>
<p>4 Cash flow Statement</p> <p>The Council were unable to balance their cash flow statement which included a balancing item of £0.244m.</p> <p>Risk</p> <p>There is a risk that the cash balance is not fairly stated.</p>		<p>Recommendation</p> <p>The Council should ensure that the cash flow statement is completely reconciled.</p> <p>Management response:</p> <p>We will ensure that the cash flow is fully reconciled in future years</p> <p>Responsible Officer: David Gladwin.</p> <p>Implementation Date: 30 June 2017</p>

Appendix B: Action plan

Issue and risk	Priority	Recommendation
<p>5 Employee Debt</p> <p>Our testing identified that Council employees owe the Council approximately £1m. There are weaknesses in the processes and controls to prevent, identify, collect and report these debt balances.</p> <p>Risk</p> <p>There is a risk that the balances are misstated, debt continues to accumulate with increased financial and reputational loss for the Council.</p>	High	<p>Recommendation</p> <p>Internal audit should consider undertaking a full review of the controls and processes over employee debt.</p> <p>Management response:</p> <p>This is already included in Internal Audits Plan for 2016/17.</p> <p>Responsible Officer: Elaine Greaves</p> <p>Implementation date: March 2017</p>
<p>6 Fair Value accounting</p> <p>The Council revalued its Property Plant and Equipment assets as at 31 March 2016 in accordance with their five year rolling programme. For those asset that have not been revalued in the year, the Code of Practice on Local Authority Accounting requires that the Council make an assessment on whether the fair value of these assets is different from current value at 31 March 2016 (barring in mind some of these assets would not have been valued for a few years). The process the Council undertook and judgements made in determining that there was no material change to the value of these assets was not formally documented for us as auditors to challenge the methodology and assumptions. The Council has since used the Buildings Research Index to determine the estimated annual increase to all assets not valued in the year and prove the misstatement is not material. However, the process undertaken did not account for the fact that some assets have not been valued in the last 2-4 years. The consideration of the change in value needs to cover all years since the last revaluation of the asset. We appreciate that property and land values for general fund assets at Midlothian is unlikely to have moved significantly over the last few years, but this could well change in the future as the local area is regenerated.</p> <p>Risk</p> <p>Fair value valuations have the potential to be materially different from the current value.</p>	High	<p>Recommendation</p> <p>The Council needs to undertake an assessment of assets not valued at 31 March each year to determine whether the fair value is not materially different from the current value.</p> <p>The judgements and assumptions that the Council make in determining this assessment should be documented and provided within the working papers to the auditor prior to the start of the audit.</p> <p>Management response:</p> <p>The Councils non current asset valuation policy will be reviewed for 2016/17. It will also be discussed with incoming External Auditors to ensure expectations are aligned with council policy and practice.</p> <p>Responsible Officer: David Gladwin</p> <p>Implementation Date: 28th February 2017</p>
<p>7 Supporting Documentation</p> <p>The Council were unable to provide invoices to support two items selected as part of our expenses sample as the invoices had been lost. We were satisfied both items have been paid.</p> <p>Risk</p> <p>There is a risk of misstatement of expenditure</p>	Medium	<p>Recommendation</p> <p>Supporting primary documentation for all invoices and accruals needs to be retained by the Council.</p> <p>Management response:</p> <p>None</p>
<p>8 Segregation of duties</p> <p>One item selected in our expenses testing identified that the same officer registered and processed the same invoice. We tested the transaction which was appropriate and paid to the correct counterparty.</p> <p>Risk</p> <p>Without appropriate segregation of duties there is an increased risk of fraud or error occurring.</p>	Medium	<p>Recommendation</p> <p>Segregation of duties in respect of creditor payments need to be strengthened.</p> <p>Management response:</p> <p>None</p>

Appendix C: Follow-up of prior year actions

Set out below is our follow up of the 2014/15 Annual Report to members recommendations.

Issue and Risk prior year	Priority	Follow up
<p>1 Errors in accruals</p> <p>During testing for unrecorded liabilities, we identified three errors from an extended sample of 20 transactions. The largest item not accrued for was £604. Our review of accruals highlighted that there is no de minimus policy in place to provide clarity on the minimum value of an item to be accrued for. Our analysis of accruals found 3,835 items were accrued for transactions less than £1,000, which accounted for around £0.8 million.</p> <p>Risk</p> <p>There is a risk of inconsistency and inefficiency in processing of accruals during the year end processes.</p>	Low	<p>Implementation ongoing: Our testing of unrecorded liabilities in 2015/16 identified the same issue. The Council has yet to implement an accruals policy. We have raised this as a recommendation in Appendix B</p>
<p>2 Journal control weaknesses</p> <p>During our testing on journals, we continue to note a number of control weaknesses including:</p> <ul style="list-style-type: none"> • The manual entry of journal numbers, which means that they are not always consecutive • Gaps in the journals listing • Manual entry of who has posted and approved individual journals <p>Risk</p> <p>The existence of control weaknesses over the financial ledger exposes the Council to a risk of fraudulent journals. While our testing provides assurance that the accounts are not materially misstated, there is a risk that individuals could exploit the weaknesses for personal benefit.</p>	Low	<p>Implementation ongoing: Our testing of the journal processes in 2015/16 identified the same issue so we have raised this as a recommendation in Appendix B.</p>
<p>3 Future accounting considerations – Fair Value accounting</p> <p>The change in accounting for fair value will have a significant impact on the Council's balance sheet. Finance should consider the implication of this change, particularly the implications for the revised revaluation programme being developed with the Valuation Team.</p> <p>Risk</p> <p>Fair value valuations may not be undertaken, leading to a potential material misstatement in 2015-16</p>	High	<p>Implementation ongoing: The Council have reviewed their 5 year revaluation policy and have revalued all assets that were due for revaluation in 2015/16. However, the Council did not undertake an assessment as to whether the fair value of the assets is materially different from current value. This has been raised as a recommendation in appendix B.</p>
<p>4 Future accounting considerations – Infrastructure assets</p> <p>The change in accounting for infrastructure assets will have a significant impact on the Council's balance sheet. Finance should continue to consider the implication of this change, with a view to considering the balances for 2015-16 and we will continue to work proactively with Finance in this area</p> <p>Risk</p> <p>Prior work may not be undertaken in respect of infrastructure assets leading to an impact on 2016- 17 financial statements</p>	Medium	<p>In progress: We have reviewed the arrangements in place in preparation for this inclusion in the 2016/17 balance sheet and our view was that the Council is making reasonable progress in this area</p>

Recommendation	Priority	Follow up
<p>5 Accuracy of financial forecasting</p> <p>As in 2013-14, we noted a significant movement in the forecasts within financial monitoring reports and the final outturn.</p> <p>Risk</p> <p>Significant, and unexpected fluctuations in financial performance mean that it can be difficult for elected members to fulfil their financial scrutiny role.</p>	Medium	<p>Implemented. During 2015/16, routine budget monitoring reports presented remained within 0.7% of the revised budget and final outturn. We have made a recommendation with regard to the timing of budget monitoring reports.</p>
<p>6 Long term financial planning</p> <p>Our review of the Council's Financial Strategy and supporting documents against Audit Scotland's best practice criteria highlighted areas for improvement including the use of scenario planning.</p> <p>Risk</p> <p>The Council is aware of the risk of not achieving savings, such as the business transformation savings, but has not prepared for significant fluctuations in key assumptions, such as the outcome of the review of Council tax arrangements.</p>	Medium	<p>Partially implemented: The Council has made clear in their reports the implications of movements in Scottish Government Grant Funding and Council tax has on the budgets. A detailed analysis of best and worse case scenarios including achievement of savings plans will be required in the future.</p>
<p>7 Audit Committee Workplan</p> <p>The reduction of meetings provides the opportunity to improve the planning and focus of the work of the Audit Committee, by identifying priorities for the year and ensuring that key papers to support the priorities are planned in advance.</p> <p>Risk</p> <p>There is a risk that the Audit Committee may not achieve key priorities for scrutiny</p>	Low	<p>Implemented: The Committee met formally five times in the year. The Committee is also conversant with Audit Scotland's reports on Midlothian and its publications generally regarding local government in Scotland. The Audit Committee receives regular reports from Council officers presenting the actions taken against these reports. The Members also review and have input to the Council's Annual Governance Statement.</p>
<p>8 Performance reporting to members could be better focused on key outcomes</p> <p>There is scope to improve the quality of performance reporting to Committee by:</p> <ul style="list-style-type: none"> making performance reports shorter, sharper and more clearly focused on the priorities within the Single Midlothian Plan focusing on improvement actions <p>Risk</p> <p>There is a risk that current performance reports focus on operational issues, and therefore prevent full scrutiny of progress against the outcomes in the Single Midlothian Plan.</p>	Low	<p>Partially implemented: The format of performance reporting throughout 2015/16 remains consistent with previous years. The reports are fairly lengthy with a significant number of key performance indicators. However, the Council has recently implemented a balanced score card approach which will help focus on the monitoring of the key performance indicators within the plan.</p>
<p>9 Public Performance Reporting could be improved to reflect best practice</p> <p>Midlothian Council achieved full compliance with 16 out of 18 priorities in the Statutory Performance Indicators. There was scope for improvement in reporting aspects of managing people and procurement. The Accounts Commission also noted that reporting on customer satisfaction and community engagement could be improved.</p> <p>Risk</p> <p>The performance information available for the listed indicators may be insufficient for the public needs to allow them to understand the services in those areas.</p>	Low	<p>Implemented: There was submitted report by the Chief Executive, updating the Committee on Audit Scotland's assessment of the Council's Public Performance Reporting (PPR). The report advised that Audit Scotland placed Midlothian in the top quartile of all Councils in respect of public performance reporting. The key areas for improvement were Employees, Procurement, Effective use of customer satisfaction information, Dialogue with the public and Accessibility</p> <p>The report incorporated an improvement plan to address the areas for improvement.</p>

Appendix D: Compliance with statutory duties

We have reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014 and have monitored compliance against the key aspects below.

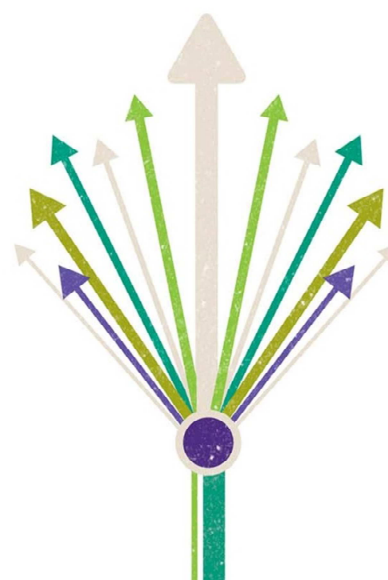
Aspect of the regulations	Compliance	Status
The Chief Financial Officer must ensure that the annual accounts give a true and fair view of the authority's financial position and transactions.	Complied - signed off within unaudited accounts as at 28 June 2016	✓
	On track - will sign off in final audited accounts.	●
The Chief Financial Officer must certify and submit the annual accounts to the appointed external auditor no later than 30 June 2016.	Complied – submitted 28 June 2016.	✓
The Council must publish the unaudited annual accounts on the website of the authority until the date on which the audited annual accounts are published.	Complied – unaudited accounts are available on the website.	✓
The Council (or a committee whose remit includes audit or governance) must consider the unaudited accounts at a meeting by 30 September 2016.	Complied – presented to Council on 28 June 2016 and will go to Audit Committee on 20 September	✓
The Council must give public notice of the right of interested persons to inspect and object to its accounts.	Public notice given in July advising of the availability of the Financial Statements and associated documents for inspection at Midlothian House and of the rights conferred by section 101 of the act	✓
The Council (or a committee whose remit includes audit or governance) must aim to approve the audited annual accounts for signature no later than 30 September 2016.	On track - will be presented to Audit Committee on 20 September 2016 for approval.	●



Fully compliant at date of this report



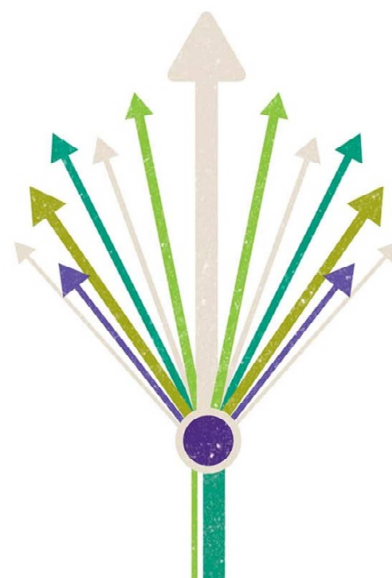
On track to comply



Appendix E: Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

Issue	Commentary
1 Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council In particular, representations will be requested from management in respect of: <ul style="list-style-type: none"> significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable responsibility for the design and implementation of internal control to prevent and detect error and fraud related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the CIPFA Code all events subsequent to the date of the financial statements and for which the CIPFA Code and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed
2 Disclosures	<ul style="list-style-type: none"> Our audit work identified no material omissions in the financial statements
3 Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
4 Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations
5 Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6 Going Concern	<ul style="list-style-type: none"> We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern



Appendix F- Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Midlothian Council (including grant certification)	241,700	241,700
Total audit fees	241,700	241,700

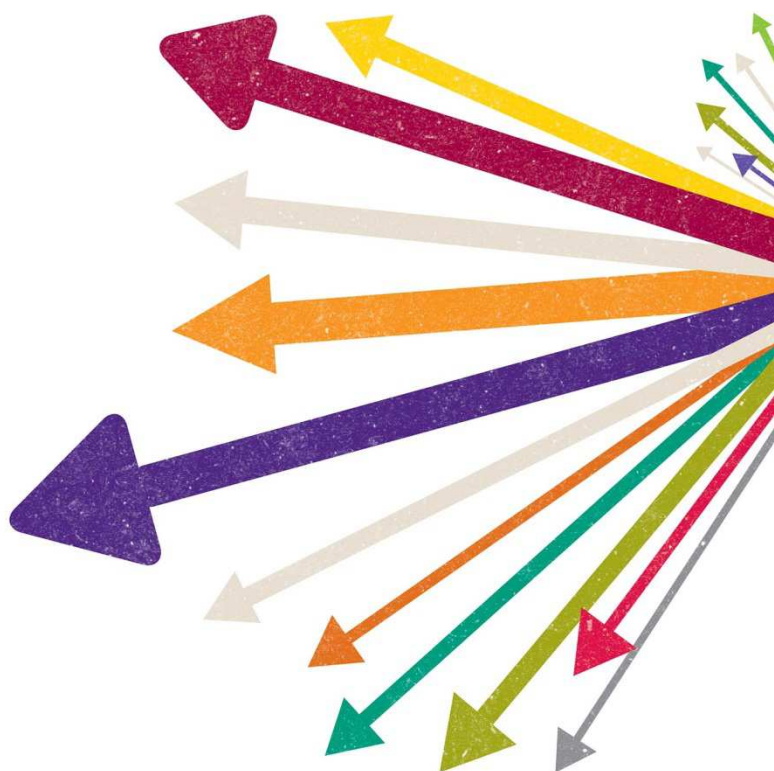
Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Fees for other services

Service	Fees £
20/20 vision delivered October 2015	5,000





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GRT101525

20 September 2016

Grant Thornton UK LLP
7 Exchange Crescent
Conference Square
EDINBURGH
EH3 8AN



Dear Sirs

**MIDLOTHIAN COUNCIL
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016**

This representation letter is provided in connection with the audit of the financial statements of Midlothian Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

I confirm that to the best of my knowledge and belief having made such inquiries as I considered necessary for the purpose of appropriately informing myself:

Financial Statements

- i I have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.
- ii I have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- iv I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by in making accounting estimates, including those measured at fair value, are reasonable.
- vi I am satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent;
 - b. none of the assets of the Council has been assigned, pledged or mortgaged; and
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xi I have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report.

The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xii The financial statements are free of material misstatements, including omissions.

- xiii I have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv I believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. I believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv I have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi I have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix I have disclosed to you all my knowledge of fraud or suspected fraud affecting the Council involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx I have disclosed to you all my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be

considered when preparing financial statements.

- xxii I have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and confirm that I am not aware of any significant risks that are not disclosed within the AGS.

Management Commentary by the Head of Finance and Integrated Service Support

- xxv The disclosures within the Management Commentary fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 20 September 2016.

Yours sincerely



Gary Fairley
 Head of Finance and Integrated Service Support
gary.fairley@midlothian.gov.uk

Midlothian Council

Introduction to EY

Audit committee – 20 September 2016



Building a better
working world

Introduction to EY

In May 2016 the Accounts Commission appointed EY as your external auditor for the period 2016/17 to 2020/21. Across Scotland, including the Council, we have been appointed auditors to three local authorities, one pension fund, three integrated joint boards and eight further education colleges. Building on our vast experience of local government audit, assurance, tax and transaction services across the rest of the UK, EY will deliver a high quality, efficient, effective and informative audit service to you.

Your audit team will consist of members of the our Government and Public Sector Assurance team based in Scotland, and will be staffed predominantly from our Edinburgh and Glasgow offices. Our team is led by Stephen Reid who is one of our three assurance partners with responsibility for our UK-wide Government and Public Sector practice. Stephen is supported directly in this role in Scotland by Keith Macpherson and John Boyd. Together Stephen, Keith and John bring many years personal experience working with the public sector, and local government in particular. For example Stephen currently represents ICAS on the Local Authority (Scotland) Accounts Advisory Committee (LASAAC), while in 2015, Keith Macpherson spent seven months on secondment at Audit Scotland supporting the Accounts Commission's review of the current code of practice governing local authorities' arrangements for scrutiny, monitoring and transparency arrangements for *Following the Public Pound*.

In England, our contract with Public Sector Audit Appointments Ltd (PSAA) gives us extensive experience of providing external audit services to over 180 local government bodies, of varying sizes and complexity. The PSAA's audit quality assessment of EY is at <http://www.psaa.co.uk/audit-quality/principal-audits/ernst-young-llp-audit-quality/>. We will draw on our Government and Public Sector technical and quality national infrastructure in delivering our services to you.

EY's audit quality arrangements comply with the International Standard on Quality Control 1 (ISQC1). Our commitment to quality begins at the top of our global organisation. Setting the right tone at the top is a key responsibility of our senior leadership team. Through our vision and values through to our quality assurance reviews and training programme, we are dedicated in delivering high quality audit services. The Financial Reporting Council inspects the quality of our audit work on an annual basis. Their most recent findings are reported at <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2016-Ernst.pdf>

EY Quick Facts

- ▶ We are 212,000 people based in 728 offices in 150 countries, organized into 28 Regions and four Partnership areas.
- ▶ Operating from four key locations in Scotland: Edinburgh, Glasgow, Inverness and Aberdeen.
- ▶ Provider of assurance, transaction advisory, tax and core business services.
- ▶ Largest Accountancy firm in Scotland¹
- ▶ Significant supplier of external audit services to local government and the NHS through our PSAA contract.
- ▶ Leading PSAA quality assessment scores for our audit work in 2015 and 2014.
- ▶ Highest percentage of audits graded 'Good with limited improvements required' in the FRC's 2016 quality report on Big 4 firms
- ▶ Ranked 13th in the Sunday Times, 25 *Best Big Companies to Work For*.
- ▶ Named one of the 2015 Top 10 employers for Working Families.

¹ = Source: The CA Magazine and ICAS website , October 2015, fee earning staff

Our responsibilities

We carry out our audit in accordance with the Accounts Commission's Code of Audit Practice, issued in May 2016, ("the Code") and the requirements of International Standards on Auditing (ISA). The Code outlines the principles and standards to be followed by auditors and their responsibilities. Our responsibilities extend beyond the **statutory audit of the financial statements**. The Code now requires auditors to focus their work on the four dimensions of wider-scope public audit: **financial sustainability, financial management, governance and transparency, and value for money**. The audit work on the dimensions will help meet stakeholder expectations of audit and also help to shape auditors' work in support of the Accounts Commission's new framework for the audit of Best Value.

Statutory audit of the financial statements

We are required to give an opinion as to whether the financial statements:

- Give a true and fair view of the financial position of the Council and its expenditure and income; and
- Have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

We review and report on: other information published within the financial statements, including the remuneration report, and the Council's financial position.

Financial sustainability

The Code requires auditors to consider the medium and longer term outlook to determine if the Council is planning effectively to continue to deliver its services. Our work will include consideration of:

- the effectiveness of the financial planning systems in identifying and addressing risks to financial sustainability;
- the appropriateness and effectiveness of the arrangements put in place to address any identified funding gaps;
- whether the Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Governance and transparency

The Code requires us to review, conclude and report on the adequacy of governance arrangements at the Council. In particular, auditors are required to consider whether:

- governance arrangements are appropriate and operating effectively;
- there is effective scrutiny, challenge and transparency on decision-making and financial and performance reports;
- the quality and timeliness of financial and performance reporting is appropriate.

Best Value

Financial management

We are required to conclude on the effectiveness of financial management arrangements. This includes considering whether an entity has sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively, including those concerned with the prevention and detection of fraud.

Value for money

We are required to conclude on whether the Council can demonstrate value for money in the use of resources including the extent to which there is an alignment between spend, outputs and outcomes delivered. We are also required to consider whether the body can demonstrate that outcomes are improving and that there is a sufficient focus on improvement at an appropriate pace.

Transition arrangements

We understand the importance of ensuring smooth transition from your incumbent external auditors to minimise the disruption to the Council and ensure that we build upon their knowledge and understanding of working with you for the last five years. We are implementing a transition plan, working with management, your former external auditors and other assurance providers to ensure a timely and robust handover. The table below provides a summary of the progress of our transition.

May 2016	Status
Accounts Commission appointments for 2016/17 – 2020/21 1 announced	
↓	
August 2016	
Initial Meetings with Chief Executive and Section 95 Officer	
↓	
September / October 2016	
Meeting with incumbent external auditors, Internal Audit and other assurance providers	
↓	
September / October / November 2016	
Meetings with Chair of the Audit Committee / Leader of Council and Leader of Opposition	SCHEDULED
↓	
October / December 2016	
Detailed planning sessions with Senior Management	IN PROGRESS
↓	
December 2016	
Annual audit plan presented to the Audit Committee	IN PROGRESS

Management and members

Over the coming months we will work closely with management to develop our knowledge and understanding of the Council. We have and will continue to engage with Council members including the Chair of the Audit Committee and Leader of the Council and the Opposition to inform our audit planning to ensure our audit approach is focused on the Council's key priorities and risks.

Other assurance providers

We have agreed a handover meeting with your incumbent external auditor to help build upon their knowledge and understanding of the Council and where appropriate, review key audit working papers to inform our planning. In addition, will work with your internal auditors and liaise with other assurance providers, through the Shared Risk Assessment, to identify areas where we can place reliance on their work and thus maximise the use of assurance resource.

Our audit team and approach

Our team

Stephen Reid will sign the audit opinion on your financial statements. Stephen will also have overall responsibility for ensuring that you receive a high quality audit, which not only provides robust assurance, but which delivers value to the Council.

Keith Macpherson will support Stephen in setting the direction of our audit and in identifying the key risk areas which will form the focus of our audit work for the year. This includes our audit responsibilities in respect of the 'wider scope audit' as set out in the Code of Audit Practice 2016 (<http://www.audit-scotland.gov.uk/report/code-of-audit-practice-2016>).

John Boyd will be the senior manager primarily responsible for the day to day management of the audit, including supervision of the on site audit team, and direct liaison with your finance team in respect of the annual financial reporting process.

To provide consistency of audit team members, Stephen, Keith and John will also be involved in the audit of the Midlothian Integrated Joint Board.

Our broader local government experience

Beyond our Assurance service line, across Scotland and the UK, EY provides an extensive range of advisory, tax and transaction and infrastructure project support to both national and local government. Recognising the financial challenges facing councils, we have established a number of strategic partnerships to enable local authorities to achieve significant cost reductions, providing us with strong relationships across the sector. We will use our overall knowledge of the sector to bring additional value to you through our discussions, and utilise our specialist expertise where appropriate in delivering robust and quality audit opinions.

Public sector audit – your management team



Stephen Reid

Partner – Government and Public Sector Assurance, Scotland

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Keith Macpherson

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John Boyd

Senior Manager, Government and Public Sector Audit

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Mobile: 07870 738 834
Email: jboyd1@uk.ey.com

Stephen leads our Government and Public Sector assurance practice for Scotland and the North East of England, covering both external and internal audit services, as well as public sector technical accounting services and forensic investigations. Stephen has over 20 years' experience in the delivery of external and internal audit, advisory and other assurance services across all of the public, not-for-profit and private sectors. He has worked with Audit Scotland throughout his career. His experience includes:

- » ICAS member on Local Authority (Scotland) Accounts Advisory Committee (LASAAC), developing and promoting proper accounting practice for Scottish local government.
- » Leading the external audit service to Newcastle City and Northumberland County councils, Dundee City, East Lothian and East Dunbartonshire councils and Strathclyde Partnership for Transport.
- » Contributing to Best Value and shared risk assessments in local government supporting and developing a coordinated assurance approach.

Stephen leads our public sector independent director programme, which has been designed to support non-executives in delivering good governance and oversight of management in service delivery.

Keith coordinates and directs our relationship with Audit Scotland, as part of his wider role in heading up our external audit public sector services.

Keith brings 15 years' experience covering external and internal audit services to local government, central government, further and higher education, charity and corporate audit clients. In 2015 he spent seven months on secondment at Audit Scotland working on the follow-up work for the Following the Public Pound Code, and advising on Audit Scotland's recently published higher education audit.

Keith's experience includes:

- » Management and delivery of external audit services to Dundee City, West and East Dunbartonshire, Argyll & Bute, South Ayrshire and East Renfrewshire councils.
- » Supporting Best Value audit work at a number of clients, working in association with Audit Scotland, in undertaking assessments and reporting on councils arrangements to deliver best value.

Within EY, Keith is a member of our quality and technical network, liaising with colleagues nationally to ensure the quality, effectiveness and efficiency of our audits.

John brings 10 years' experience across Scotland's public sector including local government, health, central government and education covering both external and internal audit services. His experience includes:

- » In local government North Lanarkshire, Fife, East Dunbartonshire, Stirling and Orkney Islands councils, including supporting Best Value audit work at a number of his clients, undertaking assessments of the arrangements to deliver best value within the public sector.
- » John's broader public sector experience includes further education, health and central government. John worked with a number of further education colleges during recent mergers.
- » He has also delivered internal and external audit services to a range of clients such as Scottish Enterprise, Skills Development Scotland, NHS Forth Valley a

John has a role in supporting the consistency and interpretation of technical accounting issues as they affect the local government sector, including consideration of Audit Scotland local government technical guidance.

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Annual Governance Statement

Report by Kenneth Lawrie, Chief Executive

1 Purpose of Report

The purpose of this report is to notify members of the Audit Committee of a small number of additions recommended by the Council's External Auditors, Grant Thornton to the Annual Governance Statement which is proposed to be included in the Financial Statements.

2 Background

2.1 The Audit Committee considered the Annual Governance Statement at its meeting on 10 May 2016. Following a review of the statement by the Council's External Auditors, Grant Thornton, a small number of additions were recommended to cover the following matters:

- The level of assurance provided by the Council's system of internal controls;
- An update on the actions taken by the Council to recover costs incurred from the demolition of 64 Council houses at Newbyres Crescent, Gorebridge due to an ingress of ground gas; and
- Necessary additional actions in the governance framework during 2016/17 to counter the effects on the Council if Article 50 of the Treaty on the European Union is triggered.

2.2 These changes have been incorporated in an updated Annual Governance Statement which is attached as Appendix 1 to this report.

3 Report Implications

3.1 Resource

There are no direct resource implications arising from this report.

3.2 Risk

The Annual Governance Statement highlights where progress has been made in reducing risks within the Council over the period 2015/16 and also highlights where further work is planned in 2016/17 to reduce risk further.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Key Priorities within the Single Midlothian Plan

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

3.5 Impact on Performance and Outcomes

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

3.6 Adopting a Preventative Approach

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

3.7 Involving Communities and Other Stakeholders

The Annual Governance Statement has been prepared following consultation with Chief Officers, Heads of Service, the Monitoring Officer, Internal Audit and the External Auditors.

3.8 Ensuring Equalities

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

3.9 Supporting Sustainable Development

There are no sustainable development issues raised in this report.

3.10 IT Issues

There are no IT issues raised in this report

4 Recommendations

The Audit Committee is invited to note the proposed additions to the Annual Governance Statement.

Date 07 September 2016

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Background Papers:

Appendix 1 – Annual Governance Statement

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:



Internal Audit Report

Self-Directed Support

Issued: August 2016

Final

Level of Assurance	Average - The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
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Executive Summary

1.0 Introduction

This report has been prepared following an internal audit of the arrangements surrounding Midlothian Council's implementation of Self-Directed Support.

In January 2013, the Scottish Parliament passed the Social Care (Self-directed Support) (Scotland) Act 2013 (the Act). The Act places a duty on councils, from April 2014, to offer people assessed as needing social care a wider range of options for choosing and controlling their support. The Self-Directed Support (SDS) Act has a number of general principles which underpin the Self-Directed Support Strategy and legislation; these are collaboration, dignity, informed choice, innovation, involvement, participation, responsibility, and risk enablement. In practice this means that the authority should collaborate with the supported person when they undertake the assessment, take steps to ensure the person makes informed choices as part of their assessment, take steps to involve the person in their assessment and in selecting their supported options, and the principles of participation and dignity should guide; and inform the authority's approach to assessment.

The Act places a duty on local authorities to offer four options to those seeking assistance:

1. *Direct Payment* – a payment paid directly to an individual to purchase a service or employ a personal assistant. This is where the organising and the management of the care is fully under the control of the client.
2. *Individual Budget* – where support is directed by the individual, but the local authority manages the budget. This is where the client chooses the provider in partnership with the local authority.
3. *Direct Service* – traditional service provision provided by the council. The local authority arranges the services for the client based on the client's agreed outcomes.
4. *Combination of the above 3 options*

Additionally, the Act places a duty on local authorities to explain the nature and effect of the 4 options, to "signpost" clients to other sources of information for additional support, and has awarded local authorities the power to provide support to carers (of adults) following a carer's assessment.

All information on Adult Services and Children's Services clients are recorded on the case management system, Mosaic, provided by Servelec Corelogic. This is the newer version of the Council's previous case management software, Frameworki.

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The Direct Payments Act has been in place since 1996. Midlothian Council has offered the Direct Payment option for many years with systems in place to support this option. As at quarter 3 2015/16, Midlothian Council had 114 clients in receipt of direct payments (Option 1).

The Option 2 Individual Budget is a new process for Midlothian Council. Guidance for this has been issued to staff, and a standard contract has been designed. This contract is a 'three way agreement' between the Council, the provider of the service, and the client. As at quarter 3 2015/16, Midlothian Council had 122 clients receiving services under Option 2.

The majority of service delivery for both Children's Services and Adult Services is delivered under Option 3, the direct provision of service by the Council. As at quarter 3 2015/16, 2,305 care packages were in place for Option 3.

As explained above, Option 4 is where the client receives some combination of the other three options. At quarter 3 2015/16, 87 individuals were receiving Option 4.

2.0 Objectives of the Audit

The objective of the audit was to provide assurance to senior management and the Audit Committee that the Council has adequate controls in place regarding the implementation of Self-Directed Support (SDS). This included evaluating the operational arrangements and control environment.

A copy of the terms of reference for the review is attached on page **15**.

3.0 Conclusion

Our audit identified that management have made good progress in implementing systems, internal controls, and procedures for the delivery of self-directed support.

Strengths identified included:

- strong governance is in place with regular reporting to the Project Board;
- systems have been established for all of the SDS options to be delivered to clients in Midlothian;
- procedures have been developed and issued to staff and training has been provided on the new Act to help ensure that clients can make an informed choice;

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- updates have been made to some policies for the SDS Act;
- operational arrangements for direct payments were found to be operating effectively; and
- procedures and guidance have been developed to adequately provide Option 2 agreements to clients.

Some areas were identified with scope for improvement. These were:

- a formal risk register and issues log needs to be established for the project;
- a number of policies need to be updated for the new Act and for the updated information system, Mosaic;
- improvements could be made to the monitoring of the roll-out of Self-Directed Support to ensure that all existing clients get an opportunity to select their preferred option of support;
- further refinement could be made to Midlothian's implementation of the budget calculator;
- letters of agreement should be reintroduced for Direct Payments and improvements could be made to the audit trail of the assessment of whether a direct payment is appropriate; and
- a signed three way agreement should be in place for all Option 2 arrangements and uploaded to Mosaic.

As noted above, some weaknesses have been identified in the controls and improvements are possible. Therefore, we have on this occasion rated the review as Average as per the definitions on page 13. We have raised a number of recommendations which are detailed in the Management Action Plan to reduce risk further and these recommendations have been agreed by management.

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4.0 Findings

4.1 Project Methodology

A core team and project manager is in place for Midlothian to help deliver the SDS Policy in Midlothian. This team was created using funding received from the Scottish Government for the implementation of the SDS Act. The intention however is that SDS should become a business as usual process, and will eventually need no project manager.

In February 2012 the Corporate Management Team agreed to establish a project board for Self-Directed Support. The purpose of the board is:

- overseeing the delivery of the Project Plan and implementation of SDS;
- engaging elected members; and
- reporting to the Health & Social Care Management team and Education, Communities & Economy Management team.

The Board includes representation from senior management, providers, carers, and practitioners. It is the role of the Project Manager to co-ordinate the project, develop the project plan, deliver the project's products, report to the Board, and manage all necessary project documentation. We noted that the Board met regularly, meetings were minuted and an up to date project plan was in place. Additionally, all initial project documentation, such as the project initiation document, and project Board structure had been drafted.

Although the Board is informed of issues in the course of their duties by the Project Manager, we noted there was no formal risk register or issues log in place for the project. We would recommend a risk register should be in place for all key projects to ensure the Project Manager and Board members have awareness of the opportunities and threats affecting the project's success. This will allow management to recognise their ability to control and reduce risk, and to be able to report effectively on the risks of the project at any time. Similarly using an issues log is good practice, as it helps ensure that problems which occur during the lifecycle of a project are documented. It also assists management to record what action was taken and when it was taken.

No	Recommendation	Priority	Manager	Target Date
1	An issues log and risk register should be in place for the SDS Project. This should be updated at least on a quarterly basis and periodically presented to the Self-Directed Support Board.	Medium	Planning Manager Self Directed Support	Complete

4.2 Policies and Procedures

As part of the audit we reviewed the adequacy of the policies, procedures, and guidance in place for SDS. This review of policies included some policies and procedures not necessarily within the direct responsibility of the Planning Manager Self-Directed Support, but which had been impacted by the delivery of Self-Directed Support.

Adult Services

An overarching policy on SDS has been developed for Adult Services. This includes the background to the Act, the principles, the revised process and authorisation steps, the indicative budget process, support planning, and managing the client's support. The policy is available on the intranet.

It was noted during the review that some of the other policies had exceeded their review date and, whilst these policies were still relevant, they referred to obsolete forms such as those contained in the prior information system, Frameworki, and did not encompass the revised forms in place for the SDS approach. These policies and guidance requiring revision include the Risk Assessment Policy, Community Care Reviews Procedure, Community Care Resource Panel Guidance, Occupational Therapy Guidelines, and Transition Planning.

Children's Services

A draft overarching policy has been created for Children's Services, but it is noted by the Project Manager that this draft may only be more relevant to children with disabilities (ie children with higher care needs). A separate policy will need to be drafted for Children's Services for the other types of work in Children's Services. The draft policy is not yet on the intranet for staff to access, however, procedures are available on the intranet outlining the revised assessment processes, the budget calculator, and other relevant training and guidance on SDS.

During the review it was noted there was no policy on the intranet for Children's Services Reviews or for the Children's Services Resource Applications. Equivalent policies exist for Adult Services and there are similar processes in place for Children's Services, however these processes do not have a formal documented policy in place and as such are not available for staff on the intranet. For Children's Services the assessment and care planning process will determine the need for resource, and resource applications are then directly authorised by a Service Manager. There is no resource panel. However, management have agreed that it would be beneficial to have the process documented in guidance for staff.

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Direct Payments Policy (encompasses both Adult Services and Children's Services)

A policy is in place for Direct Payments, but the policy has passed the date by which a review is required. Similar to some of the other policies, it is still relevant, but requires update for the revised forms in the Mosaic system and SDS approach. Additionally, this policy needs updated to include the changes introduced by the SDS Act as some of the guidance within the policy is now out of date. For example, section 11.2 of Midlothian's guidance states that Direct Payments cannot be used to employ relatives, unless there are exceptional circumstances. This guidance is now out of date as within the Direct Payment Regulations 2014 and the SDS Act there is increased flexibility to employ family members provided the conditions are appropriate. Supplementary guidance has been added to the intranet on this subject, but this should be added to the main Direct Payments Policy. Management have indicated that officers are following the correct process and that it is only the policies that need to be updated to reflect the new working routines.

No	Recommendation	Priority	Manager	Target Date
2	Adult Services policies should be reviewed and updated for changes introduced by the SDS Act and for the forms used in the new case management system, Mosaic.	Medium	Head of Adult Services	31/12/2016
3	A final overarching policy for SDS should be finalised for Children's Services.	Medium	Planning Manager Self Directed Support	31/12/2016
4	Children's Services should review the need to create formal policies for the review process and for resource applications.	Medium	Head of Children's Services	31/12/2016
5	The Direct Payments policy should be updated for changes introduced by the SDS Act, the Direct Payment Regulations 2014 (Scotland), and the revised forms used in the new case management system, Mosaic.	Medium	Planning Manager Self Directed Support	31/12/2016

4.3 Adequacy of Systems in Place and Availability of SDS to all Adult Services and Children's Services Clients

A number of systems have been established in Midlothian to allow SDS to be delivered. These include:

- an outcomes focussed assessment forms for both Adult Services and Children's Services to enable the individual care needs of the client to be adequately assessed and documented;
- budget calculators for both Adult Services and Children's Services which provides an indicative budget to the client. This enables the client to make an informed choice about how they can meet their assessed need, and provides the Council with an opportunity to be creative in planning how to meet the client's needs;
- an SDS Resource Panel Application which documents the package of care which will be put in place to meet the client's assessed outcomes and the SDS option the client has selected;
- to monitor that training has been delivered to staff on legislative changes, outcomes focussed assessment and risk enablement;
- processes in place to monitor payments to clients who have selected Option 1, direct payments; and
- processes in place to establish a three way contract for clients who have selected Option 2, individual budgets.

Financial Assessments are carried out annually on clients to establish whether the client is required to make any financial contribution to the services. This is based on Midlothian Council's policy on eligibility criteria which is available on the Council's website. For the sample reviewed, we found a recent financial assessment had been completed for all relevant clients (ie those clients potentially in receipt of a chargeable service). Resource panel requests were found to be on file for all recent packages of care and adequately authorised. However, as noted below, there were some clients included in our sample who have exceeded their review date and did not have an up to date outcomes based review on file to ensure their package of care is still appropriate.

The February 2014 Cabinet report noted that from April 2014, the Council is required to offer SDS to new users and carers and existing service users through the annual review process. Therefore, it is anticipated that all clients will have an assessment or review where all SDS options for the provision of support were considered through the annual review process. From the sample of clients reviewed during the audit, some clients were identified who still had the older format of reviews and assessments on file and had exceeded their review date by more than a year. We recommend that there should be a method developed of quantifying outstanding reviews of clients and SDS will be offered to the clients as part of this process. All clients are offered SDS on assessment or review. Best practice would be to identify those clients on existing care packages who may benefit from the SDS options.

No	Recommendation	Priority	Manager	Target Date
6	Develop a method of calculating those clients who have not received an assessment or review where all SDS options for the provision of support were considered to ensure that	Medium	Head of Adult	31/12/2016

Midlothian Council - Internal Audit Report – Self-Directed Support

No	Recommendation	Priority	Manager	Target Date
	SDS is rolled out to all clients and to quantify the number of clients who have not yet received an SDS assessment.		Services / Head of Children's Services	

4.4 Client Indicative Budget and Support Planning

One of the key changes with the introduction of SDS is the setting of personal budgets. The information provided in the SDS assessment form is used to work out an estimate of the amount of money (an indicative budget) that would be required to achieve the client's required outcomes. Midlothian Council has adopted the Equivalency Model for calculating the indicative budget – this is where the Council will determine the cost of the service to be arranged through traditional means and then provide the equivalent amount as a budget for the supported person to control. Equivalency matrices have been established for both Adult Services and Children's Services.

The matrix used by Adult Services takes into account the frequency/duration of the service required, the client's eligibility, and based on the traditional service package that the client would receive calculates an indicative annual budget.

The Children's Services Matrix uses a points based approach based on the wellbeing indicators (Safe, Healthy, Active, Nurtured, Achieving, Respected, Responsible, Included) indicators and allocates points based on the level of support required for each indicator. This is then used to calculate an indicative annual budget for the client.

From the sample reviewed it was noted that the budget calculator was not always included on file, or had not been completed for the client. The Planning Manager Self Directed Support noted that for some time in 2015 a word document version of the budget calculator was used and that this was not uploaded into the Mosaic case management system for every client. Additionally, it was noted that some of the guidance around when to use the budget calculator and how to use it could be expanded on. Further guidance has been developed on the budget calculator for Adult Services, but this is not yet available on the staff intranet.

No	Recommendation	Priority	Manager	Target Date
7	More guidance should be provided to staff on when it is necessary to include the budget calculator form and to ensure that this is completed in all required cases. Guidance should be expanded to include worked examples of the budget calculator. Additionally, a narrative section is included within the budget calculator form to ensure that the user	Medium	Planning Manager Self Directed	31/12/2016

Midlothian Council - Internal Audit Report – Self-Directed Support

No	Recommendation	Priority	Manager	Target Date
	explains their calculation and notes when the client was informed of their indicative budget.		Support	

4.5 Managing the risks of Direct Payments

All clients in receipt of Direct Payments are required to set up a separate bank account. This helps ensure that the money transferred by the Council can be easily monitored. All clients in receipt of direct payments must submit their bank statements to the Council on a quarterly basis, and Council officers will reconcile the client's expenses against the bank statements and complete a reconciliation of their payments. In circumstances where the client is having difficulty managing the direct payment, the Council can elect to have the direct payment managed by the Lothian Centre for Inclusive Living (LCIL) or alternatively to increase the frequency they are monitoring the direct payment (eg to increase the requirement of the client to submit bank statements monthly instead of quarterly).

The reconciliation and administration process was reviewed on a sample basis as part of this audit (20 direct payments reviewed) and was found to be operating effectively. The only issue noted with the spreadsheet used to calculate a client's Direct Payment was that a minor formula within the sheet needed to be updated. However some issues were noted with the direct payment process in relation to risk management and governance.

Direct Payments Risk

We note that although the outcomes assessments in place for both Adult Services and Children's Services encompass risk, the forms do not specifically address the unique risks of managing a direct payment (eg formally recording all relevant details about who is managing the direct payment, clarifying the client's financial circumstances to gain assurance on their ability to manage the direct payment, if they require help in managing the process, and confirming the client has copies of relevant guidance and are aware of the support available for direct payments). While we appreciate that this work is communicated informally to the client, we recommend that this should be encompassed in a specific form so there is an audit trail of this process. Checklists covering these requirements are in place in the Direct Payments Policy, however they were found to not be applied in practice and had not been converted into electronic forms in the Mosaic case management system.

Direct Payment Written Agreements

CIPFA guidance on Direct Payments states that a formal Direct Payment agreement should be in place between the Council and the individual so that all parties understand their mutual financial responsibilities. Currently, Midlothian Council is not ensuring that new Direct Payment clients sign a comprehensive written agreement before receiving payment. It has been reported that this used to be in place prior to 2011 but

Midlothian Council - Internal Audit Report – Self-Directed Support

has since lapsed. A letter is issued to clients in receipt of Direct Payments, but it is not signed and does not adequately explain the client's or the Council's responsibilities.

The Letter of Agreement should state the amount paid to the client, the payment process, and that the payment is only to be made with an agreed support plan for the client. Also, the agreement should explain the individual's responsibilities which arise from the payment, for example that potential responsibilities as an employer if the Direct Payment is used to employ a care provider, and that payments will be stopped immediately if there is evidence of mis-use, and in some cases the Council will look to reclaim the amount paid. The Letter of Agreement should be signed by the individual receiving payment (or an elected person such as family, friend or spouse) and should be signed by an appropriate Council officer.

It is noted that a form is in place for the client to confirm that it is their (the client) responsibility to ascertain whether any individual employed by the client is a member of the Protection of Vulnerable Groups (PVG) scheme. However, this form does not meet the requirements of all the recommended clauses included in CIPFA's example Letter of Agreement.

No	Recommendation	Priority	Manager	Target Date
8	A Risk Assessment form should be developed for the Direct Payment process. This assessment should be designed to ensure that risks associated with personal budgets are properly assessed and the client is supported in managing their care before any payments are made to the client.	Medium	Planning Manager Self Directed Support	31/12/2016
9	A written agreement should be in place for all clients in receipt of Direct Payments. The written agreement should follow the best practice template issued by CIPFA.	Medium	Planning Manager Self Directed Support	31/12/2016
10	Within the Direct Payments spreadsheet it is noted there is a notional calculation of National Insurance for calculating the client's Direct Payment. The rate used for this is out of date.	Low	Planning Manager Self Directed Support	31/12/2016

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4.6 Managing the risks of Option 2 Agreements

Specific guidance has been published to supplement the overarching SDS policy on how to provide Option 2 agreements to clients. The guidance includes the approach that should be taken to ensure the client receives sufficient information to allow the client to make an informed choice. A standard agreement has been implemented for Option 2 agreements with guidance published on how to complete the standard text for these agreements. The guidance is available on the intranet page. The terms of the agreement used for Option 2 agreements use the Council's Standard Social Care Contract terms which have been reviewed by Procurement. However, it was noted that although there is guidance on the rollout of SDS, there could be more information on alternative providers clients could select under Option 2. Also, we note the audit trail could be improved within Mosaic of the additional risks of Option 2 agreements.

A sample of 10 agreements were reviewed to determine whether these had been signed by a Council manager with adequate authority, the individual (or individual's representative), and the provider. Appropriately authorised agreements were found for 9 out of the 10 agreements reviewed. It is understood that the last agreement had not been scanned into the Mosaic system, but a copy of this has not yet been provided to Internal Audit or input into the Mosaic system.

No	Recommendation	Priority	Manager	Target Date
11	<p>Whilst it is noted that guidance is in place to ensure that the client is communicated with all the risks of Option 2 agreements, we recommend that the existing SDS form within Mosaic be expanded to include the key points included in the Option 2 guidance to ensure there is an adequate audit trail of the client's decision to proceed with Option 2 and that the client can manage their support under Option 2.</p> <p>Management Comment – it is noted that these forms are completed by professional level staff, and that steps have been made to try and reduce number of forms that staff require to complete to improve the efficiencies of the process.</p>	Low	Planning Manager Self Directed Support	31/03/2017

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No	Recommendation	Priority	Manager	Target Date
12	<p>Management should ensure that there is a signed Option 2 agreement scanned and uploaded into Mosaic for all clients under Option 2. Management should review if there is a way to use exception reporting to highlight any cases where agreements have not been scanned.</p> <p>Management Comment – it is noted that there was a bulk move of a number of clients to Option 2 due to a change of Council supplier and some signed contracts are outstanding from this. A process is in place for all new Option 2 agreements to be signed.</p> <p>Also, it is noted that there are overarching contracts between the Council and each supplier. The Option 2 contracts relate to the package of care agreed for the client.</p>	Medium	Planning Manager Self Directed Support	31/03/2017
13	Consider expanding on the information supplied to clients on alternative providers they can select under Option 2.	Low	Planning Manager Self Directed Support	31/12/2016

APPENDIX 1

Definitions of Ratings

Audit Opinion

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

Recommendation Rating

Priority	Risk Definition
High	Legal / regulatory issues would normally be regarded as high risks. Strategic risks would normally be regarded as high risks. Financial impact - £50K plus and / or national press interest
Medium	£5K - £49K and / or local press interest
Low	Under £5K and / or no press interest.

Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- Eibhlin McHugh, Health and Social Care Joint Director
- Mary Smith, Director, Education, Communities and Economy
- Allister Short, Head of Primary Care and Older People Services
- Joan Tranent, Head of Children's Services
- Alison White, Head of Adult Services
- Graham Kilpatrick, Planning Manager Self Directed Support
- Grant Thornton, External Audit

Audit Team

Author:	James Polanski	Auditor
Reviewer:	Graham Herbert	Internal Audit Manager

APPENDIX 2

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Objective

To provide assurance to senior management and the Audit Committee that the Council has adequate controls in place regarding the implementation of Self-Directed Support (SDS). This includes evaluating the operational arrangements and control environment.

The Social Care (Self-Directed Support) (Scotland) Act 2013 places a legal duty on Local Authorities to offer four options to the supported person

- Option 1 – A direct payment
- Option 2 – Directing the available support
- Option 3 – Council organises support on the person's behalf
- Option 4 – A mixture of the above 3 options

Specific areas included in the review are as follows:

- Appropriate policy and procedures are in place for staff regarding SDS;
- Adequate systems are in place for the delivery of SDS;
- SDS is available to all Adult Services and Children's Services clients;
- Adequate systems are being developed for the calculation of the indicative budget and clients are informed of their indicative budgets;
- An adequate Support Plan is in place for all clients and appropriate authorisation procedures are in place for provision of support;
- The arrangements in place to ensure that risks associated with direct payment and option 2 service provision are properly assessed and managed with adequate monitoring and review;
- A formal Letter of Agreement is in place for all clients who have chosen the Direct Payment option; and
- Adequate arrangements are in place to ensure financial assessments are carried out for all clients.

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Scope of Audit

The following areas are included within the scope of the Audit:

- Adult Services
- Children's Services

Exclusions and Limitations

No specific exclusions.

Potential Risks

Potential risks include:

- Incorrect payments are made due to failure to establish adequate arrangements for the administration of direct payments or option 2 service provision
- Lack of effective controls may lead to errors or irregularities occurring.
- Non-compliance with the Self Directed Support (Scotland) Act 2013 if the Council fails to adequately offer the full range of options as prescribed in the Act and the resulting reputational damage.
- Failure to offer the most appropriate care plan to the client.

Audit Approach

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;
- interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting; and
- presentation of the final report to the Audit Committee.

Internal Audit in every review will consider whether best value is being delivered and will also review the potential for fraud in the area and the strength of controls to mitigate fraud.

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All Internal Audits are subject to Internal Audit quality reviews by the Internal Audit Manager.

Timescales & Reporting

The Audit will commence in February 2016 and is anticipated to be reported to the May 2016 Audit Committee.

Information Requirements

Access to all relevant systems, documentation and employees.

Audit Resource

Auditor: James Polanski 0131 270 5646
Reviewer: Graham Herbert 0131 271 3517



Internal Audit Report

Transformation Programme, Follow-up Review

Issued: September 2016

Final

Level of Assurance	N/A – Follow-up reviews are not rated.
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Midlothian Council - Internal Audit – Business Transformation Programme, Follow-up Review

Executive Summary

1.0 Introduction

Midlothian Council continues to face a period of financial constraint with continuing service demand pressures and increased customer expectations. The 2016/17 budget included an anticipated utilisation of £2.668M from reserves while the projected budget shortfall for 2017/18 is £11.215M rising to £36.931M by 2020/21. A change programme has been instigated to contribute to managing these financial shortfalls and this comprises a number of elements, one of which is Business Transformation. Other elements include: Delivering Excellence; asset management; capital and reserves strategy; operational saving and savings options.

This audit reviews the Business Transformation programme, while audits planned later in 2016/17 will assess the Financial Strategy more generally including the Delivering Excellence model.

The Transformation Programme was initiated in 2010 as a result of the need to take a transformational approach to respond to constrained funding and demographic cost pressures. The primary aim of the programme was to allow the Council to make a step change in service provision and through that secure efficiencies to contribute to bridging the predicted funding gaps.

Internal Audit undertook a review of this programme in 2014/15 and reported its findings to the October 2014 Audit Committee. The objectives of this previous review were to:

- form an opinion on the adequacy and effectiveness of the governance arrangements for the Council-wide transformation programme and a sample of individual work streams including service reviews;
- review progress to date against original aims and objectives at a programme level and on a sample of individual work streams; and
- assess the effectiveness of the programme to deliver change.

The October 2014 report noted that Midlothian Council had put in place a number of processes and controls to assist with the delivery of the Transformation Programme:

- a governance framework with the establishment of a Transformation Programme Board and Steering Group;
- the establishment of a Project Management Office with dedicated staff;
- a range of tools and techniques to support the wide variety of transformational change requirements;
- the development of a Financial Strategy, approved by Council in February 2014, which outlined how the Council plans to deliver the required level of savings; and

Midlothian Council - Internal Audit – Business Transformation Programme, Follow-up Review

- regular performance reporting.

In addition, the report noted a number of areas where transformation could be shown to have had a major impact on individual areas including Housing, Children's Services and Adult and Social Care.

The Audit Report was however rated as an Amber (limited assurance) and a total of 35 recommendations were raised to improve control. Issues raised included:

- the challenge in delivery of the savings targets established as part of the Transformation Programme;
- the need to improve on management reporting of variances to budget to allow alternative savings to be identified where there was a projected shortfall; and
- regular monitoring of the level of compliance with governance arrangements (including risk reporting and end of project reporting).

Additionally, in relation to the sample of projects reviewed as part of the audit: Effective Working in Midlothian (EWiM), People Strategy and Integrated Service Support (ISS) the report recommended:

- more effective and regular reporting to the Business Transformation Board and Steering Group - including total amounts spent on projects and savings delivered since outset;
- improvements over the decanting of buildings and an increase in the pace of disposal of sites surplus to requirement;
- that a workforce strategy, development plan and HR metrics should be clearly defined, measured and regularly reported to senior management and the Business Transformation Board and Steering Group; and
- regular reporting of the budget position within SWITCH to the Business Transformation Board and Steering Group.

A Management Action Plan together with recommendations to improve controls was included within the audit report, endorsed by Management and approved by the Audit Committee.

2.0 Objectives of the Audit

The purpose of this audit was to follow up on the issues raised in the Transformation Programme Audit submitted to the Audit Committee on October 2014. Additionally, the audit reviewed the changes and developments in the Council's approach to Business Transformation given the pace of change and the time elapsed since the last review.

A copy of the terms of reference for the review is attached on page 13.

3.0 Conclusion

The follow-up review has identified that the majority of the audit recommendations have been satisfactorily acted on by management. However, some issues have been identified where further work is required to fully implement the original audit recommendations. Of the 35 recommendations raised in the original report, further work was identified as being required for 8 recommendations.

The Transformation Programme has been and continues to be important to the Council in terms of delivery of savings and transforming service provided to users of Council services. The programme is planned to make a continuing contribution to delivery of savings in 2017/18 and beyond as noted in the Council's Financial Strategy report (28 June 2016). The Business Transformation programme has been re-focussed into 5 streams each with savings targets attached to them. However, it is noted that in future years, achievement of savings will remain challenging which the Council will have to address if it is to secure a sustainable financial position.

Improvements have been noted in:

- reporting of project costs and delivered savings to the Business Transformation Board and Business Transformation Steering Group;
- the consistency and format of reporting to the Boards;
- management reports to the transformation boards indicate that regular board meetings and project reporting are in place for all 5 transformation strands;
- overall project status and reporting of key milestones; and
- the project methodology and the Project Definition Documents, which now encompass the recommendations made in the October 2014 audit.

One of the key recommendations from the 2014 Internal Audit Report was that there should be regular reporting of the amount funded through Business Transformation and the return on that investment. It was noted that the highlight reports have been developed following this recommendation to include sections that relate to total committed funds, target and projected savings and delivered savings. Whilst this represents a significant improvement the following was noted:

There are still inconsistencies in the way that this information is presented in Highlight reports to the Business Transformation Board and Business Transformation Steering Group which makes the reports difficult to follow for example:

- it is not always clear whether the savings detailed are projected or actual; and

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- where cumulative savings are shown, the time periods over which these savings have been made are not clear and therefore it is difficult to contrast budgeted savings to actual savings delivered.

Although reporting of the Business Transformation Programme has improved and regular updates are submitted to the Business Transformation Board and Business Transformation Steering Group, a comprehensive annual report on the progress with the Business Transformation Program which includes a review of the governance of the program (a program health check review) has not been submitted to Council as per the original audit recommendation. In addition, it is noted that although Council receive a high level update on the progress of the Business Transformation Program as part of the Financial Strategy report, Internal Audit had recommended that there should be regular reporting on the total costs of Business Transformation against the targeted and actual savings delivered. This would be from inception of the programme and cover all current and past projects so that management and Elected Members have a clear picture of the costs and benefits of the programme. This issue was identified to management during the follow up review and a separate report is due to be presented to the Business Transformation Board, Business Transformation Steering Group and the Audit Committee on this area.

Other issues identified through the review were as follows:

- whilst it is noted that the quality of the reporting to the BTB and BTSG has improved in the project highlight reports, we recommend that the Business Transformation health check review should be undertaken as part of the annual reporting on the Business Transformation Programme. This health check review would report on the compliance and governance checks undertaken by the Transformation Manager on a 6 weekly basis;
- the audit recommended that a central project register / programme delivery plan be maintained of all projects and be used to track project progress. Whilst a project dashboard and reporting calendar has been established, which partly meets the requirements of this recommendation, it was noted that further improvements could be made to the dashboard to include all the information that would be expected from a central project register (e.g. including details of not just the 5 active project strands, but also enabler projects, Business Transformation funded projects, inactive/completed projects and the progress of services through the Delivering Excellence program);
- there has been a lack of closure reporting over projects detailing the outcome of the review, the savings delivered and the costs associated with transformation (including one off costs associated with SWITCH and the Voluntary Severance and Early Retirement Scheme);
- the original audit recommended that a cohesive Council-wide Asset Management Strategy be updated and presented to the BTSG. An updated overarching Council-wide asset management plan which links into the sub-plans has not yet been prepared; and
- some areas were identified where the Council's risk reporting of Business Transformation funded projects could be improved (eg EWIM).

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As is standard Internal Audit practice, we have not rated this review since it is a follow-up of previously raised audit recommendations. We have however noted 8 recommendations where we have agreed with management that further improvements can be made. These recommendations are detailed in the Audit Issues and Management Action Plan below.

4.0 Audit Issues and Management Action Plan

4.1 Business Transformation Programme Reporting

Periodic Reporting

Progress with the Business Transformation programme is reported periodically via updates to the Business Transformation Board and Business Transformation Steering Group and a summary of the Business Transformation activity is provided within the Council's Financial Strategy reports.

One of the key recommendations from the 2014 Internal Audit Report was that there should be regular reporting of the amount funded through Business Transformation and the return on that investment. It was noted that the highlight reports have been developed following this recommendation to include sections that relate to total committed funds, target and projected savings and delivered savings. Whilst this represents a significant improvement the following was noted:

There are still inconsistencies in the way that this information is presented which makes the highlight reports difficult to follow for example:

- it is not always clear whether the savings detailed are projected or actual;
- the funding committed to the project does not detail whether the costs have yet been incurred; and
- where cumulative savings are shown, the time periods over which these savings have been made are not always clear and therefore it is difficult to contrast budgeted savings to actual performance.

In relation to specific projects reviewed as part of this follow up it was noted that:

Midlothian Council - Internal Audit – Business Transformation Programme, Follow-up Review

- the Integrated Service Support (ISS) project absorbed a number of ‘enabler’ projects. These included Purchase to Pay, EDRMS (Electronic Document and Records Management System), the Integra Upgrade and People Strategy 1¹. These ‘enabler’ projects had costs and used Transformation funding but the ISS project is reporting in its project highlight reports that its costs are zero; and
- the Effective Working in Midlothian (EWiM) program is currently reporting no delivered savings but there have been property sales.

Annual Reporting

There has been no detailed annual report on the Business Transformation Program submitted to Council which was intended to include a review of the progress of all Business Transformation projects and historical funding, costs, savings and an assessment of the governance of the projects (a program health check) as per the original audit recommendation.

During 2012 and 2013 the Business Transformation team carried out a program Health Check review on the Business Transformation Program to provide assurance to the Board that:

- the Transformation Programme is delivering the outcomes and benefits set out in the Business Transformation Strategy and Project Definition Documents;
- the programme and transformation projects have sound governance and internal controls and with sufficient resource in place to drive transformational change; and
- remedial actions will be identified, if necessary, to ensure both the programme and transformation activities are focused and effectively progressing to deliver their objectives.

Internal Audit recognised this as good practice in the October 2014 Audit Report and recommended that this program health check should be carried out annually to provide independent scrutiny to Business Transformation projects and ensure that the programme is being reported on in its entirety. It is noted that a number of checks are made by the Transformation Manager on a 6 weekly basis. These include a review of the highlight reports for all of transformation, a check on project risk registers, a review of the project boards / ensuring that the project board meetings took place and a review of the project’s progress with its actions. The annual health check will summarise the results of the 6 weekly reviews.

¹ People Strategy 1 was absorbed as part of the ISS project but this project has now been superseded by People Strategy 2 which is not part of the ISS Project and instead sits within the Organisational Development and HR team as business as usual).

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No	Recommendation	Priority	Manager	Target Date																					
1	<p>A standard reporting format should be introduced within Highlight reports to report on programme performance against savings targets. This could for example show:</p> <table><tr><th>Target Saving</th><th>Actual (A) / Projected (P) Saving</th><th>Variance</th></tr><tr><td>2014/15</td><td>2014/15 (A)</td><td>£</td></tr><tr><td>2015/16</td><td>2015/16 (A)</td><td>£</td></tr><tr><td>2016/17</td><td>2016/17 (P)</td><td>£</td></tr><tr><td>Total £</td><td>*£</td><td>£</td></tr><tr><th>Authorised funding</th><th>Amount used</th><th>Funds still available</th></tr><tr><td>£</td><td>£</td><td>£</td></tr></table> <p>* Actual savings for year to date are £</p> <p>Total net cost / benefit to the Council as at the end of 2016/17 is estimated to be £.</p> <p>Additionally, for any recorded variances there should be a note on what is being done to address the potential shortfall.</p>	Target Saving	Actual (A) / Projected (P) Saving	Variance	2014/15	2014/15 (A)	£	2015/16	2015/16 (A)	£	2016/17	2016/17 (P)	£	Total £	*£	£	Authorised funding	Amount used	Funds still available	£	£	£	High	Transformation Manager	28/09/2016
Target Saving	Actual (A) / Projected (P) Saving	Variance																							
2014/15	2014/15 (A)	£																							
2015/16	2015/16 (A)	£																							
2016/17	2016/17 (P)	£																							
Total £	*£	£																							
Authorised funding	Amount used	Funds still available																							
£	£	£																							
2	<p>Management should review the current reporting of costs and benefits realised for the following:</p> <ul style="list-style-type: none">reporting of project costs in highlight reports should include the costs of any sub-projects absorbed as part of the overall project; andsavings achieved through the Effective Working in Midlothian (EWiM) project should be reported on the highlight reports.	High	Transformation Manager / Project Leads	28/09/2016																					

Midlothian Council - Internal Audit – Business Transformation Programme, Follow-up Review

No	Recommendation	Priority	Manager	Target Date
3	An annual update report summarising the work of Business Transformation should be produced and submitted to BTB, BTSG, Audit Committee and Council. This should summarise the active business transformational work streams, transformation funded projects, benefits realised and transformation savings.	Medium	Transformation Manager	31/12/16
4	A program health check should be included as part of the Business Transformation annual update report. The health check should report on findings from the 6 weekly Transformation reviews and any other relevant project governance or internal control findings. Recommendations made as part of the Health Check Review should be uploaded to Covalent for tracking.	Medium	Transformation Manager	31/12/16

4.2 Project Tracking and Project Closure

The October 2014 Internal Audit identified that a central project register is not maintained of all projects that have been initiated and subsequently closed. Minutes of Business Transformation meetings, project initiation documents and closure reports do record the initiation and closure of projects. However, the audit trail of this could be improved further by recording these centrally within a project register / program delivery plan.

In response to this issue, a project dashboard and reporting calendar has been created which outlines all five of the business transformation strands, the project manager, project sponsor, interdependent projects, target savings and main achievements. However, it is noted that this register is incomplete in that it does not cover all BT funded projects (eg EWiM) and does not record when projects are transferred out of the Transformation Program (eg to 'business as usual' or as part of the Delivering Excellence Framework). Additionally, insufficient detail is included on the dashboard on Business Transformation Enabler Projects (eg projects such as Purchase 2 Pay, Multi-Functional Devices etc.)

It was highlighted in the previous Audit that there has been a lack of closure reporting over projects detailing the outcome of the review, outlining what went well, the challenges faced, any lessons learned, the savings delivered and the costs associated with transformation (including one off costs associated with SWITCH and the Voluntary Severance and Early Retirement Scheme). Only 1 closure report has been produced since the previous audit and reports have not been produced for projects that have received Business Transformation funding that have since been transferred out of the Transformation Program or subsumed into other projects.

In Grant Thornton's External Audit Report presented to Council in December 2014, the following was recommended:

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‘As one of the smaller councils in Scotland, Midlothian has limited capacity to support significant transformation programmes. There are currently 8 work streams supported by the Council’s transformation team and reported to the Business Transformation Steering Group, but not all of the work streams would be considered transformational. We recommend that the transformation program is streamlined to focus support and resources on the areas that will have the biggest impact on the Council’s priorities and savings.’

In acknowledging this issue, the Strategic Leadership Group agreed with the Business Transformation Board, the transition of three of the non-transformational strands (Externalisation / Insourcing, Energy and Income Maximisation) out of the Transformation Program and into the Delivering Excellence Framework approach (July 2015). It is noted that only Externalisation / Insourcing has had a formal project closure report submitted to the Business Transformation Board (November 2015) outlining what went well, challenges faced, lessons learned and the project’s transition to the Delivering Excellence Framework. Closure reports from the other two streams transitioning to Delivering Excellence were not completed, but their closure was recorded in the board minutes. The Transformation Manager has noted that although no closure report has been submitted, the Income Maximisation work stream will be examined as each Head of Services works through the Delivering Excellence Framework and the Energy work stream is being dealt with under a wider banner of sustainable options on green energy.

No	Recommendation	Priority	Manager	Target Date
5	The project dashboard should be expanded into a project register and include Business Transformation funded projects as well as Business Transformation strands and sub-projects of the strands. Detail of funding provided, targeted savings and delivered savings should be added to give a snapshot of the Transformation Programme’s progress.	Medium	Transformation Manager	31/12/2016
6	All projects (including enabler projects, those transitioned to ‘business as usual’ or to the Delivering Excellence Programme) should submit an end of project report detailing the outcome of the review, outlining what went well, challenges faced, lessons learned, the savings delivered and the costs associated with transformation (including one off costs associated with SWITCH and the Voluntary Severance and Early Retirement Scheme).	Medium	Transformation Manager / Project Leads	Dependant on workstream

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4.3 Risk Reporting

For the sample of projects reviewed as part of the October 2014 audit it was noted that the risk register for the EWiM project was not recorded on Covalent (the Council's Risk Management system).

The EWiM risk register was uploaded to the Covalent system after the audit was reported to the Audit Committee but has since been taken off the Covalent system when the project transitioned from phase 2 to phase 3 of the EWiM programme. A risk register is in place with the Project Manager but the Council's Risk Management System should be used to ensure that all key risks are brought to the attention of members of the Business Transformation Board and the project team, particularly as it is a requirement that high risks should be brought to the attention of the Business Transformation Board. It is noted that the other recommendations made for EWiM have been met including improvements to project reporting and establishing an adequate project board. Additionally, since the prior audit, 2 property sales have been made and there is a plan in place for phase 3 of the project outlining the current Council Estate, indicative dates of decanting buildings and disposal target dates where relevant.

No	Recommendation	Priority	Manager	Target Date
7	The EWiM risk register should be updated fully and uploaded into Covalent. Updates should be made on the Covalent system on a quarterly basis.	High	Project Manager	31/10/2016

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4.4 Asset Management Plans

Effective Working in Midlothian (EWiM) focuses on transformation of the Council's property portfolio and forms part of the original Asset Management Transformational work stream which included not only buildings but also IT, fleet and equipment.

The October 2014 Internal Audit noted that although asset management plans are in place at a service level for various categories of assets held across the Council (including Roads, Digital Assets and Housing), the central asset management plan was in need of updating. The Corporate Asset Management Strategy was last updated in 2008 and covered the period 2008 to 2011. Internal Audit have not been able to evidence progress in this area since this date. A cohesive, Council wide strategy helps ensure that asset management for the entire Council is overseen at a corporate level, assets are utilised efficiently and effectively and all individual asset plans for the different asset categories support the achievement of Council priorities and contribute to achievement of the required savings. It is recommended the strategy includes the six categories of assets identified in CIPFA's "Guide to Asset Management and Capital Planning in Local Authorities". This includes:

- Property;
- Housing;
- ICT;
- Roads including structures, lighting and water infrastructure;
- Open Spaces; and
- Fleet including vehicles, plant and equipment.

No	Recommendation	Priority	Manager	Target Date
8	The Corporate Asset Management Strategy (comprising Property, Open Spaces, Digital Assets, Fleet, Roads and Housing) should be updated and presented to the Council. This should include separate stages and investment plans for each strand of asset.	Medium	Director, Resources	31/03/2017

APPENDIX 1

Distribution List

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Gary Fairley, Head of Finance and Integrated Service Support (s95 officer)
- Nancy Brown, Transformation Manager
- Garry Sheret, Head of Property and Facilities Management
- Darren Imrie, Project Manager
- Grant Thornton, External Audit

Audit Team

James Polanski	Auditor
Graham Herbert	Audit Manager
Elaine Greaves	Audit Manager

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Objective

The purpose of the audit is to follow up on the issues raised in the Transformation Programme Audit submitted to the Audit Committee on 28 October 2014. Additionally, the audit will review changes and developments in the Council's approach to Business Transformation given the pace of change and the time elapsed since the last review.

Scope of Audit

The previous audit reviewed:

- the adequacy of the governance of the programme and governance of individual work streams (roles and responsibilities, performance, financial and information management systems, adequacy of project documentation including links to priority themes and underpinning of Council's core principles, risk management, issue monitoring and resolution, communication, partnership working and stakeholder management etc);
- the adequacy of base lining of the work stream / service being transformed and the subsequent monitoring of progress against the targeted outcome and benefit (including financial and non financial objectives); and
- the adequacy of work stream / service reviews project completion in terms of learning lessons for future programmes and the follow through on service improvement recommendations and savings.

The objective of the Transformation Programme Follow-up Audit is to review the recommendations made to determine whether the actions have been completed satisfactorily, and adequate measures have been taken by management to address the control issues identified in the prior audit. This will include reviewing improvements made to the Council's reporting of Business Transformation projects and tracking of financial savings.

Excluded from the scope of the audit

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<ul style="list-style-type: none"> no specific exclusions. 		
Potential Risks		
<p>The main risks associated with the Petty Cash system are as follows:</p> <ul style="list-style-type: none"> misappropriation of cash from the petty cash imprest account; fraudulent requests for payment from cash floats; financial loss and / or reputational damage through using the petty cash float for inappropriate payments (eg salary costs); and financial loss and / or reputational damage through failing to adequately account for petty cash. 		
Audit Approach		
<p>The audit approach will consists of:</p> <ul style="list-style-type: none"> fact finding interviews with relevant employees; interrogation of any relevant systems and sample testing as required; closure meeting with local management to discuss the findings and any recommendations from the review; draft and final reporting; and presentation of the final report to the Audit Committee. 		
Timescales & Reporting		
The audit will commence in February and will be issued to the next available audit committee.		
Information Requirements		
Access to all relevant systems, documentation and employees.		
Audit Resource		
Auditor:	James Polanski	0131 270 5646
Reviewer:	Graham Herbert	0131 271 3517



Internal Audit Report

Review of Controls Operating Over Petty Cash, Follow-up Review

Issued: September 2016

Level of Assurance	N/A – Follow-up reviews are not rated.
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Midlothian Council - Internal Audit – Review of Controls Operating Over Petty Cash, Follow-up Review

Executive Summary

1.0 Introduction

In 2014/15, a full audit of the Council's Petty Cash controls was carried out to form an opinion on:

- the adequacy of the processes and controls established at a Council level over the operation of petty cash imprest accounts; and
- the level of compliance against the established processes and controls for a sample of petty cash imprest accounts.

The petty cash imprest account is intended to be used to claim for small day to day expenditures such as postage, clients' travel expenses, pre-paid utility cards etc and for emergency purchases / disbursement of funds.

The 2014/15 petty cash audit highlighted control issues in all 9 of the areas that were reviewed during the audit, including:

- the need to improve written procedures, provide better guidance to staff and to create a single Council wide procedure;
- examples of petty cash being used for unallowable expenditure as per the petty cash policy such as for payments to casual workers, travel and subsistence, payments for invoiced goods which should be paid through the Council's Accounts Payable system, and fuel for Council vehicles;
- a lack of monitoring and scrutiny by budget holders, insufficient evidence of review by management and petty cash reconciliations being carried out below the recommended frequency per the guidance;
- examples of petty cash not being held securely;
- instances where the Council was neglecting to recover VAT on petty cash expenditure;
- a lack of standardisation of forms for petty cash vouchers and petty cash claim forms;
- missing receipts from the sample reviewed and inconsistent use of petty cash vouchers;
- examples of employees using their personal credit or debit cards to purchase items from shops online and claiming back the expenditure through the petty cash float instead of using a Council approved procurement route.

Improvements over the controls of petty cash were recommended by Internal Audit in the 2014/15 report to mitigate the risk of financial loss, ensure compliance with HM Revenues and Customs requirements and protect against reputational damage to the Council. These recommendations were endorsed by management and revised Petty Cash guidelines were developed by Financial Services (with the assistance of Internal Audit) and distributed to relevant staff.

2.0 Objectives of the Audit

Midlothian Council - Internal Audit – Review of Controls Operating Over Petty Cash, Follow-up Review

The objective of the review was to:

- determine whether the recommendations made in the 2014/15 Audit of Petty Cash have been implemented; and
- assess the level of compliance with the Council's updated Petty Cash Guidelines for a sample of petty cash imprest accounts.

A sample of 9 of the total of 54 active petty cash imprest accounts (59 active in 2014/15) from across the Council were selected to test compliance against the petty cash procedures as follows:

- 4 petty cash imprest accounts in Health and Social Care Directorate; and
- 5 petty cash imprest accounts in Education, Communities and Economy Directorate.

The audit focussed on some of the largest and most frequently used petty cash imprest accounts.

A copy of the terms of reference for the review is attached on page 19.

3.0 Conclusion

During the review, some petty cash control issues were found in all of the 9 areas reviewed. Although it is recognised that a number of improvements have been made since the last review to comply with the recommendations and subsequent revised procedures, further recommendations are appropriate to bring the Council up to full compliance with the revised Petty Cash Guidelines. It is noted that the level of petty cash spend for the Council has reduced from 2014/15 to 2015/16 from £175,335 to £140,552 respectively. This is principally due to the introduction of purchasing cards and the implementation of Purchase to Pay which management have advised will provide an effective and efficient alternative means to procure smaller value goods and services (this is a planned audit review in 2017/18). It is noted that as an organisation there will be less need to have large petty cash imprest accounts with the implementation of purchasing cards.

Key strengths and improvements identified in the review were as follows:

- fewer instances of unallowable items were identified during the audit for the 9 areas reviewed. The main issue noted in terms of unallowable items was that some purchases were identified which appeared to be above what may be deemed 'petty', and therefore should have preferably been paid through the Accounts Payable system instead of using petty cash;
- a comprehensive revised petty cash procedure has been developed and distributed to staff. The procedure encompasses all the guidance points recommended in the previous audit. 8 of the 9 areas visited advised they were aware of the revised petty cash

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guidelines and had copies of the guidelines available. However, as noted above, none of the areas visited had full compliance with the guidelines so would benefit from reinforcement of the guidelines;

- petty cash reconciliations were found to be complete and arithmetically correct in 8 of the 9 areas reviewed. One area identified had inadequate record keeping; and
- petty cash top-up claims were found to be authorised by a manager in all cases. However, 8 managers were noted as not having the appropriate authorisation as per the Council's Authorised Signatory Database.

It was noted during this audit that additional training in petty cash procedures was provided by the Senior Accountant Projects and Treasury to Head Teachers. This training reminded Head Teachers of the correct processes for petty cash, including the treatment of VAT.

The main control issues identified during the review were as follows:

- 6 of the 9 services reviewed failed to always record VAT on their disbursement logs when carrying out a reimbursement claim to Finance. This will result in some financial loss to the Council as VAT cannot be reclaimed from HMRC if the service fails to declare purchases which include VAT;
- there is now a copy of the Council wide disbursement petty cash voucher included within the updated petty cash guidelines, however, 7 of the 9 reviewed services were still not using any disbursement vouchers. Not all receipts and invoices provide full details of goods purchased. The use of the disbursement voucher provides a detailed explanation of the goods purchased, the amount disbursed, whom it is being paid to, authorised by and a suitable audit trail;
- several services have made purchases which are not petty and should have been paid through Accounts Payable;
- petty cash imprest levels could be reduced further in some areas;
- it was identified during the review that the security of cash at some of the sites could be improved. This includes introducing safe boxes instead of using drawers and maintaining a log of who has keys to the safe boxes; and
- although standard forms have been developed and are included within the Petty Cash Guidelines, all of the areas reviewed are still using outdated forms.

Additionally, the recommendations from the previous audit were reviewed as part of this audit and are outlined in detail in Appendix 1. From the 11 recommendations made it was identified that further work is required on 6 of the issues and 3 of the issues are still in progress.

The 6 issues requiring further work are encompassed in this report's management action plan. 2 of the issues still in progress relate to the implementation of electronic forms for authorising petty cash disbursements and the rollout of Purchasing Cards. These actions originally had a completion date of October 2015, but there has been some slippage due to implementation of e-forms which could not be progressed until an

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upgrade of the Integra system (the Council's finance system) took place. Further information on the progress with these actions is detailed in Appendix 1 in audit action numbers 4 and 5 respectively.

As is standard Internal Audit practice, we have not rated this review since it is a follow-up of previously raised audit recommendations. We have however noted 10 recommendations where we have agreed with management that further improvements can be made. These recommendations are detailed in the Audit Issues and Management Action Plan below.

4.0 Audit Issues and Management Action Plan

4.1 Unallowable Expenditure Claimed through Petty Cash

The new petty cash guidelines clearly dictate what expenditure is unallowable and that payment through the Accounts Payable systems should always be the primary method of making payment other than for petty expenditure.

This review has highlighted some instances where unallowable expenditure was purchased using the petty cash imprest account. However, it is noted that the extent of unallowable items found in this review has reduced significantly from the previous audit and was mainly limited to purchases which should have been made through the Council's Accounts Payable system due to their size. This is a significant improvement from the prior review.

Within the Education, Communities and Economy Directorate sample a number of purchases were identified that, although were allowable purchases, were not 'petty' in nature so should have been paid through the Council's Accounts Payable system rather than using the petty cash imprest account. These included:

- payments for Staff Development totalling £591;
- in excess of £500 for franking machine costs;
- £200 for summer activities for young people (Social Work). No receipt was available for this expenditure and due to the size of the expenditure, this expense should have been processed through Accounts Payable; and
- payments for Vocational expenditure totalling £236. The Imprest Account holder advised that there is a separate budget for this expenditure and it should not have been paid via the Petty Cash account.

The main reason given for larger items going through petty cash in these areas was that this was considered normal for the service and the way it had always been done.

Additionally, within the Education, Communities and Economy sample it was noted that for some schools, the petty cash account is used to refill a cashless catering card for teachers' lunch duty. In the sample reviewed this was £200 (£50 per card). This has been the practice for some time although alternatively they can be processed through an internal recharge rather than using the petty cash imprest account via the school contacting the Cashless Catering team. The Petty Cash Guidelines specify that internal recharges between Council departments should be used rather than the physical transfer of cash between departments.

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For the Health and Social Care Directorate, very few instances of unallowable items were found within the sample. However we did note staff stationery was purchased using the petty cash imprest account. The Council's supplier, Lyreco, should be used for all purchases of stationery.

Unbanked Income

It was identified that in an Adult Day Care centre there was a small amount of undeclared income for lunch monies on day outings for the users of the service (the income being offset against costs instead of being banked intact). It was found that only 'day outing' income was not banked intact; other income from users of the service at the centre was being banked intact.

4.2 Authorisation of Petty Cash Disbursements and Authorisation for Access to the Petty Cash Imprest Bank Accounts

The review identified 8 employees who were authorising petty cash disbursements, but did not have the authority to 'Authorise Petty Cash Disbursements' specified in the Council's Authorised Signatory Database. 6 of these employees were on the Authorised Signatory Database with other authorities outlined, such as the authority to authorise invoices within a specific value range, and had a sample specimen signature uploaded. The remaining 2 employees were not on the Council's Authorised Signatory Database. The issue identified was that the Authorised Signatory Database was not up to date, not that the employees were carrying out duties that they should not have been.

Additionally, it was noted that Financial Services did not have a fully up to date record of employees authorised to obtain funds from the petty cash imprest bank accounts. Bank mandates should be kept up to date to prevent against the risk of a leaver obtaining access to the petty cash imprest account.

4.3 Value Added Tax (VAT *input tax*)

The current procedures state that receipts should be provided for all payments made from the petty cash account and these should include VAT (*input tax*) details where appropriate. A copy of the Council wide disbursement log with a VAT column for recording VAT (*input tax*) is included in the procedures and assistance is available when reimbursement claims are being made. The review has highlighted that 7 of the 9 services reviewed failed to declare VAT (*input tax*) when carrying out a petty cash imprest account reimbursement claim to Accounts Payable resulting in financial loss to the Council due to the inability to reclaim VAT.

4.4 Standardisation of Forms and use of Disbursement Vouchers

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The petty cash guidelines provide clear instructions on the correct forms to use when applying for funds (disbursement) from the petty cash imprest account and also when recording the disbursement. There is a Council wide disbursement voucher and log included in the guidelines, however the review has highlighted that not all services were using the Council wide disbursement vouchers or disbursement log. This resulted in disbursements being made without clarification of the purchase and has resulted in some areas not obtaining appropriate authorisation for claims and a lack of a suitable audit trail for the disbursement of petty cash payments.

4.5 Reconciliation Monitoring and Petty Cash Claims

A reconciliation of the petty cash imprest account is required to be undertaken on a weekly basis. The review identified that 7 services only carried out a reconciliation when a top-up reimbursement claim was required. This was more evident in the services that now have a purchase card as the petty cash imprest account was being used less. A lack of regular monitoring could result in unallowable purchases being overlooked or abuse of the petty cash imprest account.

The imprest level and frequency of claims was reviewed as part of the audit. It was noted that high schools had particularly high imprest levels, ranging between £1,000 and £3,200 but were only making 1 or 2 claims in a year. Given the infrequency of the claims, we recommend that the petty cash imprest level of high schools should be reviewed. It is noted that high schools have received purchasing cards and this is reflected in the infrequency of petty cash claims.

Additionally, given the rollout of purchasing cards, and the new recommended limit of expenditure for petty cash (£100 as per recommendation 1), it would be beneficial to carry out a further review of petty cash imprest levels so they are no higher than necessary. The review found that although the petty cash imprest levels are low for many areas, in some cases claims were being made infrequently so there is scope for further reduction of the imprest level.

4.6 Security of Cash and Keys

Not all services have suitable controls in place for accessing the safe and petty cash box. They did not keep an adequate log of who held keys to access the safes/drawers where the petty cash is held. In 1 service (Libraries), there was a lack of segregation of duties as the same employee raised an order to purchase goods, received these goods and administered the petty cash payment. However, the manager has now advised us that this issue has been rectified.

4.7 Retention Period for Records

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Several services are not aware of the correct retention procedures for financial documents. Some of the areas visited have in excess of 6 years petty cash receipts held on site. Effective records management is central to upholding the Council's obligations under information legislation, including the Data Protection Act 1998, the Freedom of Information (Scotland) Act 2002 and the Public Records (Scotland) Act 2011.

4.8 Risk Registers

The 2014/15 audit recommended that risk registers should be reviewed based on the results of the Audit and the risks identified. No significant update appears to have been made in this regard however there has been a shift in risk management and reporting to concentrate on the more significant risks currently facing the Council.

It is noted that all services did have a generic risk included within their risk registers for 'Fraud, Waste and Error', although Adult and Social Care and Children's Services have removed this risk in the past year. As both services use petty cash imprest accounts, and there are other potential avenues for fraud and error to occur in these services, Internal Audit recommend that these risks should be reinstated into the service risk register and updated quarterly.

5.0 Revised Action Plan

No	Recommendation	Priority	Manager	Target Date
1	<p>Consideration should be given to providing an indicative amount within the Petty Cash Guidance as to what is a 'petty' amount. Internal Audit recommend this should be no more than £100 unless for exceptional circumstances.</p> <p>The guidance should be updated that as a rule, petty cash should only be used as a last option given the other means now available for making a payment (Purchasing Cards and the Accounts Payable system).</p>	Medium	Senior Accountant Projects and Treasury	31/12/2016

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No	Recommendation	Priority	Manager	Target Date
2	<p>A reminder should be issued to all petty cash imprest holders and authorisers of the petty cash procedures. The reminder should cover the following:</p> <ul style="list-style-type: none"> the types of expenditure that can and cannot be claimed for through petty cash; instructions on the appropriate action to be taken when VAT (input tax) has been applied to a purchase; that a standard disbursement voucher and disbursement log be used (included within the petty cash guidelines); that the petty cash reconciliations and checking of 'cash in hand' balances should be undertaken on a regular basis and this should be documented and independently checked. Any discrepancies should be immediately reported to line management; a written log should be held detailing who has a key to the petty cash safe, as per the petty cash guidelines. Also, managers of petty cash imprest holders should ensure there is a nominated stand-in for when the imprest holder is on annual leave and that this is documented; and that documents are retained as per the Council's Records Management and Retention Schedules policies and procedures. 	Medium	Senior Accountant Projects and Treasury	31/12/2016
3	Schools should use an internal recharge to credit teachers' cashless catering cards rather than using a general card which is topped up with physical cash. The Petty Cash Guidelines specify that internal recharges between Council departments should be used rather than the physical transfer of cash between departments.	Medium	Catering Services Manager	31/12/2016
4	All income, including income received from day outings, should be banked intact with the Midlothian Council General Fund Account and should not be used to offset expenditure.	Medium	Manager Cherry Road Centre	31/12/2016

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No	Recommendation	Priority	Manager	Target Date
5	<p>The petty cash top-up claims forms should only be approved by those listed on the Authorised Signatory Database.</p> <p>The Authorised Signatory Database needs to be updated to reflect which managers are authorised to approve petty cash disbursements.</p>	Medium	Business Applications Manager	31/12/2016
6	Financial Services should issue an annual declaration to imprest holders and authorised signatories to enable the bank mandate list to be kept up to date and to ensure the petty cash imprest holder list is up to date.	Medium	Senior Accountant Projects and Treasury	31/03/2017
7	A further review of petty cash imprest levels should be undertaken to ensure that the level is appropriate for the usage of the service. In particular, given the infrequency of petty cash claims by high schools, consideration should be given to reducing these petty cash imprest levels.	Medium	Senior Accountant Projects and Treasury	31/12/2016
8	The Top service was using an insecure drawer to hold petty cash. We recommend that a more secure location should be used instead of a drawer.	Medium	TOP Service Depute Head Teacher	31/12/2016
9	Segregation of duties should be introduced for the management of the Petty Cash Imprest Account for the Libraries Service.	Medium	Customer Services manager	31/12/2016
10	<p>Adult and Social Care and Children's Services should review the appropriateness of removing their generic risk of 'Fraud, Waste and Error' from the risk register particularly as these two services are among the higher users of petty cash imprest accounts.</p> <p>The risk relating to 'Fraud, Waste & Error' should be reviewed for each service's risk register to ensure that controls to mitigate this risk are accurately reflected.</p>	Medium	Heads of Services / Risk, Health, Safety and Civil Contingencies Manager	31/03/2017

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APPENDIX 1

Audit Actions from the 2014/15 audit and action taken by management

No	Recommendation	Priority	Manager	Action Taken
1	<p>Staff should be reminded of the controls over petty cash and that these should be followed for all expenditure claimed from petty cash. Areas where controls need to be reinforced are:</p> <ul style="list-style-type: none"> the types of expenditure that can be claimed through petty cash. All staff subsistence / travelling expenses, payments for additional hours worked and payments to casual workers must be paid via the payroll system and that all payments to contractors / suppliers should be processed via the Accounts Payable system. Staff can also arrange for travel (eg train tickets) to be booked and paid for via the Council's travel company supplier; the petty cash system should not be used for vehicle fuel payments. Staff should claim for mileage using the expenses claim form and paid via the payroll system and Council standby vehicles should be fuelled in accordance with normal practice. Agency workers should claim for mileage via the Accounts Payable system; increased scrutiny and monitoring of expenditure (including undertaking unannounced checks) paid through the petty cash system and greater challenge over claims for petty cash should be undertaken by budget holders; petty cash reconciliations and checking of 'cash in hand' balances should be undertaken on a regular basis (Council wide) and this should be documented and independently checked. Any discrepancies should be immediately reported to line management; 	High	Directors	<p>Further work Required</p> <p>Reminder emails were issued by senior management to relevant managers and staff with copies of the revised guidelines.</p> <p>Within the emails, it was noted that the Senior Accountant Projects and Treasury was available to discuss the guidelines with staff if required.</p> <p>The revised guidelines and guidance issued to staff recommended all the controls listed should be implemented.</p> <p>However, in the course of this audit issues have been noted with the regularity of reconciliations, unbanked income and the security of petty cash held in a drawer rather than a safe. Therefore, some further work is required in bringing services to full compliance with the guidelines. These issues are encompassed in the management action plan.</p>

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No	Recommendation	Priority	Manager	Action Taken
	<ul style="list-style-type: none"> petty cash payments should not be paid by imprest holders unless receipts and supporting documentation are provided; authorisers of petty cash disbursements should ensure that the amount claimed always matches the receipt and supporting documentation; bank statements should be independently reconciled to the petty cash records at least once a month for areas that operate a petty cash bank account; the petty cash imprest account should be used for petty cash disbursements only and should not be used for any other purposes; the petty cash system should not be used to internally reimburse other internal Council service areas; cash should not be left unattended and should be held securely at all times. Keys to the safe should also be held securely at all times; income should not be allocated to the petty cash float / bank account but should be banked and accounted for separately; bank statements should be addressed to the correct officer responsible for the petty cash imprest account; and a review of the number, location and purpose of petty cash imprest accounts should be undertaken by each Director. 			
2	The Petty Cash procedure should be updated, consolidated into one Council-wide procedure, and provided to all staff involved in the processing of petty cash claims. Advice and guidance on the new procedure should also be available to all relevant staff. The procedure should be updated to include:	High	Senior Accountant Projects & Treasury	Satisfactory Revised petty cash guidance has been drafted and distributed to all relevant staff.

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No	Recommendation	Priority	Manager	Action Taken
	<ul style="list-style-type: none"> clear guidance on the treatment on VAT and that claims made must clearly split the VAT element. It should highlight that VAT can only be recovered when a VAT invoice is received and that staff should always be requested to provide such a receipt where the expenditure is subject to VAT. The procedures should include the calculation / rates used to recover VAT; clear guidance over allowable purchases such as the purchase of food and drinks for meetings (internal and external) and the reimbursement of staff expenses; details on how to treat cash advances; what the maximum allowable petty cash limit is; access to Council safes should always be undertaken by at least two employees; and for areas with more than one petty cash float, these should be recorded and reconciled separately and the 'cash in hand' balances should be verified independently. 			The revised guidance encompasses all of the audit's recommendations.
3	The VAT errors highlighted in the review should be rectified and any tax liability on staff payments should be calculated and paid.	High	Directors	VAT - Satisfactory Errors identified have been reviewed by management and are noted as being significantly below the HM Revenue and Customs reporting threshold and were not deliberate on the part of the staff. Staff have been advised to include VAT in full in future on the petty cash disbursement logs provided there is a valid VAT receipt.

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No	Recommendation	Priority	Manager	Action Taken
				Staff Payments - In Progress A detailed schedule has been prepared for the staff payments by Internal Audit and action is being taken to address this by management.
4	Appropriate facilities such as Purchasing Cards should be rolled out throughout the Council to facilitate the purchase of goods, discourage employees from having to use their personal debit or credit cards and ensure that goods are delivered directly to the Council.	Medium	Business Applications Manager / Procurement Manager	Satisfactory Pilot programmes for the Purchasing Cards implementation were carried out in five primary schools and Lasswade High School. Rollout of purchasing cards and provision of relevant training in the use of the cards is ongoing and is nearing completion. 187 cards are now live. This has completed the roll out of Purchasing Cards for services that have already implemented Purchase Ordering as part of the P2P project. Rollout of Purchase to Pay to Children's Services is currently underway. Any need for Purchasing Cards within other services will be considered as part of the ongoing project plan for P2P. Any other ad-hoc requests will be considered separately.
5	As part of the Purchase to Pay Project, electronic petty cash forms and the scanning and attachment of receipts / vouchers to claims should be implemented across the Council (for areas with a petty cash imprest account).	Medium	Business Applications Manager / Procurement Manager	In Progress E-forms will be used in the future for authorisation of petty cash disbursements. However, a technical problem was discovered in the petty cash E-form validation

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No	Recommendation	Priority	Manager	Action Taken
				<p>process and the provider of the Council's finance software anticipates the fix for this system issue will likely be September 2016. Because of this system issue there is some slippage from the original due date of October 2015.</p> <p>Therefore, document scanning for petty cash receipts and vouchers is not yet in place.</p>
6	A review of all petty cash imprest levels should be undertaken to ensure they are at the correct amount for the needs of the service and comply with the Council's insurance policy.	Medium	Directors	<p>Further Work Required</p> <p>A review was undertaken after the October 2014 audit report. However, this follow-up audit has identified that there would be benefit for a further review of imprest levels as some imprest levels were noted as being higher than necessary. This is partly because many services now have purchasing cards so should be using their petty cash imprest account less.</p>
7	A review of the petty cash imprest holders list should be undertaken on a regular basis (eg when there has been a change in the Council's management structure) to ensure it remains accurate and up to date.	Medium	Senior Accountant Projects & Treasury	<p>Further work required</p> <p>A review was undertaken but some gaps in the imprest holders list were still noted. Therefore, we have recommended that this should be carried out annually (recommendation 6 in the management action plan).</p>

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No	Recommendation	Priority	Manager	Action Taken
8	The Petty Cash top-up claim form should be updated to include a declaration stating that only valid expenditure has been claimed.	Medium	Senior Accountant Projects & Treasury	<p>Further work required</p> <p>The petty cash top-up claim form has been updated to include the declaration.</p> <p>However, a number of areas were identified in this review as not using the up to date form. We have recommended in this audit that management should ensure that all employees are using the correct forms (recommendation 2 in the management action plan).</p>
9	The petty cash top-up claims forms should only be approved by those listed on the authorised signatory system. The authorised signatory system needs to be updated to reflect which managers are authorised to approve petty cash disbursements and the signatories on petty cash top up claims forms should be checked against the authorised signatories list before processing payments.	Medium	Business Applications Manager / Heads of Service	<p>Further work required</p> <p>Updates were made to the Authorised Signatories Database after issue of the previous audit report.</p> <p>However, some signatories were identified in this audit as signing forms without having the appropriate authority detailed in the Authorised Signatories Database. We have recommended in this audit that the authorisation list is reviewed again (recommendation 5 in the management action plan).</p>
10	Improvements over vouchers should be implemented so that: a standard Council-wide voucher is used, general ledger codes used on all vouchers, all vouchers are authorised and	Medium	Senior Accountant Projects &	<p>Further work required</p> <p>A standard voucher has been developed and</p>

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No	Recommendation	Priority	Manager	Action Taken
	cancelled vouchers are marked as 'void' and retained for audit purposes.		Treasury	is included within the Petty Cash Guidelines. However, not all areas are making use of this voucher. A new recommendation has been raised for this issue within this audit report (recommendation 2 in the management action plan).
11	All services that operate a petty cash imprest account should include a risk of theft of cash and the key controls they have in place to reduce this risk within their risk register.	Medium	Risk, Safety, Health and Contingencies Manager	Further work required We have raised a further recommendation for the Council's risk registers (recommendation 10 in the management action plan).

APPENDIX 2

Distribution List

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Eibhlin McHugh, Health and Social Care Joint Director
- Mary Smith, Director, Education
- Gary Fairley, Head of Finance and Integrated Service Support (s95 officer)
- Garry Sheret, Head of Property and Facilities Management
- Ricky Moffat, Head of Commercial Operations
- Alison White, Head of Adult and Social Care
- Kevin Anderson, Head of Customer and Housing Services
- Grace Vickers, Head of Education
- Ian Johnson, Head of Communities and Economy
- Joan Tranent, Head of Children's Services
- David Gladwin, Financial Services Manager
- Gary Thomson, Senior Accountant Projects & Treasury
- Jacqui Dougall, Business Services Manager
- Mike O'Rourke, Business Applications Manager
- Nicola McDowell / Alan Wait / Donny MacDonald, Schools Group Managers
- Keth Millar, Depute Head Teacher
- Jane Milne, Customer Services Manager
- Margaret McKenzie, Catering Services Manager
- Elizabeth Davidson, Manager Cherry Road
- Grant Thornton, External Audit

Audit Team

James Polanski	Auditor
Raymond Trower	Corporate Fraud Officer
Elaine Greaves	Audit Manager

APPENDIX 3

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Objective

The objective of the audit is to:

- determine whether the recommendations made in the 2014/15 Audit of Petty Cash have been implemented; and
- assess the level of compliance with the Council's updated Petty Cash Guidelines for a sample of petty cash imprest accounts.

Scope of Audit

The audit will focus on reviewing whether the recommendations made in the 2014/15 audit of petty cash have been adequately implemented and for a sample of locations which operate imprest accounts to test compliance against the updated Petty Cash policies and procedures.

Excluded from the scope of the audit

No specific exclusions.

Potential Risks

The main risks associated with the Petty Cash system are as follows:

- misappropriation of cash from the petty cash imprest account;
- fraudulent requests for payment from cash floats;
- financial loss and / or reputational damage through using the petty cash float for inappropriate payments (eg salary costs); and
- financial loss and / or reputational damage through failing to adequately account for petty cash.

Audit Approach

The audit approach will consists of:

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<ul style="list-style-type: none"> • fact finding interviews with relevant employees; • interrogation of any relevant systems and sample testing as required; • closure meeting with local management to discuss the findings and any recommendations from the review; • draft and final reporting; and • presentation of the final report to the Audit Committee. 		
Timescales & Reporting		
<p>The audit will commence in January 2016 and is expected to be completed by the end of March 2016 and be reported to the next available Audit Committee.</p> <p>Any issues arising will be communicated directly to local management as they are identified. A formal audit report will be produced summarising the findings and any recommendations identified during the review.</p>		
Information Requirements		
Access to all relevant systems, documentation and employees.		
Audit Resource		
Auditor	James Polanski	0131 270 5646
Fraud Officer	Raymond Trower	0131 271 3573

