

Notice of meeting and agenda



Audit Committee

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

Date: Tuesday, 19 June 2018

Time: 09:00

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 Declaration 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 | Minute of Meeting of 1 May 2018 submitted for approval | 3 - 6 |
| 4.2 | Minute of Special Meeting of 15 May 2018 submitted for approval | 7 - 12 |

5 Public Reports

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| 5.1 | Treasury Management - Report by Internal Audit | 13 - 24 |
| 5.2 | Trade Waste - Report by Internal Audit | 25 - 44 |
| 5.3 | Internal Audit Annual Assurance Report 2017/18 - Report by Chief Internal Auditor | 45 - 54 |
| 5.4 | Risk Management, Update for 1 January 2018 – 31 March 2018 - Report by Risk Manager | 55 - 86 |
| 5.5 | Audit Scotland Report - Report on a Significant Fraud – Dundee City Council (Audit Scotland, March 2018) - Report by Head of Finance and Integrated Service Support | 87 - 94 |
| 5.6 | Annual Governance Statement - Report by Chief Executive | 95 - 106 |
| 5.7 | Midlothian Council Transformation Programme – 2017/18 Closure Report (June 2018) - Report by Chief Executive | 107 - 124 |
| 5.8 | Audit Committee Annual Report 2017/18 – Report by Chair of Audit | 125 - 142 |
| 5.9 | Audit Committee – Special Meeting - Report by Head of Finance and Integrated Service Support | 143 - 144 |

6 Private Reports

No business to be discussed

7 Date of Next Meeting

Tuesday 25 September at 2 pm

Minute of Meeting

Audit Committee
Tuesday 19 June 2018
Item No: 4.1



Audit Committee

Date	Time	Venue
Tuesday 1 May 2018	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Mike Ramsay (Chair)
Councillor Hardie
Councillor Muirhead
Councillor Small
Peter de Vink (Independent Member)
Councillor Baird

In attendance:

Kenneth Lawrie	Chief Executive
John Blair	Director Resources
Mary Smith	Director of Education, Communities and Economy
Gary Fairley	Head of Finance and Integrated Service Support
Ian Johnson	Head of Communities and Economy.
Stephen Reid	Ernst and Young, External Auditors
Sarah Croft	Ernst and Young, External Auditors
Jill Stacey	Chief Internal Auditor
Elaine Greaves	Principal Auditor
James Polanski	Internal Auditor
Amber Ahmed	Internal Auditor
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies

Apologies were received from Councillor Milligan.

2. Order of Business

The order of business was as set on the Agenda.

Peter de Vink advised the committee that unfortunately he would be unable to attend the Self-Assessment session due to another commitment and raised concerns that no financial papers were on this Agenda in particular the significant fraud investigation and the Budget Book which had been previously circulated to Members of the Audit Committee. The Chief Executive confirmed that a special meeting of the Audit Committee would be arranged to consider the matter of the fraud investigation. It was also confirmed that at the Self-Assessment session a discussion would take place around the financial information that the Audit Committee requires and the frequency of these reports.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

With regards to the minute of 12 December 2017 and the outstanding Item 5.8, Internal Audit Recommendations Progress Report. The Director of Education, Communities and Economy confirmed that they had the responsibility for the Controls operating over Pre-school Provision Partnership Providers and with regards to the two items outstanding, one is being developed at the moment and the other is already being undertaken by staff so is now closed off.

Thereafter minutes of the meeting of 12 December 2017 were approved as a correct record having been proposed by Councillor Hardie and seconded by Councillor Muirhead.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Audit Scotland Report: Local Government in Scotland: Challenges and Performance 2018	Chief Executive
Outline of report and summary of discussion		
There was a report submitted to the Audit Committee by the Chief Executive providing the Audit Committee with a summary of the Audit Scotland report, 'Local Government in Scotland: Challenges and performance 2018' and the Council's position in relation to the report's findings. The Chief Executive presented the report to the Committee highlighting the main sections from within the report.		

The Chief Executive responded to questions raised by Members of the Committee which included:

- Shared Services and any impact on financial savings.
- The workforce and the benefits arising from the introduction of the Investing in our Workforce programme.

Decision

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

Report No.	Report Title	Submitted by:
5.2	Climate Change Reporting	Internal Audit
Outline of report and summary of discussion		
<p>A report dated 11 April 2018 was presented by the Internal Auditor. The objective of the audit was to provide assurance that information in the Midlothian Council Climate Change Duties 2017 report is accurate, compliant with the reporting requirements and reflects current practice. The scope of the audit also incorporated a review of the Midlothian Integration Joint Board (MIJB) Climate Change 2017 report.</p> <p>There was 2 high and 7 medium rating recommendations which are detailed within the report.</p> <p>Thereafter it was confirmed by the Chief Executive that the Carbon Management Plan was discussed at Corporate Management Team and that Climate change was high on the risk register and it was important to take this forward.</p> <p>The Chair raised a question regarding the format of reports and if this would be appropriate for the Carbon Management Plan.</p>		
Decision		
The Audit Committee noted the content of the report.		

Councillor Baird arrived at 11.38 am

Report No.	Report Title	Submitted by:
5.3	Purchasing Cards	Internal Audit
Outline of report and summary of discussion		
<p>A report dated 17 April 2018 was presented by the Internal Auditor. The audit objective was to provide assurance on the adequacy of the internal controls in place for the Council's use of purchasing cards.</p>		

There was 10 medium and 3 low rated recommendations which are detailed within the report.

Thereafter a discussion took place regarding the benefits of purchasing cards and the difference in spending with regards to the previous means of spending. It was highlighted that the purchasing cards provided a more effective audit trail and authorisation record when compared to the previous means of payment such as petty cash. The improvement in the payment of invoices as well as the reduced staff time required in processing of invoices was also highlighted.

The Chief Internal Auditor advised the Committee that the key message was that there is a demonstrated shift into a more efficient and effective method in the controls with regards to the administration processes around payments and that the improvement action which has been agreed will address any issues with regards to VAT reclaim.

Decision

The Audit Committee noted the content of the report.

6. Private Reports

No private business was discussed.

The Chief Executive highlighted to the Audit Committee that it was proposed that the next meeting scheduled for Tuesday 5 June 2018 would be rescheduled for 2 weeks later due to the timescale for reports and in addition to this there would also be a Special Meeting of the Audit Committee. The dates of these meetings would be confirmed in due course.

The meeting terminated at 11.51 am

Minute of Meeting

Audit Committee
Tuesday 19 June 2018
Item No: 4.2



Special Meeting of Audit Committee

Date	Time	Venue
Tuesday 15 May 2018	3.00 pm	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Mike Ramsay (Chair)
Councillor Baird
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Councillor Small
Peter de Vink (Independent Member)

In attendance:

Kenneth Lawrie	Chief Executive
Mary Smith	Director of Education, Communities and Economy
Gary Fairley	Head of Finance and Integrated Service Support
David Lister	Ernst and Young, External Auditors
Sarah Croft	Ernst and Young, External Auditors
Jill Stacey	Chief Internal Auditor
Elaine Greaves	Principal Auditor
Kevin Scott	Fraud and Audit Officer
Alan Turpie	Legal Services Manager
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies

Apologies were received from Councillor Parry

2. Order of Business

The order of business was as set on the Agenda.

3. Declarations of interest

No declarations of interest were received.

4. Public Reports

Report No.	Report Title	Submitted by:
4.1	Investigation of Roads Contract Management	Chief Executive
Outline of report and summary of discussion		
<p>There was a report submitted by the Chief Executive which updated the Members of the Audit Committee on the current position and planned next steps relating to the investigation of Roads Contract Management.</p> <p>The Chief Executive presented the report to the Committee highlighting the main points as detailed in the report regarding the allegations of impropriety within the Council relating to Roads Contract Management.</p> <p>It is clearly of great importance that the Council should investigate such allegations robustly and thoroughly for the following reasons:</p> <ol style="list-style-type: none">1) To ensure that any poor practice or impropriety is exposed and to take appropriate action as a result, including, where appropriate, referral to Police Scotland;2) To protect the public purse and ensure the integrity of the Council's use of public funds; and3) To send a clear message to employees, contractors and potential contractors, and the public, that the Council has a zero tolerance approach to poor practice and impropriety and will act robustly to tackle and resolve it. <p>It was discovered that payments had been made to a Contractor not on the Procurement Framework and this amounted to £2.1 million over a period of 7 years. No allegations were made relating to work not being carried out or subject to inflated invoices. A senior manager within roads services resigned during the course of the investigation. During employee interviews a number of additional allegations were made and these were also investigated.</p>		

Evidence was found to support a number of the allegations which were passed to Police Scotland and no evidence was found to substantiate others. One other allegation relates to an area out with the scope of the investigation but will be picked up in Phase 2. HR Management are also reviewing the report in relation to any staff issues.

A number of weaknesses in relation to internal processes and procedures were identified and the Chief Internal Auditor has recommended actions to address these weaknesses as a matter of urgency which are detailed in the report.

The Chief Executive went on to explain the next steps and that the Council's External Auditors, EY have been commissioned to perform Phase 2 in accordance with the overview of scope as detailed within the report. EY will be assisted by the Council's Internal Audit and Corporate Fraud team with the scope to include areas identified during the phase 1 investigation. The purpose of this wider piece of work is to investigate whether the failings found within the roads service were in any way systemic within the organisation.

A Confidential Report of the findings from the Internal Audit and Corporate Fraud team's Phase 1 work has been issued to Police Scotland. Due to the ongoing Police Investigation, this report will remain Confidential.

Officers and Members are reminded of the importance of maintaining confidentiality to preserve the Council's position going forward to enable the next steps to be concluded in a proper and thorough fashion through Internal Audit, EY and Police Scotland.

The Chair then asked Members if they had any comments or questions regarding this matter.

Councillor Milligan stated that having read the report presented today he felt frustrated that they could speak with no surety without having sight of the full Phase 1 report and could not understand that although he had asked on several occasions for this report he had been refused due to the ongoing police enquiry. He felt that he could not comment without having knowledge or details of the report and having no factual details could not comment if all issues had been covered in Phase 1 or if the conclusion drawn from Phase 1 was correct. He did, however, acknowledge that the Police have strongly recommended that this report is not passed to anyone who does not have an exact need to know but he would argue the point that the Administration does have such a need to know.

He emphasised that another report is required detailing the failings in Phase 1 and separating them from the criminality. It is important to know how and what failed internally. He then went on to ask the question why the systems in place allowed this to happen and how this had not been picked up by the various officers and services and how we can stop this happening in the future.

The Chief Executive advised that he could understand members' frustration at not seeing the report but he was clear he could not go against the strong Police advice that had been given to him. He stressed that the members were in a difficult position to make a judgement about the suitability of the actions

highlighted in the report and that is why the recommendations are not asking for approval but for the Committee to note the work that has been done.

Thereafter the Chief Executive and the Internal Audit team responded to several questions and concerns raised by members which included:

- Suppliers on the payment system but not in the procurement framework.
- The strict tendering process with regard to this situation.
- The processes and procedures which should have been followed were not and that the appropriate services did not pick up that the compliance process and diligent checks were not carried out.
- Whistleblowing process and the employees in the Council with regards to this matter did not have the confidence in this process.
- Whether the Council has ever considered using Safecall – a whistleblowing facility used by some other councils.
- The recommendations within the report detail identified weaknesses within the control environment.
- The question on what are the internal failings and the importance of a report highlighting what these internal failings were.
- Segregation and vulnerabilities in the system.
- Employee authorisation limits for purchasing goods and services and signing off invoices.

Discussion took place on the processes, the weaknesses identified, the actions recommended and the objectives of Phase 1 and Phase 2.

Councillors highlighted the importance of a report outlining the internal systematic failures to allow them to understand the recommendations laid out within the report.

Decision

The Audit Committee agreed:

- The next meeting of the Audit Committee would be held on Tuesday 19 June 2018 at 9am.
- A further private report on Phase 1 of the investigation providing details on the reasons for the recommendations as set out in this report be prepared and presented to the Committee within 4 weeks.
- A report on employees' authorisation limits for purchasing goods and services and signing off invoices also be prepared.

- Thereafter a Special meeting of the Audit Committee to be arranged in order to consider this report (this meeting to be held in private in terms of Paragraph 14 of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973) and
- To otherwise note this report.

Action

Chief Executive, Chair Audit Committee, Democratic Services

5.

No private business was discussed.

The meeting terminated at 4 pm

Internal Audit Report
Treasury Management
Issued: 30 May 2018

Level of Assurance	The overall control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
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Midlothian Council - Internal Audit Report - Treasury Management

Executive Summary

1.0 Introduction

CIPFA defines Treasury Management (TM) as: the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Local Government in Scotland Act 2003 requires the Council to set out its treasury strategy for borrowing and investment and also Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The CIPFA Treasury Management in the Public Services Code of Practice (the Code) stipulates that the Council should receive an annual report on the strategy and plan to be pursued in the coming year; a mid-year review; and an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past years, and on any circumstances of non-compliance with the organisation's treasury management policy statement and treasury management policies (TMPs). The Code also states that the body responsible for scrutiny, such as an audit committee, will have responsibility for the scrutiny of treasury management policies and practices.

Treasury activity is recorded on the Logotech Treasury Management system which is administered by Financial Services.

As at 26 January 2018, the Council's borrowing in respect of its asset base was £246M and the authorised limit for borrowing, which reflects approved General Services and HRA Capital Plans, was £482M. Investments (including cash / bank balances) were £74M and a budgeted investment return of 0.72% on investments placed during the financial year is expected. Investment counterparties and vehicles are detailed in the Treasury Management and Investment Strategy and in placing investments the risk criteria used, in order of importance, is security, liquidity and yield. In February 2016, the Council committed to draw down two £10M forward dealt loans at fixed interest rates to hedge against future borrowing rate movements. The first was drawn in June 2017 and the second will be drawn in November 2018 (to match two £10M loans maturing on same dates).

A review of the Loans Fund accounting arrangements is currently being undertaken which includes an assessment of the period over which Loans Fund advances are projected to be repaid. A savings target of £0.5M has been attached to the review and reflected in the 2018/19 budget.

Midlothian Council - Internal Audit Report - Treasury Management

2.0 Audit Objective

The objective of the audit was to test controls over policies and practices, strategies and reporting and compliance with the Treasury Management Code of Practice. A copy of the terms of reference for the review is attached at Appendix 2.

3.0 Conclusion

Following our audit field work and discussions with Management, we have seen that the Treasury Management function has comprehensive policies and procedures in place. The investment and borrowing strategies and prudential indicators are reported regularly to Council before, during and at the end of each financial year. There is authorisation at every stage of the treasury process with adequate segregation of duties. The Treasury Management team meet regularly with Financial Services Management and external Consultants to ensure compliance with the Council's strategy and that risks are adequately identified and managed.

We noted that the three main treasury management reports are being presented to the Audit Committee after they have been approved by Council meaning that there is no scrutiny in advance of approval. In addition, whilst the Treasury Management team have comprehensive arrangements in place to assess and manage risk they do not make use of the Council's risk management system, Pentana Performance, which would also allow reporting of the risks as part of the Council's overall risk management reporting to Management, Council and the Audit Committee. The Council uses external treasury management advisers and it was noted that following the expiry of the contract in 2015, the service was not competitively tendered but was further extended and that a 'Non-Competitive Action form' was not completed to support this decision.

We have therefore on this occasion rated this audit as **Good** in accordance with the Definitions of Ratings included on page 7. We have raised 3 Medium rated recommendations (detailed in Section 5) to reduce risk further and these recommendations have been agreed by Management.

Midlothian Council - Internal Audit Report - Treasury Management

Control Objective	Findings	Result	Recommendation Reference
and control of risk are prime objectives for treasury management activities, the Council's risk appetite forms part of the annual strategy and priority is given to security and liquidity when investing funds.	<p>of their work. Reports to Council discuss the risks and the methods of mitigating those risks. When placing investments, the risk criteria used by the Treasury Management team and the Financial Services Management team, in order of importance, has been and continues to be security, liquidity then yield. The Treasury Management Practices outline in detail the roles and responsibilities of the Treasury Management team and the Financial Services Management team, and detail extensively the policies and procedures for controlling interest rate risk, credit and counterparty risk, liquidity risk, exchange rate risk, refinancing risk, legal and regulatory risk, fidelity insurance arrangements and market risk.</p> <p>The Treasury Management team do not make use of the Council's risk management system, Pentana Performance (formerly Covalent), which would allow reporting of the risks as part of the Council's overall risk management reporting to Management, Council and the Audit Committee.</p>	Average	2
4.3 The pursuit of value for money and the use of suitable performance measures are reflected in treasury management policies and practices	<p>The treasury management borrowing and investment strategies are to borrow to fund the capital plans of the Council in a cost effective way and to invest with creditworthy counterparties in order to achieve best value for the Council. In June 2017 the annual treasury management report reported that Midlothian Council had the lowest Loans Fund Rate for 2015/16 of all Mainland Authorities; this has been maintained for 2016/17 and will be reported in June 2018. In addition, performance indicators comparing return on investments show that, in comparison with its peer benchmarking group, Scotland and UK local authorities, that the Council has a higher performance than expected and this is covered in Treasury Management Outturn reports to Council in 2015/16 and 2016/17.</p> <p>The Code states that services (such as the use of external advisers and consultants) should be subject to regular competition which would usually be via a competitive tendering process. The Council uses Link Asset Services as</p>	Excellent	N/A
		Average	3

Midlothian Council - Internal Audit Report - Treasury Management

Control Objective	Findings	Result	Recommendation Reference
	<p>its external treasury management advisers. It was noted that following the expiry of the contract in 2015, the service was not competitively tendered but was further extended and a 'Non-Competitive Action form' was not completed to support this decision. Management have advised that at the expiry of the contract in 2015, the Financial Services Team assessed options and determined the continuation of the contract represented best value. There are only two Treasury Management Advisers within the market, the annual fee (under £25,000) remained at the same level and the value of the contract was minimal in the context of the annual loans fund budget so it was felt there was no value in engaging in a full tender (the tender undertaken in 2009 resulted in only 1 tender being submitted).</p> <p>Although a Letter of Engagement, agreeing the term of appointment and fees is in place, it was noted that it is in the name of another local authority and not Midlothian Council.</p>		
4.4 Treasury payments and receipts are adequately controlled and accounted for on the treasury management system and financial ledger	There is a satisfactory level of control over treasury payments and receipts. These are embedded in the creditor payments system and transactions have a satisfactory level of separation of function and control. Transactions are recorded on the ledger accurately and in a systematic manner.	Excellent	N/A

Midlothian Council - Internal Audit Report - Treasury Management

5.0 Recommendations

No	Recommendation	Priority	Manager	Target Date
1	<p>The three main Treasury Management reports should be submitted to the Audit Committee to enable them to be adequately scrutinised prior to being recommended to Council.</p> <p>Management comment</p> <p>The timing of committees has precluded this in the past but the timing of future committees will be reviewed to facilitate this requirement.</p>	Medium	Senior Accountant Projects and Treasury	31//03/19
2	<p>The risks associated with Treasury Management should be recorded on the Council's Risk Management system (Pentana Performance) to allow reporting of the risks as part of the Council's overall risk management reporting to Management, Council and the Audit Committee.</p>	Medium	Senior Accountant Projects and Treasury	30/09/18
3	<p>A 'Non-Competitive Action form' should be completed to support the decision taken over the Council's use of Treasury Management Advisers.</p>	Medium	Senior Accountant Projects and Treasury	Complete

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.

Midlothian Council - Internal Audit Report - Treasury Management

Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director Resources
- Gary Fairley, Head of Finance and Integrated Service Support
- David Gladwin, Financial Services Manager
- Gary Thomson, Senior Accountant Treasury and Projects

Audit Team

Author:	Heather Mohieddeen	Senior Auditor	0131 271 3126
Reviewer:	Elaine Greaves	Principal Auditor	0131 271 3285

TERMS OF REFERENCE Treasury Management

Audit Objective and Scope

Audit Objective

The objective of the audit is to test controls over policies and practices, strategies and reporting and compliance with the Treasury Management Code of Practice.

Scope of Audit

The audit will focus on the key controls to ensure that:

1. Policies and practices, strategies and reporting arrangements for the effective management and control of treasury management activities are in place and comply with the CIPFA Treasury Management Code of Practice 2011;
2. Effective management and control of risk are prime objectives for treasury management activities, the Council's risk appetite forms part of the annual strategy and priority is given to security and liquidity when investing funds;
3. The pursuit of value for money and the use of suitable performance measures are reflected in treasury management policies and practices; and
4. Treasury payments and receipts are adequately controlled and accounted for on the treasury management system and financial ledger.

Potential Risks

The CIPFA code identifies eight main treasury management risks as follows:

- Credit and counterparty risk;
- Liquidity risk;
- Interest rate risk;

Midlothian Council - Internal Audit Report - Treasury Management

- Exchange rate risk;
- Refinancing risk;
- Legal and regulatory risk;
- Fraud, error and corruption, and contingency management;
- Market risk.

Audit Approach

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk or best value 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.

Timescales & Reporting

The audit will commence in November 2017 and fieldwork is expected to be completed by the end of December 2017. The audit will be reported to the first available Audit Committee following completion of the Report.

Information Requirements

Access to all relevant systems, documentation and employees.

Audit Resource

Lead Auditor: Heather Mohieddeen 0131 271 3126
Reviewer: Elaine Greaves 0131 271 3285



Internal Audit Report

Trade Waste

Issued: May 2018

Final

Level of Assurance	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 Audit was carried out as part of the audit plan for 2017/18, which was approved by the Audit Committee on 21 March 2017.

All businesses in Scotland have a legal obligation to take reasonable steps to separate their waste for recycling and dispose of it via a licensed waste carrier. These requirements are part of the Waste (Scotland) Regulations 2012 and the Environmental Protection Act (1990). Additionally, food businesses consistently producing 5kg or more food waste a week must also segregate this from general waste and present it for separate collection, with some exceptions (eg some rural food businesses are exempt). Businesses that fail to comply with the Regulations risk receiving a fine or prosecution for failing to appropriately dispose of their waste.

Under the Environmental Protection Act 1990, local authorities may, if requested by the occupier of premises in its area, arrange for the collection of the waste. Persons requesting the collection of non-household waste are liable to pay a reasonable charge to the local authority for the collection and disposal of the waste.

Midlothian Council provides a Trade Waste service to businesses in Midlothian which includes:

- collection of general refuse (residual waste);
- collection of co-mingled recyclate; and
- collection of glass recycling.

The Council's Waste Services team is part of the Commercial Operations Service within the Resources Directorate. Administration support, which includes maintaining the register of Trade Waste customers, invoicing, input of waste transfer notes into the Waste Management System, archiving of Waste Transfer Notes (legal requirement to retain for 2 years), and pursuit of non-payment of charges, is provided by employees within Finance and Integrated Service Support (FISS) within the Resources Directorate.

Currently only waste from households is accepted at the recycling centre. However, plans were approved by Council in March 2018 to, in future, provide businesses with access to the Stobhill recycling centre for a fee.

Midlothian Council is required to carry out a food waste collection for non-rural householders; this requirement is set out in the Zero Waste Scotland Regulations. Midlothian Council does not provide a food Trade Waste collection service, and businesses in Midlothian must instead use a private sector food waste collection service. The Council's Trade Waste webpage advises customers to contact Keenan's recycling if

Midlothian Council - Internal Audit Report – Trade Waste

their business is producing more than 5kg per week of food waste and the Council has a contract in place with Keenan's for the disposal of its own food waste.

Annually, the Council will set and approve fees and charges for the Trade Waste service. These charges are informed by budget forecasts and analysis provided by the Financial Services team within Resources Directorate. The service provided to each customer is tailored to the customer's needs and the quantity of waste their business produces, with the level of charge reflecting the number of bins provided and the frequency of collection.

Trade waste contracts must be signed annually by customers. This contract sets out the types of bin leased to the customer, the frequency of collection, and the type of waste collected. Additionally, the contract includes the Duty of Care Waste Transfer Note; this is a note which legally must be created for the transfer of controlled waste. The note must be signed by both parties and must contain certain prescribed information about the waste to be transferred. For repetitive transfers, there is provision in the Regulations to use one transfer note which will cover multiple transfers (ie a season ticket lasting up to 12 months). The Council uses the season ticket approach for its Trade Waste customers.

The Council enters into contracts for the disposal of: residual waste (Levenseat); recycle (Viridor Enviroscot Limited); and haulage transport of waste (Malcolm Logistics) from the transfer station at Stobhill to our residual waste contractor. The contracts encompass the transfer of both household and commercial waste. In 2019, arrangements will change as residual waste will instead be delivered to the Millerhill facility, where the waste will be treated and used to generate electricity. Also, the contract for recycle will end on 31 December 2018, so will need to be retendered.

The Council is required to report on various Waste performance measures set by the Local Government Benchmark Framework and SEPA. The Council uses the TotalMobile system to record details of customers' Trade Waste contracts, and customer invoices are raised on Integra, the Council's financial system. Webaspx is a route management software that is currently used for recording domestic routes, but is currently not used for our Trade Waste routes. Trade Waste routes are instead recorded in spreadsheets.

As at April 2018, the Trade Waste customers were as follows:

Waste Stream	Number of Customers	Number of bin uplifts per week
Internal General Waste Customers	95	164
External General Waste Customers	438	520
Internal Co-mingled Recyclate Customers	70	92
External Co-mingled Recyclate Customers	288	265

Midlothian Council - Internal Audit Report – Trade Waste

Internal Glass Customers	19	18
External Glass Customers	41	49
Total	951	1108

NB – for recyclate and glass, a higher percentage of customers opt to have collection on a fortnightly basis.

In 2017/18, the Council's Trade Waste service was budgeted to have income of £698k, which would cover the costs of the service by £47k (service costs for the Trade Waste service are £651k). However, as at Q3 2017/18, actual income is anticipated to be lower than budgeted by £18k. This means the service will still be covering the cost of service by £29k, but the service will not have met its budgeted income target. The main reason for the variance appears to be due to customers amending their trade waste offering between the time the financial analysis was completed and issue of the new trade waste contracts on 1 April 2017.

2.0 Objectives of the Audit

The purpose of this audit is to review the systems and controls in place for the charging, collection, and disposal of Trade Waste and related performance reporting. A copy of the terms of reference for the review is attached at Appendix 2.

3.0 Conclusion

Our audit identified that management have implemented a number of systems, internal controls, and procedures for Trade Waste. During the course of the audit we noted the following strengths:

- adequate information is provided to customers explaining the Trade Waste process;
- customer contracts were found to be in place for all sampled Trade Waste customers. These contracts adequately set out the customer's Duty of Care;
- flexibility is provided to customers allowing them to amend their contract throughout the year;
- adequate systems are in place to hold customer information relating to Trade Waste customers on the Totalmobile system;
- systems and procedures are in place to ensure that customers are billed correctly with the updated rates each year;
- adequate processes are in place to ensure that unpaid debt is identified and pursued. Additionally, regular monthly information is provided to the Council's Trade Waste Officer to ensure that collection is ceased for non-payers;
- Trade Waste routes are subject to review by an experienced Trade Waste Officer, and performance of routes is monitored by the Council's vehicle tracking software;

Midlothian Council - Internal Audit Report – Trade Waste

- segregation of duties is in place between employees recording contract details and raising invoices, employees monitoring trade collection routes, and employees pursuing outstanding debt;
- there is regular monitoring of the Trade Waste budget by Financial Services, and financial modelling is carried out annually to ensure the Trade Waste service is covering its costs;
- tendered contracts are in place for the disposal of residual waste, co-mingled recyclate, and glass;
- all invoices reviewed were appropriately authorised;
- recharges for internal income were found to be accurate in the sample reviewed; and
- processes are in place to collate necessary performance information and confirmations are received from SEPA confirming that they are satisfied with the performance information submitted.

Some areas were identified that require improvement:

- the 'invoice checking' processes (ensuring the waste disposal invoice matches our own record of waste transfers and have been charged at the agreed contract rates) needs to be reviewed to minimise duplication of effort between services, confirm there is clarity of ownership for the tasks, and ensure sufficient resource and training in place so the task is completed in full. Currently there is duplication of effort as transfer notes are input into spreadsheets by Waste Services staff and into a separate internally developed Waste Management System by employees in FISS;
- currently, instead of using the Council's route management software, WebAspx, a spreadsheet with a list of addresses of Trade Waste customers is used. This provides less management information than it would if routes were recorded on the route management software (eg estimations of route timings and an audit trail of when routes have changed to demonstrate that we have stopped collecting from a non-payer);
- it was noted that although a contract is in place for the haulage provider, it had not been formally tendered and the required non-competitive action form had not been completed at the time of the audit review;
- Business Continuity plans for Waste Services require update;
- a budgeted saving of £35k for 2018/19 was agreed at the February Council meeting for providing business access to the Stobhill Recycling Centre. At the time of the audit review, planning for implementing this was at the very early stages. Therefore, at present, the proposed saving seems unlikely to be achieved;
- although the Council's website states that Bulky Uplifts are available to existing Trade Waste customers, adequate procedures including amendments to systems, have not been made at the Contact Centre to allow this service to be easily offered;
- trade waste bin stock is currently recorded in an insecure spreadsheet and is not recorded on the Totalmobile system (used to record the Council's main stock);
- at the time of review, evidence of periodic stock counts of the bins (both trade and non-trade) was not available;

Midlothian Council - Internal Audit Report – Trade Waste

- although performance measures are in place to comply with the SEPA requirements, no regular performance reports are provided to management regarding contracts, numbers of customers, direct debit payees, debtors' limits, etc. This would be beneficial to enable management to monitor this performance information as part of future service delivery improvements;
- although some monitoring is carried out of contamination levels for tips made for the recycle contract, the audit trail and standardised method of recording this could be improved; and
- it was noted that credit notes posted to correct billing errors were posted in the wrong financial year, 2 recharges reviewed were not adequately authorised, and invoices were submitted to businesses that were no longer current customers during 2017/18.

As noted above, some weaknesses have been identified in the controls and improvements are required in certain areas of Waste Services. We have therefore on this occasion rated this audit as **Average** in accordance with the Definitions of Ratings included on page **16**. We have raised **1** High, **11** Medium and **2** Low rated recommendations which are detailed in the Audit Issues and Management Action Plan to reduce risk further and these recommendations have been agreed by Management.

4.0 Audit Issues and Management Action Plan

4.1 Waste Transfer Notes, Invoice Checking Processes, and Business Support

Invoice Checking Processes and Input of Waste Transfer Notes

At the time of the audit review, the 'invoice checking' processes (ensuring the waste disposal invoice matches our own record of waste transfers and checking that these have been charged at the appropriate contract rates) were being carried out by the Waste Services team. Invoices are verified using a combination of waste transfer note information entered into a spreadsheet by Waste Services supervisors before the transfer notes are passed to FISS staff, waste transfer information from the Council's weighbridge prepared by Waste Services staff, and information received from suppliers.

A total of 38 invoices were reviewed as part of the audit. These included invoices for residual waste, recyclate, haulage, and contamination charges for recyclate. Our findings were as follows:

- contract rates were being observed by our suppliers. Only the minor differences noted below were found during the audit;
- out of the residual waste invoices reviewed, only one minor error was noted in one tipping charge in July 2017 which had not been identified and corrected (charged at £32.56 per tonne instead of £11.90, resulting in an overcharge of £510);
- from the sample of contamination invoices reviewed, some minor differences were noted between the recyclate contamination charged per the invoice and their supporting schedules and Waste Services analysis. In two instances we seem to have been undercharged by £489 then £958 respectively, and in one case we seem to have been overcharged by £193. Although these differences were identified by Waste Services, they were not subsequently corrected with the supplier;
- complete reconciliations for residual waste were in place for the sample reviewed. The reconciliations evidenced that the weight leaving the Stobhill transfer station was compared with the weightings reported by our supplier at their transfer station. Some variances were noted between our reported weight and the suppliers, although most of these were less than 1 tonne, so overall negligible. Two invoices were identified with a favourable variance of approximately 7 tonnes, and one with an unfavourable variance of 8 tonnes. It was noted that although the variance is reviewed, we do not have an established procedure of when we follow up on these larger differences with our supplier; and
- some gaps were noted in the reconciliation for recyclate weights (eg Trade Waste tips had not been included in the reconciliation for some of the months reviewed, and not every tip was matched from our record to the supplier's record). This reconciliation relied on spreadsheet information input by Waste Services operational staff which, although appeared to be mostly complete, some gaps were noted. Additionally, although the record of tips from Waste Services was dated, Waste Services staff did not input the waste transfer note reference number.

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Input of Transfer Notes into the Waste Management System and Archiving of Waste Transfer Notes

On receipt of the transfer notes from Waste Services, FISS staff input the waste transfer notes into a Waste Management System developed by the Digital Services team. This system allows the input of the waste transfer note reference, the supplier, waste type, date, and weight. Transfer notes input into the system can then be matched within the system to the relevant invoice to ensure that the details all agree and the rates for the invoice match. During the review it was noted that whilst transfer notes were still being input into this system, the invoice matching function has not been fully used since September 2017, and was reporting 5,035 unmatched transfer notes as at 12 April 2018. Additionally, there was some evidence that use of the reconciliation function had been sporadic in 2016.

It was identified that supplier names in the Waste Management System were not up to date as the record of residual waste transfers were being recorded under a previous supplier's name. Additionally, there was no option in the system to record food waste transfers (for household food waste). It was reported by FISS staff responsible for inputting the transfer notes that as there was no option to record food waste transfer notes within the system, these transfer notes were previously being destroyed instead of archived. This practice of destroying the transfer note for food waste stopped in January 2018, and the notes will be sent to archive with the other waste transfer notes. The Waste (Scotland) Regulations 2012 require waste transfer notes to be retained for at least 2 years.

The Marketing & Service Development Officer within Waste Services, who carried out all the key reconciliations reviewed during this audit, was granted access to the Waste Management System in January 2018. This allowed gaps in the data available to be checked against the Waste Management System. During the audit fieldwork, it was noted that some Waste Services staff believed that additional reconciliation processes were being undertaken by FISS, and that the purpose of their reconciliations was on the weightings for SEPA performance information rather than for invoice checking processes. Currently there is duplication of effort in place due to the input of waste transfer notes both by Waste Services staff and FISS staff.

No	Recommendation	Priority	Manager	Target Date
1	The 'invoice checking' process for Waste Services invoices needs to be reviewed to minimise duplication of effort between services, confirm there is clarity of ownership for the reconciliation tasks, and ensure sufficient resource and training in place so the task is completed in full. This recommendation includes agreeing a way forward for the future of the Waste Management System and ensuring all identified differences between internal records and invoices are followed up with the suppliers. Management Comment:	High	Operational Support Manager / Waste Services Manager	31/12/2018

Midlothian Council - Internal Audit Report – Trade Waste

No	Recommendation	Priority	Manager	Target Date
	Work has started to identify the requirements for a single solution to meet service and support needs within the Waste Management System and to update the supplier information held. Business Services and Waste Services are working with Digital Services to provide an updated specification for the Waste Management Software.			

Business Administration Issues

It was noted during the review of trade waste income cost centres that credit notes were being raised at the end of the financial year for both 2016/17 and 2017/18 to correct billing errors for invoices raised in the following financial year. The credit notes should have been raised in the following financial year so they could be matched with the billing error. Approximately £9k of credit note corrections relating to 9 customers were posted in the wrong financial year in 2016/17, and approximately £16k relating to 24 customers was posted in the wrong financial year in 2017/18.

Further credit notes were raised close to the beginning of 2017/18. Many of these were to correct invoices raised to businesses that are no longer Trade Waste customers. On discussion with the Administration Assistant for Business Services, this was due to the invoice templates within Integra, the Council's finance system, not being updated to match the customer records within the Totalmobile system.

A review of 10 Trade Waste recharges identified that one was authorised by an employee not on the authorised signatory database (ASD), and another was authorised by an employee on the database but their authorisation level was below the recharge's value.

No	Recommendation	Priority	Manager	Target Date
2	Operational Support staff need to ensure all credit notes raised are posted in the correct financial period and that Integra Templates are updated to reflect the customer record within Totalmobile. Additionally, recharges should be checked for authorisation against the ASD. Management Comment: The findings have been reviewed and taken forward by management.	Medium	Operational Support Manager	Complete

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Contamination Monitoring

Additional charges are charged by the recycle supplier if the waste delivered is contaminated. Contamination charges have varied over the year from £3.4k to £10.6k per month with annual costs circa £70k. Penalties are applied per tip of a waste vehicle individually. Approximately 95% of recycle is household waste, with the remainder being commercial waste. A record of the contamination of each tip is provided on a monthly basis along with the total contamination charge and the rate charged by the supplier increases if the contamination level is higher.

In order to gain assurance that the levels of contamination charged by the supplier are reasonable, periodically Waste Services staff will inspect recycle tips at the supplier's depot to ensure that a fair assessment is made. From review of the checking records, this checking commenced in January 2018 and it was noted that although there was evidence this checking occurs, it could be further formalised by recording the dates visited and the findings made. Staff need further clarity that they are recording contamination methodically and the method of assessment should be documented and fully agreed with the supplier.

No	Recommendation	Priority	Manager	Target Date
3	Waste Services should further formalise the method of recording visits to the recycle supplier for contamination checks so the date visited and findings are recorded in a consistent approach by all employees. The method of assessment should be documented and agreed with the supplier.	Medium	Waste Services Manager	31/07/2018

4.2 Trade Waste Routes and Monitoring Arrangements

Use of Route Management Software

Instead of using the Council's route management software, WebAspx, a spreadsheet with a list of addresses of Trade Waste customers is used. This provides less management information than it would if routes were recorded on the route management software. For example, using WebAspx would allow for estimations of route timings to be available when planning route changes, provide an audit trail of changes to routes, and allow tracking of when collection has ceased due to non-payment.

Route Monitoring

The Trade Waste Officer is able to monitor the progress of collections in real time using vehicle tracking software installed on all Council vehicles to ensure routes are carried out correctly and in good time. A minor issue noted was that for some vehicles the name of the driver was not being logged by the software. However, all waste services drivers must sign a driver log sheet as part of their shift, and driver identity confirmation through the driver fobs is an additional control.

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No	Recommendation	Priority	Manager	Target Date
4	<p>WebAspx should be used to record Trade Waste routes.</p> <p>Management Comment: Plans are underway to have relevant staff receive further training on the system and for all routes to be recorded on WebAspx.</p>	Medium	Waste Services Manager	30/09/2018
5	Travel and Fleet Services should review the reason why the names of drivers are not being recorded on some vehicles on the vehicle tracking software and resolve this issue.	Low	Travel and Fleet Services Manager	31/08/2018

4.3 Waste Services Contracts and Business Continuity Arrangements

Waste Services Supplier Contract Arrangements

Competitively tendered contracts are in place for the disposal of recyclate and residual waste. A contract is in place for the haulage of residual waste from the Council's transfer station to the residual waste supplier, but this contract has not been competitively tendered (contract value circa £170k per annum). Through discussion with the Procurement team it was established that the service opted to directly offer the contract to the existing haulage provider as the price was lower than those offered through the residual waste tender. However, a non-competitive action form should have been completed and authorised for this contract offer. Also, it was noted that the contract with the haulage provider were basic terms set out via an email; for a contract of this size a more comprehensive and detailed contract should be in place. All contracts of this size should be competitively tendered, but it is understood that this has been delayed due to the uncertainty as to when the Millerhill facility would be operational. Therefore, in the interim, a non-competitive action form should be authorised.

Waste Customer Contracts

Contract renewal letters are sent out to Trade Waste customers each year around March. The Trade Waste customer contracts are for 12 months, starting on 1 April and ending on 31 March (a 'season ticket'). The customer contracts include all relevant details regarding the customers' collection offering, and also include the 'Duty of Care' waste transfer note as required by the Waste (Scotland) Regulations 2012.

The following issues were noted with the waste customer contract:

- out of 15 customer contracts reviewed, it was noted that 4 were paying direct debits months before their contract had been signed and returned. As the season ticket cannot last longer than 12 months, management should review if this is the correct approach;

Midlothian Council - Internal Audit Report – Trade Waste

- the customer contract is required to detail the place(s) of waste transfer and is documented as Stobhill Depot. However, recyclate is not bulked at Stobhill Depot, it is delivered directly to the supplier; and
- SIC numbers were being approximated by the Waste Services team as customers often did not know this information. SIC is the UK Standard Industrial Classification (SIC) of Economic Activities (2007). The SIC code is used to classify business establishments and other statistical units by the type of economic activities they are engaged in. It is a requirement to record the appropriate SIC code of the transferor on all controlled waste transfer notes. It was noted during the review that the SIC numbers recorded did not match the Companies House record for the business. This has now been updated by the Trade Waste Officer.

Business Continuity Plan and Written Procedures

During the review it was noted that the business continuity plan for Waste Services required to be reviewed and updated, and written procedures for the service would benefit from an update. Waste Services is a complex area and is subject to some volatility in relation to the future prices available on the market for recyclate. Similarly, in recent years, one of the Council's previous suppliers failed and ceased operations. Additionally, there are risks of non-collection of waste if vehicles fail. The Waste Services back office team is small with significant reliance on key personnel. An update to the business continuity plan and written procedures would help to mitigate these risks, and highlight the risks to senior management.

No	Recommendation	Priority	Manager	Target Date
6	A non-competitive action form should be completed and authorised for the Council's Waste Services haulage contract. Additionally, the terms should be reviewed to ensure they are sufficiently comprehensive for a contract of this size.	Medium	Waste Services Manager / Procurement Manager	31/08/2018
7	Management should review and resolve the issues identified with the Waste Customer Contracts detailed in the audit report (whether service should cease for customers that have not returned contract, updating SIC codes, and updating place of transfer on Customer Contracts).	Medium	Waste Services Manager	31/08/2018
8	Management should review and update the business continuity plan for Waste Services and ensure written procedures for key processes are up to date.	Medium	Waste Services Manager / Head of Commercial	31/12/2018

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No	Recommendation	Priority	Manager	Target Date
			Operations	

4.4 Business Access to the Stobhill Recycling Centre and Commercial Bulky Uplifts

Business Access to the Recycling Centre

Commercial businesses and traders are currently not permitted to use the recycling centre to dispose of trade waste. Plans were approved at the February 2018 Council meeting to permit access to and charge for commercial use of the Stobhill recycling centre. This is expected to generate income to achieve a budgeted savings target of £35k in 2018/19 and £50k per annum thereafter.

Providing commercial access to the recycling centre has some complexities, as a waste transfer note will need to be created for the waste transfer, and in order to accept waste, the Council will need to clarify if the customer is a Registered Waste Carrier or a Professional Waste Collector. Some other Councils have addressed this by creating an online form for customers that allows all relevant details to be recorded, enable payment to be made, and generates a ticket for the customer to bring to the recycling centre as proof of payment.

During the audit review, it was noted that plans for charging for access were at the very early stages. Therefore, unless action is taken quickly to agree Trade Waste customer charges for use of the recycling centre, and have a system designed for recording the relevant details of the business transferring the waste and taking the payment from customers, then it is unlikely this saving will be achieved.

Commercial Bulky Uplifts

Per the Council's website, bulky uplifts are offered to existing Trade Waste customers only; this means a separate waste transfer note is not required as the customer will already have a 'season ticket'. Domestic Bulky Uplifts are recorded and paid for through the Council's Contact Centre. Systems and procedures have not been established to allow trade waste bulky uplifts to be recorded and paid for through the Contact Centre. Instead the procedure is for a quote to be provided by the Waste Services team, and then payment to be made through the cash office at Buccleuch House either in person or over the phone (the payment is made using Webspay).

At the time of the review, Waste Services had only taken 3 Commercial Bulky Uplifts in 2017/18. It was noted that 2 of these were recorded as domestic bulky uplifts as they were processed through the Contact Centre; this means that the income was posted to the incorrect cost code (a domestic waste cost code instead of the commercial waste code) and VAT was incorrectly not charged to the customer.

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No	Recommendation	Priority	Manager	Target Date
9	The decision to allow and charge access to the Stobhill recycling centre by commercial operators should be progressed to enable the associated income and savings to be generated for 2018/19. This involves agreeing the charges and implementing a system for recording the relevant details of the business transferring the waste and taking the payment from customers, Implementing this will require support from Digital Services and Business Services.	Medium	Waste Services Manager / Head of Commercial Operations	30/11/2018
10	A review of the Commercial Bulky Uplifts service should be undertaken and if it is to continue, the correct process for undertaking these should be developed and provided to staff.	Medium	Waste Services Manager	31/08/2018

4.5 Streamlining Processes, Income Collection, and Income Maximisation

Arrears are followed up timeously by the Sundry Debt team, and information is passed regularly to the Trade Waste Officer so collection routes can be updated to exclude non-payers. The collection routes were reviewed and we found that the collection was not being given to non-payers.

Additional methods that could be used to further increase income and reduce costs are:

- reducing the range of bin sizes offered to customers to simplify the collection regime;
- reviewing the level of discount offered to charities to determine whether to continue, remove, or reduce;
- collecting only on a weekly basis rather than offering bi-weekly or twice weekly collections to simplify the collection regime and route planning process; and
- advertising the service provided by the Council to generate new customers. Currently there is no money allocated for advertising the service.

No	Recommendation	Priority	Manager	Target Date
11	Management should review if there is scope to further increase income and reduce costs for the Trade Waste service using the methods outlined in the audit report.	Medium	Waste Services Manager	31/12/2018

4.6 Performance Information and Trade Waste Customer Contracts

Trade Waste Performance Indicators

Although performance indicators are in place as outlined by SEPA and LGBF, there are no specific periodically reported Trade Waste performance indicators or reports in place. Performance reports could include, for example, unsigned contracts, number of customers, number of customers paying by direct debit, number of collections, Trade Waste sundry debt etc. Additionally, the Association of Public Service Excellence (APSE) provide a number of voluntary performance indicators on Trade Waste that the service could consider using.

Review of Trade Waste Weightings and Waste Data Flow Upload

Local authorities are required to report to SEPA about waste collected and managed by or on behalf of them. This is done through an online reporting system called WasteDataFlow (WDF). Reports are submitted to SEPA annually, with a submission deadline of 28 February. Local authority waste data is verified on an annual basis by the Data Unit in SEPA and is used to help fulfil Scotland’s reporting obligations to the Scottish Government and Europe.

As part of the audit, the process for collating waste data and preparing for the upload to WDF and how the upload leads to the production of particular Waste Services PIs was reviewed. Generally, adequate processes are in place to ensure the data is reported accurately. The following minor points were noted:

- SEPA’s data is reported on a calendar year basis, whereas Midlothian Council reports on a financial year basis. It was noted that when some of the Q4 PIs were reported, these were actually a year’s data for the year ended 31 December but this was not made clear in the performance reporting;
- whilst processes are in place to prepare the quarterly upload to waste data flow, the data upload is not reconciled to the WDFs output to check for errors / differences. As part of the audit, this reconciliation was carried out for one quarter’s data, and while only some minor differences in mixed glass and Waste Electrical and Electronic Equipment were noted, it would be beneficial for this reconciliation to be carried out as part of the standard upload process; and
- access to the waste statistics’ directory is available to numerous staff in Waste Services. This access should be reviewed to mitigate against the risk of data loss.

No	Recommendation	Priority	Manager	Target Date
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Midlothian Council - Internal Audit Report – Trade Waste

12	<p>Regular performance reports should be provided for management review by Waste Services regarding contracts, numbers of customers, direct debit payees, debtors' limits, etc., to complement the financial management information regarding monitoring of budgets as part of future service delivery improvements.</p> <p>Additionally, consideration should be given to the minor points raised in the audit report in relation to the preparation of information for WDF and reporting of WDF performance information.</p>	Medium	Waste Services Manager	30/09/2018
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4.7 Bin Stocks

Trade waste bin stock and domestic bin stock is currently recorded in an insecure spreadsheet and is not recorded on the Totalmobile system (used to record the Council's main stock). At the time of review, evidence of periodic stock counts of the bins (both trade and non-trade) was not available. It is important that a robust record of bins is in place given that the intention is for the Council to start charging developers of new estates for the provision of bins.

No	Recommendation	Priority	Manager	Target Date
13	Management should review if the Council's record of bins can be recorded on the Council's Totalmobile system.	Medium	Head of Commercial Operations	30/09/2018

4.8 Waste Services Risk Register

It was noted from a review of the Waste Services risk register that no specific risks have been identified for Trade Waste.

No	Recommendation	Priority	Manager	Target Date
14	Management should review the Waste Services risk register and log relevant Trade Waste risks.	Low	Waste Services Manager	31/08/2018

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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
- John Blair, Director, Resources
- Gary Fairley, Head of Finance and Integrated Service Support
- Ricky Moffat, Head of Commercial Operations
- Phil Riddell, Waste Services Manager
- Jacqui Dougall, Business Services Manager
- Kathleen Leddy, Operational Support Manager
- Trevor Docherty, Travel and Fleet Services Manager
- Iain Johnstone, Procurement Manager

Audit Team

Author:	James Polanski	Auditor
Reviewer:	Jill Stacy	Chief Auditor
	Elaine Greaves	Principal Auditor

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Background:

The purpose of this audit is to review the systems and controls in place for the charging, collection, and disposal of Trade Waste and related performance reporting.

Audit Objective:

The scope of the audit is to examine and evaluate the following areas:

- end-to-end process in respect of Trade Waste and Trade Waste customers;
- income collection and debt recovery including withdrawal of services;
- streamlining processes and systems to ensure income maximisation;
- management information and performance reporting; and
- disposal of trade waste and respective controls around delivery of waste to the Council’s contracted suppliers and payment of supplier invoices at the appropriate contract rate.

Potential Risks

Potential risks include:

- increased costs of disposal of waste and budget pressures;
- reputational damage due to customer dissatisfaction with service quality or charges;
- fraud and theft (eg through collection of waste from non-paying businesses);
- supplier failure and associated business continuity risks;
- competition from other trade waste providers; and
- non-payment of trade waste charges.

Audit Approach

The audit approach consists of:

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- 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 Midlothian Council’s Audit Committee.

Timescales & Reporting

The Audit will commence in February 2018 and once complete, the report will be submitted 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:	Jill Stacy & Elaine Greaves	0131 271 3285

Internal Audit Annual Assurance Report 2017/18
Report by Chief Internal Auditor

1. Purpose of the Report

The purpose of this report is to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2018 which includes the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.

2. Background

The Public Sector Internal Audit Standards (PSIAS) that became effective for local authorities in April 2013 (updated April 2017) requires that:

"The chief audit executive [MLC's Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

The Terms of Reference of MLC Audit Committee's states:

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

3. Internal Audit Annual Assurance Report 2017/18

The Internal Audit Annual Assurance Report 2017/18, at Appendix 1, includes the Chief Internal Auditor's independent and objective opinion regarding the adequacy and effectiveness of internal control within Midlothian Council, provides details of the Internal Audit activity that supports the opinion and of the performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards.

The Internal Audit Annual Assurance Report 2017/18 provides assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Single Midlothian Plan and has been used to inform the Annual Governance Statement 2017/18.

4. Report Implications

4.1 Resource

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). Staff resources have been adversely affected during the year, mostly notably due to the Service Review that was undertaken on the Internal Audit function, the introduction of Shared Services arrangement from December 2017 (Chief Internal Auditor 0.5 FTE – shared with Scottish Borders Council), and the deployment of Internal Audit and Counter Fraud resources to the Roads Contract Management Investigation. This has had an impact on the delivery of the Internal Audit planned work.

There is a commitment to provide resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) and a number of audits were undertaken during the year to meet that commitment. A separate annual assurance report will be presented to MIJB Audit and Risk Committee and MIJB to fulfil role.

4.2 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. Each Internal Audit assignment has been risk-based and, where appropriate, has tested the specific Service's management of risk.

Internal Audit provides assurance to Management and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, and to highlight good practice and recommend improvements.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls and governance arrangements.

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

4.3 Single Midlothian Plan

Themes addressed in this report:

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

4.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners include the following areas as key priorities under the Single Midlothian Plan:

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

4.5 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year assists the Council in improving its performance and outcomes.

4.6 Adopting a Preventative Approach

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

4.7 Involving Communities and Other Stakeholders

The Internal Audit Annual Assurance Report 2017/18 has been distributed to the Corporate Management Team (Chief Executive and Directors) and Heads of Service. The Report has also been passed to Midlothian Council's External Auditors, EY, for comment, prior to submission to the Audit Committee for their consideration.

4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.10 IT Issues

There are no IT issues with regard to this report.

5. Recommendations

The Audit Committee is therefore asked to consider the Internal Audit Annual Assurance Report 2017/18, and assurances contained therein, and to provide any commentary thereon.

Date: 31 May 2018
Report Authors: Jill Stacey, Chief Internal Auditor
E-Mail: Jill.Stacey@midlothian.gov.uk

Chief Internal Auditor's Annual Assurance Report and Opinion 2017/18 for Midlothian Council

1 Introduction

- 1.1 It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines of defence which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line of defence, is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.
- 1.4 The Objectives of Internal Audit are set out in its Charter: "As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- In support of the Council's vision, values and priorities.
 - As a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
 - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 1.5 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive [MLC's Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
The annual report must incorporate:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

- 1.6 This Annual Assurance Report provides the annual internal audit opinion and summarises the work carried out by Internal Audit during the year to 31 March 2018 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan. The report also states the outcomes of assessments of the Internal Audit service against the PSIAS.

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

- 2.1 My opinion is that, based on our reviews, risk assessments and knowledge, the systems of internal control and governance are generally adequate though there are indications in some areas of non-compliance and a lack of evidence of Management monitoring that they are operating satisfactorily; therefore improvements are required to the second line of defence consistently across the Council to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities.
- 2.2 The Council's Local Code of Corporate Governance has been updated as part of the 2016/17 annual review process and was approved by Council in December 2017, following consideration by the Audit Committee. This is to ensure this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.
- 2.3 The Council recognises that risk management is an integral part of all activities and has Corporate and Service Risk Registers in place which are subject to regular review by those Managers who are allocated the responsibilities for managing individual risks. The Audit Committee received periodic reports from the Risk Manager on corporate risks and mitigations to fulfil its oversight role to monitor the effective development and operation of risk management in the Council.
- 2.4 Further improvements in internal control, risk management and governance have been agreed by Management as highlighted in Internal Audit reports and recommendations made during the year or outstanding from previous years.

3 Internal Audit Annual Plan 2017/18 Delivery

- 3.1 Staff resources have been adversely affected during the year, mostly notably due to the Service Review that was undertaken on the Internal Audit function, the introduction of Shared Services arrangement from December 2017 (Chief Internal Auditor 0.5 FTE – shared with Scottish Borders Council), and the deployment of Internal Audit and Counter Fraud resources to the Roads Contract Management Investigation. This has had an impact on the delivery of the Internal Audit planned work.
- 3.2 The following Audit Reviews from 2017/18 Audit Plan have not been carried out for a variety of reasons with explanation provided:
- Children and Young People's Act – Named Person (Strategic Risk Based Audit - In agreement with relevant Senior Management this audit review was deleted from the programme as new legislation is not yet in place and audit work would therefore not be value added).
 - Highways Network Assets (Strategic Risk Based Audit – This audit review was deleted from the programme as the planned accounting change did not materialise therefore no requirement to review compliance).
 - Follow up of the 2016/17 Audit of Financial Strategy and Delivering Excellence (Strategic Risk Based Audit – Deferred to 2018/19 Audit Plan due to impact on staff resources of Roads Contract Investigation; Audit work is being incorporated in Delivering Excellence Programme review within 2018/19 Audit Plan).
 - Social Care Budget Planning Project (Strategic Risk Based Audit - Audit work to be incorporated in Revenue Financial Budget Monitoring review within 2018/19 Plan).

- Pupil Equity Funding (Strategic Risk Based Audit – Deferred to 2018/19 Audit Plan in agreement with Senior Management as awaiting guidance and templates from Scottish Government relating to the ring-fenced funding Return).
- Bank and Cash (Core Process / System Audit – Delayed due to a new till system being implemented in leisure centres to be launched in April 2018; Audit work to be incorporated in Sales to Cash review within 2018/19 Audit Plan).
- Council Owned Care Homes (Deferred in light of Monitoring of External Care Homes review carried out in 2017/18).
- Payroll (Core Process / System Audit – Deferred to 2018/19 Audit Plan due to impact on staff resources).

3.3 In contrast the following Audits that were deferred from 2016/17 Audit Plan have been carried out: Health and Safety; Monitoring of External Care Homes (Strategic and Risk Based Audits); and Accounts Payable (Core Process / System Audit).

3.4 The range and breadth of Internal Audit work that has been performed during the year, which is listed below, is sufficient to inform the Internal Audit assurance on the systems of internal control, governance arrangements and risk management:

Strategic and Risk Based Audits

3.5 To provide assurance on the internal controls and governance in place to ensure efficient and effective use of assets and resources and perform substantive testing of transactions to ensure completeness and accuracy of data in core systems, reviews included:

- Climate Change Reporting (Review the reporting arrangements to the Scottish Government).
- Waste (Review the systems and controls in place for the charging, collection, and disposal of Trade Waste and related performance reporting).
- Complaints (Performance reports highlight that performance indicators are off target for all Services. To include a review of controls operating over FOI requests).
- Health and Safety (Deferred from 2016/17 Audit Plan - Review the adequacy of the control framework designed by Management to allow compliance with Health and Safety legislation).
- Monitoring of External Care Homes (Deferred from 2016/17 Audit Plan – Assess the adequacy of the Council’s internal quality control over third party care home providers).

Core Process / System Audits

3.6 To provide assurance on the internal financial controls in place and perform substantive testing of transactions to ensure completeness and accuracy of data in core financial systems, reviews included:

- Accounts Payable (Deferred from 2016/17 Audit Plan - Assess controls operating for the main systems used by the Council to pay suppliers for goods and services).
- Purchasing Cards (Deferred from 2016/17 Audit Plan – Assess the adequacy of the internal controls in place for the Council’s use of purchasing cards the roll-out of which was part of the Council’s plan in reducing Petty Cash spend).
- Treasury Management (Test controls over policies and practices, strategies and reporting and compliance with the Treasury Management Code of Practice).

Legislative and Other Compliance Audits

- 3.7 To test compliance with the terms of the funders' service level agreements or other requirements as part of the wider assurance framework, reviews included:
- Tyne Esk LEADER Grant Fund (Annual requirement to review the controls in place to deliver the Tyne Esk LEADER Grant Fund and to undertake compliance related work as defined by the Service Level Agreement).
 - Construction Industry Scheme (Annual requirement to undertake review in this area to test that the scheme rules are being complied with as required by HMRC) - The Findings, which were reported internally, indicate that monthly reporting to HMRC is satisfactory, and no errors were found in the invoice samples reviewed; During the course of the Audit we have informed relevant Service Areas about a minor matter to improve internal control; It is proposed to reduce the frequency of this Compliance activity from Annual to 3-Yearly within the Internal Audit Plan which has been agreed by relevant Management.

Annual Audit Work

- 3.8 During the year resources were deployed in undertaking the following work relating to the whole Council:
- Recommendation Follow-Up Reviews (Two reviews were undertaken. The first noted performance against closing issues by the agreed due date while the second included a sample check on the adequacy of actions taken against issues which are flagged as closed, to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal controls, risk management and governance).
 - Review of Corporate Governance (Test a sample of the key elements in the Local Code of Corporate Governance to determine whether these are operating as described. The results from this testing are included in the Annual Governance Statement).
 - Annual Assessment of Internal Controls (Prepare an annual report for the Audit Committee summarising the work undertaken by the Internal Audit section and forming an opinion on the adequacy of the control environment within the Council).
 - Assessment of Internal Audit against PSIAS (Each year the Internal Audit section undertakes a self-assessment against the Public Sector Internal Audit Standards and reports its findings to the Audit Committee. In addition during 2017/18 there was an External Quality Assessment (EQA) peer review carried out by Highland Council to validate the self-assessment – see below).
 - Assessment of the Audit Committee against the CIPFA Code (Assistance provided to the Chair of the Audit Committee in undertaking an assessment of the Audit Committee against the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition).
 - Help Desk Enquiry System (Internal Audit has a help desk facility where guidance and advice is given Management and Staff on internal controls. The help desk is also used to manage any enquiries received through the whistle blowing facilities offered by the Council).
 - Administration of Audit Scotland Reports (Internal Audit coordinates submission of Audit Scotland Reports to the Audit Committee by relevant Management).
 - Support for the Risk Management and Integrity Groups (Internal Audit attends and provides support to the Risk Management Group and the Integrity Group).
 - Planning for 2018/19 (Development of the Internal Audit Charter, Strategy and Annual Plan for 2018/19)

Investigations

- 3.9 The most significant investigation during the year related to Roads Contract Management which had a significant impact on staff resources in the second half of the year. The findings and recommendations arising from Phase 1 of the Investigation have been used to inform the Internal Audit opinion. Further work is planned in Phase 2 and within other planned Internal Audit and Counter Fraud work in 2018/19 to provide further assurance.

Non MLC Work

- 3.10 MLC Internal Audit section carries out three Audit reviews and provides support for the Midlothian Integration Joint Board (MIJB) based on a plan approved by MIJB and results are reported to MIJB's Audit and Risk Committee then to MIJB.

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

- 4.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) include:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
 - Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress).
- 4.2 The Quality Assurance and Improvement Plan (QAIP) is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors apply the Code of Ethics, and an action plan to implement identified improvements.
- 4.3 An internal self-assessment of Internal Audit practices against the Standards was carried out in 2017/18, as required by the PSIAS, which has indicated Internal Audit conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards.
- 4.4 The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. To this end the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) developed its "Peer Review" framework in which MLC took part. An External Quality Assessment (EQA) Peer Review by Highland Council was carried out in March 2018. The full report is awaited though verbal feedback indicates conformance with the PSIAS against the 13 Assessment Areas and has highlighted a few areas where improvements can be made. An action plan will be developed to implement identified improvements.

Jill Stacey BA(Hons) ACMA CGMA
Chief Internal Auditor
31 May 2018

Risk Management, Update for 1 January 2018 – 31 March 2018

Report by Chris Lawson, Risk Manager

1 Purpose of Report

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

The purpose of this report is to provide Audit Committee with the 2017/18 quarter 4 strategic risk management update, covering the period 1 January 2018 to 31 March 2018.

2 Background

Midlothian Council continues to face challenges particularly around delivering a wide range of services to local communities with reducing budgets. The Council has done much to reduce spend while continuing to deliver services to our local communities. Transformational change has, and continues to be increasingly important to the Council as it seeks to improve local outcomes with less money. Implementing successful transformation programmes is not easy, with audit work carried out in 2014 and a follow up audit action report in 2017 identifying areas for improvement.

The Accounts Commission report, Local government in Scotland – 'Challenges and Performance 2018' suggests that Midlothian Council has low general fund reserves and high savings targets for the transformation plans which will be challenging to meet. Not delivering expected savings could mean the general fund reserve falls.

Another challenge facing the Council is the changing landscape in which it operates. These include the UK decision to leave the European Union, which could have a significant impact, however details are not yet known. The Scottish Government's review of education and of local governance could have significant impacts on the role of the Council, the details of these are not yet evident.

The creation of economic partnerships could impact on each Council's role in the important area of economic regeneration and growth.

Last year was the first full operational year of Midlothian's Integrated Joint Board. The Council and their IJB partners have a significant task in providing social care and support for those who need it. The impact of increasing social care demands from a rising ageing population on the Council's budget is clear and means a higher proportion of Council money being spent on social care services.

Councillors and Senior Management, working closely with communities, will continue to be faced with difficult decisions on where limited resources should be allocated. It is therefore important the impact of these decisions on communities are transparent and understood.

Following the announcement Midlothian Council's Chief Executive is to leave the Council in July 2018 the Council has embarked on a recruitment campaign. There is the potential during the period up to the appointment of a new Chief Executive to impact decision making.

During this period the Council became aware of a potential incident of fraud through its whistleblowing arrangements. The Council have since initiated an internal audit investigation which has reported to Audit Committee on 15 May 2018. This initial audit investigation has been followed up by a report to the Police and further independent investigation work conducted by the Council's independent Auditors, Ernest and Young. This case has the potential to damage the Council reputation.

2.1 Strategic Risk Profile update




The on-going risk associated with financial stability and balancing the budget in future years remains, with the change programme the most significant factor in seeking to identify and deliver on the reduction in expenditure and increased income generation needed to ensure the Council can balance its budget in future years.

2.2 The Scottish Governments new Education (Scotland) Bill 2017 continues to be consulted through COSLA with the potential to significantly change the education landscape ahead.




2.3 Following the UK decision to leave the European Union the Council were advised of potential impacts in a report taken to Council with a focus on EU funding, broader economic impacts, societal, environmental and regulatory issues.

2.4 Strategic Risk Profile Summary

The Top Strategic Issues are summarised in table 1.

Top Issues	Likelihood	Impact	Score	Evaluation	
Financial Stability	5	4	20	High	
Welfare Reform	5	4	20	High	
The Change Programme	3	5	15	Medium	

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

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Growing Council	4	5	20	High	
Scottish Abuse Inquiry	5	4	20	High	
Historic Abuse Claims Project	4	5	20	High	

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Balancing budget in future years	4	4	16	High	
The Longer Term Change Programme	4	4	16	High	
Review of Pay and Grading	4	4	16	High	
Climate change	4	4	16	High	
Information Security	3	5	15	Medium	
Health and Safety	3	5	15	Medium	
Political uncertainty – Education Governance Review	3	4	12	Medium	
Integration of health and social care	3	4	12	Medium	
UK decision to leave the EU	3	4	12	Medium	
Governance and standards	3	4	12	Medium	
Employee performance	3	4	12	Medium	
Emergency planning and business continuity	3	4	12	Medium	
Legal and regulatory compliance	3	3	9	Medium	
Working with other to deliver outcomes	3	3	9	Medium	
Asset management	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Corporate policies and strategies	2	3	6	Low	

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

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

2.6 STRATEGIC ISSUES – RATED CRITICAL AND HIGH

2.6.1 Financial Stability

The Strategic Leadership Group proposals were presented to Council on 13 February 2018 at which the Council were able to approve a balanced budget. The Chief Executive has instructed the Directors to bring forward further reductions for 2018/19 following this Council meeting. Work continues with the Strategic Leadership Group to ensure financial sustainability.

2.6.2 The Change Programme

The balanced budget approved on 13 February 2018 incorporated a range of savings which form the Change Programme and the delivery of the 2018/19 outturn within the approved budget which is highly dependent on the delivery of the Change Programme.

Monitoring the oversight of the Change Programme is delivered through dashboard reporting prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board and the Business Transformation Steering Group. This is in addition to continued quarterly financial reporting by Financial Services.

2.6.3 Welfare Reform

Universal Credit Full Service was rolled out in Midlothian from the 22 March 2017. The Universal Credit Programme closed gateways for legacy benefits, so existing benefits are no longer eligible as Universal Credit rolls out and there are plans for the migration of those remaining claimants on current benefit types once the digital rollout is complete for all of Great Britain. Awareness, advice and assistance is being provided by the Council, this risk continues to be monitored by the Council.

2.7 STRATEGIC RISKS – RATED CRITICAL/HIGH

2.7.1 Balancing budget in future years

To enable the Council to deliver balanced budgets in future years the Council are developing and implementing a Change Programme to ensure the long term financial sustainability.

The updated Financial Strategy is due to be presented to Council 26 June 2018 which will set out the timetable to bring forward further Change Programme proposals for 2019/20 to both allow engagement and allow Council to set its budget before 11 March 2019.

Maintaining and ensuring sustainability of growth in the asset base will see a draft Capital Strategy report will be presented to Council on 26 June 2018.

2.7.2 Growing Council

Midlothian Council has been identified in 2018 as the fastest growing Council in Scotland with a projected population growth of 26% between 2014 -2039. This would see the population of Midlothian grow from 86,220 – 108,369 by 2039. The growth is expected to see the 0-15 population increase by 20%. The fastest rate increase is expected in the 75+ population with a projected 106% increase between 2014 and 2039. Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.

To plan for the impact this growth will have on the school estate, Education have developed a Learning Estate Strategy to address the expected pressures from this and other known Government policies which will impact on capacity requirements within schools. Any delays in delivering the Learning Estate Strategy could impact on the Council's ability to respond effectively to future pupil growth projections.

2.7.3 Scottish abuse inquiry and Abuse Claims

On 1 October 2016 the Scottish Government set up the Scottish Child Abuse Inquiry. The inquiry will report back to Scottish Government Ministers within 4 years with recommendations for the future to improve the law, policies and practices in Scotland.

The Council have set up an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise. The Claims Project has been added to the Strategic Risk Profile report as a Risk in its own right as there does not have to be an association with the Scottish Abuse Inquiry for a civil claim to be made, the period which claims can be made now extends back to 1964, creating scope for historic claims.

The Claims Project Team have put in place a process for dealing with potential historic child abuse claims.

A communications plan and training plan are in place. A web page is available to provide information on the Limitation (Childhood Abuse) (Scotland) Act 2017 and guidance for childhood abuse survivors on claiming compensation.

2.7.4 Review of pay and grading

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

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

2.7.5 The Longer Term Change Programme

The strands of work that will continue to be necessary to address the projected budget shortfalls in the medium term, encompassing:-

- Delivering Excellence,
- Enterprising with Communities,

- Entrepreneurial Council,
- Digital Customer,
- Integrated Health and Social Care, and
- Shared Services.

2.7.6 Climate change

There is a risk that Council Services are not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act. This could result in the Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage. A recent Internal Audit report has identified measures the Council need to take.

2.8 STRATEGIC OPPORTUNITIES

2.8.1 Shawfair

The Shawfair development with its new Rail link provides a major incentive for house builders, employer's retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.

2.8.2 Borders Rail

Regeneration of priority communities of Midlothian through which the railway passes.

The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also an opportunity to encourage sustainable travel by residents of major new housing developments in the rail corridor.

Ensuring Midlothian secures appropriate levels of Blueprint funding from the multi-agency Borders Rail 'Blueprint' funding group.

2.8.3 Easter Bush

Fast growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM.

2.8.4 City Deal

South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation.

2.8.5 Fastest Growing Council

Midlothian Council has been identified in 2018 as not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.

This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.

This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.

3 Report Implications

3.1 Resource

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

3.2 Risk

The Strategic Risk Profile seeks to articulate the significant risks facing the Council at a specific point in time. The Risks reported are generally those that impact on all parts of the Council and the strategic priorities of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis by officers.

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

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Impact on Performance and Outcomes

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

3.5 Adopting a Preventative Approach

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

3.6 Involving Communities and Other Stakeholders

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

3.7 Ensuring Equalities

There are no direct equalities issues arising from this report.

3.8 Supporting Sustainable Development

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

3.9 IT Issues

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

4 Recommendations

Audit Committee is invited to:

Note the quarter 4 2017/18 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

Date: 23 May 2018

Report Contact:

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Background Papers: **Appendix 1** Strategic Risks Profile
Quarter 4 2017/18

Strategic Risk Profile

ISSUES




SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p>Risk cause Change programme that doesn't address the budget shortfall; The Change Programme does not achieve the projected savings</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework.</p> <p>Risk effect Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	<p>1. Change Programme including Delivering Excellence framework which addresses projected budget shortfalls.</p> <p>2. Delivering Excellence Management Tools to support the application of the framework.</p> <p>3. Section 95 Officer has sought assurance from Heads of Service that the 2018/19 saving proposals are deliverable:</p> <ul style="list-style-type: none"> Financial Strategy. Leadership from Executive Team and Senior Leadership Group. Appropriated governance in place across the Change Programme. Links between Change Programme and Workforce Plans Resilience planning. Senior Leadership Group regularly considering Change Programme and budget position. Capacity to deliver change. 	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.02.01	<p>Developing and implementing a Change Programme to ensure long term financial sustainability.</p> <p>SLG proposals were presented to Council on 13 February 2018.</p> <p>Development of a robust framework to effectively monitor the activity of the Change Programme.</p>	<p>Q4 17/18: The Council approved a balance budget on 13 February 2018 which incorporated a range of savings which form the Change Programme and the delivery of the 2018/19 outturn within the approved budget and is highly dependent on the delivery of the Change Programme.</p> <p>Monitoring the oversight of the Change Programme through the Change Programme Dashboard prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board and the Business Transformation Steering Group. Supported in addition to continued quarterly financial reporting by Financial Services.</p>	John *Blair; Ricky *Moffat; Garry *Sheret; Mary *Smith; Kevin Anderson; Gary Fairley; Ian Johnson; Allister Short; Joan Tranent; Grace Vickers; Alison White	26-Jun-2018	

		Strategic Leadership Group proposals were presented to Council 13.02.2018 to allow engagement. The Chief Executive has instructed the Directors to bring forward further reductions for 2018/19 following this Council meeting. Continued work with Strategic Leadership Group to ensure financial sustainability.			
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SRP.IR.06 Welfare Reform

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.06	<p>Risk Cause: New Universal Credit scheme introduced by UK government replacing legacy benefit schemes with a single scheme.</p> <p>Risk Event: Universal Credit (UC) Live Service was introduced in Midlothian for newly unemployed single claimants, with or without housing costs, in Dalkeith and Penicuik Jobcentres from 27 April 2015. Universal Credit Full Service is being rolled out in Midlothian on 22 March 2017.</p> <p>Risk Impact: The Universal Credit Programme will close gateways for legacy benefits, so existing benefits will no longer be eligible, as Universal Credit rolls out as plans for the migration of those remaining claimants on current benefit types once the digital rollout is complete for all of Great Britain. Potential for larger numbers of people/families falling in to arrears on rent and those requiring discretionary payments.</p>	Kevin Anderson;	<ol style="list-style-type: none"> 1. Applying discretionary housing payment to offset full impact of under occupancy charge (also known as bedroom tax) 2. Work with 3rd sector to mitigate individual case circumstance were applicable. 3. Scottish welfare fund available for hardship cases, emergency food packs available a relevant council offices. Food banks in operation within Midlothian. 4. Protocol established and in operation where families with children fall into arrears. 	5	4	

SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Rising customer expectations</p> <p>Risk event Change Programme and the flexibility available to Councils as part of the grant settlement does not address future</p>	Gary Fairley	<ol style="list-style-type: none"> 1. Medium term Financial Strategy and multi-year Change Programme. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Sustainable Capital Strategy. 4. Continued work with Strategic Leadership Group to ensure financial sustainability. 5. Programme monitoring - continual reassessment of grant settlement prospects by the Finance Team. 6. Review of Capital Strategy, General Services Capital Plan and 	5	4	


	years projected budget gaps Risk effect A shortfall and or slow or delayed savings arising from the Change Programme. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.		Reserves Strategy. 7. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.02.01	<p>Developing and implementing a Change Programme to ensure long term financial sustainability.</p> <p>SLG proposals were presented to Council on 13 February 2018.</p> <p>Development of a robust framework to effectively monitor the activity of the Change Programme.</p>	<p>Q4 17/18: The Council approved a balance budget on 13 February 2018 which incorporated a range of savings which form the Change Programme and the delivery of the 2018/19 outturn within the approved budget and is highly dependent on the delivery of the Change Programme.</p> <p>Monitoring the oversight of the Change Programme through the Change Programme Dashboard prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board and the Business Transformation Steering Group. Supported in addition to continued quarterly financial reporting by Financial Services.</p> <p>Strategic Leadership Group proposals were presented to Council 13.02.2018 to allow engagement. The Chief Executive has instructed the Directors to bring forward further reductions for 2018/19 following this Council meeting. Continued work with Strategic Leadership Group to ensure financial sustainability.</p>	<p>John *Blair; Ricky *Moffat; Garry *Sheret; Mary *Smith; Kevin Anderson; Gary Fairley; Ian Johnson; Allister Short; Joan Tranent; Grace Vickers; Alison White</p>	26-Jun-2018	

RISKS


SRP.RR.01 Balancing Budgets in future years/Impact of Budget Cuts/Financial Strength of Council


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p>Risk cause: Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Population growth and time lag to fund pressures on public services. Policy decisions by UK & Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand Rising customer expectations</p> <p>Risk event: Reducing grant settlement. Policies decisions at Government level not fully funded to Council's. Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates.</p> <p>Risk effect: Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit</p>	Gary Fairley	<ol style="list-style-type: none"> 1. The Financial Strategy to 2022-23 2. Delivery and expansion with further options presented to Council autumn 2018. Change Programme including the Delivering Excellence framework developed for the new Council Administration. 3. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 4. Draft Capital Strategy to June Council 5. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 6. Consider a lobbying strategy with government to recognise the unique position Midlothian Council is in. 	5	4	





Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.01.01	Developing and implementing a Change Programme to ensure the long term financial sustainability. Updated Financial Strategy to be presented to Council 26 June which will set out the timetable to bring forward further Change Programme proposals for 2019/20 to both allow engagement and allow Council to set its budget before 11 March 2019.	Q4 17/18: Updated Financial Strategy presented to Council 13.02.2018 which includes details of Change Programme to allow engagement.	Gary Fairley	26-Jun--18	

SRP.RA.01.0 2	Maintaining and ensuring sustainability of growth in asset base. Draft Capital Strategy report to Council June 2018.	Q4 17/18: Fundamental review of Capital Strategy and Capital Plan report to Council June 2018	Gary Fairley	26-Jun-18	
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SRP.RR.02 The Longer Term Change Programme


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<p>Risk cause A change program that doesn't address the budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings Cuts in service provision rather than service transformation</p> <p>Risk effect Objectives of change not actually met Adverse impact on services Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities. Staff morale negatively affected, Government step-in Short term savings instead of transformation</p>	Gary Fairley	<ol style="list-style-type: none"> 1. Financial Strategy and Change Programme 2. Leadership from Executive Team and Senior Leadership Group. 2. Appropriated governance in place across the Change Programme. 3. Links between Change Programme and Workforce Plans 4. Resilience planning. 5. Senior Leadership Group regularly considering Change Programme and budget position. 6. Capacity to deliver change. 	4	4	





Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA - 02.02	Continue to provide medium term financial projections to Council. Updated Financial Strategy to be presented to Council 26 June which will set out the timetable to bring forward further Change Programme proposals for 2019/20 to both allow engagement and allow Council to set its budget before 11 March 2019.	Q4 17/18: Updated Financial Strategy presented to Council 13.02.2018 which includes details of Change Programme to allow engagement.	Gary Fairley	13-Feb-2018	

	Consultation ongoing on a revised Managing Change Policy which is expected to be implemented in March 2018	Q4 17/18: New Change Policy in place	Gary Fairley	31-Mar-2018	
SRP.RA.02.03	Developing Workforce Plans and Workforce Strategy aligned to the Change Programme	Q4 17/18: Finalised Workforce Strategy approved and Workforce Plans continually updated to reflect the ongoing change activity	Gary Fairley	31-Mar-2018	
SRP.RA-02.01	Developing and implementing a Change Programme to ensure the long term financial sustainability.	Q4 17/18: Approved in February 2018 and arrangements to monitor through service dashboards Agreement with SLG on 9 May 2018 to refine and expand the Change Programme to reflect future years budget shortfalls	Gary Fairley	26-Jun-2018	
SRP.RA.02.04	Digital led transformation	Q4 17/18: New CRM system to support digital led transformation. Scoping out exercise involving all services.	Gary Fairley, Kevin Anderson	30 September 2018	


SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p>Risk cause Current or new legislation applying to Midlothian Council</p> <p>Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	<ol style="list-style-type: none"> 1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk based audit plan. 4. External Audit. 5. Statutory Inspection. 6. Local Scrutiny Plan - Report to Council 8 May 2018. 	3	3	



Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.01	Legal & Regulatory Compliance	Q4 17/18: Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent;	31-Mar-2019	

			Grace Vickers; Alison White		
SRP.RA.03.0 2	Governance Statement and Annual Assurance arrangements	Q4 17/18: Completion of Annual Governance Statement and Directors and Heads of Service Annual Assurance questionnaires.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31 May 2018	
SRP.RA.03.0 3	Demographic Growth	Q4 17/18: The Council has prepared a Learning Estate Strategy to reflect the projected growth in demand through to 2040.Capital Strategy will set out infrastructure required to meet those demographic pressures a draft of which will be presented to Council June 2018	Grace Vickers; Garry *Sheret;	31 Jul - 2020	
SRP.RA.03.0 5	Participatory Budgeting	Q4 17/18: Development of a strategy or action plan to comply with requirements.	Ian Johnson	31-Mar-2021	
SRP.RA.03.0 6	Education Act 2000 to be repealed.	Q4 17/18: Education Service have implemented the Education Act 2016 which requires mandatory reporting on closing the attainment gap, duty to collaborate in new regional collaborative.	Grace Vickers	31-Mar-2018	

SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<p>Risk cause Employees not suitably qualified or developed for the roles required of them. limited availability of qualified practitioners in certain sectors Change program not informed by all key stakeholders Ageing work force Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance</p> <p>Risk event Employees not engaged/consulted as part of organisational</p>	Marina Naylor	<ol style="list-style-type: none"> 1. Focus on having the right people here, performing, behaving and healthy 2. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership 3. Effective and progressive People Policies in place P 4. Making performance matter 5. A range of initiatives to keep staff informed of change (In brief, Staff Magazine, Espresso Sessions for Managers on new People Management Policies) 6. Workforce planning 7. Investing in our workforce board 8. Healthy Working Lives Gold Award 9. Occupational Health provision in place 10. Employee Assistance and Physio therapy services to support employee health and attendance 11. Forward looking and progressing People Policies 12. Workforce strategy action plan 	3	4	

	<p>transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p> <p>Risk effect Difficulties recruiting the right staff Challenges retaining quality staff Low skill levels Low morale, especially during change High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge</p>					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Workforce Strategy approved by council December 2017 Service Workforce Plans continually updated to reflect Change Programme and action plan to develop Workforce Strategy	Q4 17/18: Workforce Strategy Delivery Programme being complied with input from key stakeholders following approval of workforce strategy by Council in December 2017.	Gary Fairley	31 Mar 2018	
SRP.RA.02.04	Developing Wellness Strategy	Q4 17/18: Wellness Strategy developed with engagement session planned for Leadership Team.	Gary Fairley	30 Jun 2018	


SRP.RR.05 Working with others to deliver outcomes

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.05	<p>Risk cause Partners not engaged or focused to deliver specific outcomes. Public Sector Reform Agenda.</p>	John *Blair; Mary *Smith; Allister Short	<p>1. Key partners engaged in planning and delivery of Service outcomes, e.g. Midlothian Community Planning Partnership have developed a Single Midlothian Plan. Midlothian Integrated Joint Board (Adult & Social Care Integration) have developed and Strategic Plan.</p> <p>2. Approved integration scheme.</p>	3	3	


	<p>Risk event Partners prioritising activity in areas not inline with delivery of defined outcomes. Community groups afforded legal right to make case to operate vacant properties for community use.</p> <p>Risk effect Delivery of outcomes delayed or not achieved Officer time to support the assessment of unsustainable business cases.</p>		3. Service Directions in Place.			
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SRP.RR.06 Information Security


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p>Risk cause General Data Protection Regulation is a new piece of legislation currently being formulated by the European Commission. It is expected to be agreed in the first part of 2016 with a two year lead in period. The public sector cyber security requirements</p> <p>Risk event The Regulation has been agreed with implementation due on 25 May 2018.</p> <p>Risk effect The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros which ever is greater.</p>	Ian Wragg	<ol style="list-style-type: none"> 1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project Plan. 6. Public sector cyber security compliance 	3	5	



Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.03	<p>General Data Protection Regulation Project Plan information security</p> <p>PSN accreditation and public sector cyber security accreditation</p>	<p>Q4 17/18: Steady progress being made towards target of making Council General Data Protection Regulation compliant. Project team actively engaged with all areas of Council in recording processing of personal information, ensuring staff are appropriately trained and raising awareness via existing communication channels. Regular reports on project progress, including appointment of a Data Protection Officer being taken to CMT. PSN accreditation obtained through to March 2019 and public sector cyber security plus secured for the corporate estate</p>	Phil Timoney	25-May-2018	

SRP.RR.07 Integration of Health & Social Care


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p>Risk cause Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity.</p> <p>Deliverability of Integrated Joint Board. Funding of set aside services. Risk exposure of money – operation of Integration Scheme in respect of set aside services will limit the IJB to reshape services and deliver its services which increases Council risk</p> <p>Risk event Capacity of Community Support outstripped by demand</p> <p>Risk effect There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.</p>	A Short	<ol style="list-style-type: none"> 1. Care at Home improvement action plan in place and near compaction 2. Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level 3. New Framework agreement in place with significant improvement in quality from Providers 4. Flow management planning in development to maximise Care at Home capacity going forward 5. Weekly provider meetings in place 6. Additional locum team members recruited to for contingency cover 7. New Leadership model in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place 	3	4	


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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p>Risk cause Many of the assets the Council own by their nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & buildings used to deliver services.</p> <p>Risk event Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p>Risk effect In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p>	Ricky *Moffat; Garry *Sheret; Gary Fairley	<ol style="list-style-type: none"> 1. There is provision in place within the capital plan for investment in the asset base. 2. Asset register 3. Conditional Survey 4. Understanding of future asset needs 5. Asset Strategy: <ul style="list-style-type: none"> . Roads . Land . Fleet . Digital Service Network . Digital Service hardware 6. Capital program - investment in estate. 7. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 8. Introduction of Capital Plan and Asset Management Board 	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.0 2	Appropriate investment in capital works and remedial maintenance over the lifespan of each property asset. Development of robust Asset Management Plans and associated investment needs for all categories of assets At SLG on 9 May 2018 the Chief Executive instructed the asset management leads for each asset management strand to ensure that robust asset management plans were in place by 30 September 2018	Q4 17/18: Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys. Capital spend works carried out during summer.	Garry *Sheret	31-Mar-2018	
SRP.RA.08.0 3	Review of Capital Plan.	Q4 17/18: Draft Capital Strategy for June Council 2018	Gary Fairley	26-Jun-2018	

SRP.RR.09 Emergency Planning and Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	<p>Risk cause The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect Censure through non compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (eg secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p>	Chris Lawson	<p><u>Potential</u> sub risks include:-</p> <ol style="list-style-type: none"> 1. Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and roll out of plans. 2. Establishment based incident response plans in place and maintained locally. 3. Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations. 4. As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI. 	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	Q4 17/18: Emergency Planning Improvement Plan drafted, key focus within plan will be Business Continuity Management. Exploratory work carried out to establish what benefits could be gained from using technology systems to support the development and interrogation of Business Continuity application during an incident.	Chris Lawson	31-Jun-2018	


SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	Risk cause	Alan Turpie	<u>Potential</u> sub risks include:-	3	4	

	Code of conduct for Members and employees actions falling short of International Standards. Risk event Failure in openness, accountability, clarity. Risk effect Service, partnerships and project outcomes not achieved Non compliance with conduct standards and reduction in standards in public life		1. Macro governance at the top – failure in openness, accountability, clarity; 2. Micro governance in services, partnerships and projects and outcomes not achieved 3. Non-compliance with codes of conduct and reduction in standards in public life 4. Annual Assurance Statement.			
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SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<p>Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p>Risk event Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.</p> <p>Risk effect Policies not monitored could result in non compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	<p>1. Single Midlothian Plan providing overarching direction</p> <p>2. Service plans aligned to Single Midlothian Plan.</p> <p>3. Leadership team to ensure correct approaches are adopted to get the right results.</p> <p>4. Strategic housing investment plan, submitted to Scottish Government in December 2016, positive feedback with allocated funding.</p> <p>5. Community Safety Strategic assessment completed.</p> <p>6. Financial Strategy</p> <p>7. Workforce Strategy</p> <p>8. Digital Strategy</p> <p>9. Procurement Strategy in place</p> <p>10. Capital and Reserves Strategy</p> <p>11. Control of land use and promotion of development through Midlothian Local Development Plan.</p> <p>12. Strategic plan for integration of Health and Social Care commissioning being updated.</p>	2	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.04	Review of Capital and Reserves Strategy	Q4 17/18: Report to Council in June 2018.	Gary Fairley	26-Jun-2018	

SRP.RR.12 Internal Control Environment


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.RR.12	<p>Risk cause Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information</p> <p>Risk event Persons exploiting opportunities to commit fraud Waste and errors</p> <p>Risk effect Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p> <p>Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	<ol style="list-style-type: none"> 1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy. 5. Internal and external assurance. 	3	3	
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SRP.RR.13 Climate Change


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<p>Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act</p> <p>Risk event Council Services not responding to the Climate Change Act with sufficient pace.</p> <p>Risk effect Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	Ian Johnson	<ol style="list-style-type: none"> 1. Statutory requirement to report on compliance with the climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 4. Implementation of provisions of Internal Audit report approved by Audit Committee 1 May 2018. 	4	4	



SRP.RR.14.1 Scottish Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	<p>Risk Cause: Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p>Risk Event: The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported.</p> <p>Risk Effect: If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse.</p>	Joan Tranent	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have now set up a Claims Project Team to map out how claims will be made to the Local Authority and how we shall then manage them</p> <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants. 	5	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 1	Implementation of Project Plan	Q4 17/18: A project team has been established. Project Plan identifying what actions are required to be undertaken and by whom. Fortnightly meetings to progress project plan.	Joan Tranent	31-Mar-2019	


SRP.RR.14.2 Historic Abuse Claims Project

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	<p>Risk Cause: Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964)</p> <p>Risk Event: Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims.</p> <p>Risk Effect: There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims</p>	Joan Tranent, Alison White	1. Regular updates to Council to keep them abreast of the current situation and potential implications around staffing and future financial costs.	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.2-1	Training staff	Q4 17/18: Training additional staff in anticipation that many solicitors will make initial contact with Midlothian Council via a Freedom of Information Request or a Subject Access Request. Ensuring that we have an understanding of our insurance position in relation to potential historic child abuse claims.	Joan Tranent	31-Mar-2019	
SRP.RA.14.2-2	Communications Strategy	Q4 17/18: Having a communication strategy and ensuring that our websites have up to date information relating to claims and support for survivors. It is planned to take a report to Council in quarter 4 outlining how the Council will manage claims.	Joan Tranent	31-Mar-2019	

SRP.RR.15 Review of Pay & Grading

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.15	<p>Risk cause Investment to reduce in-work poverty need to improve flexibility, productivity and service quality.</p> <p>Many current policies and terms and conditions, including pay arrangements have been constructed around a Monday - Friday, 9 - 5 working week, with many services requiring to deliver services 7 days a week beyond 9-5.</p> <p>Risk event Council does not see improvements in productivity and flexibility across the workforce. Council services are not competitive against the voluntary 3rd or private sector.</p> <p>Risk effect Investment in pay and grading not translating into positive productivity gains for the Council.</p>	Gary Fairley	<ol style="list-style-type: none"> Investing in our Workforce Project Board focussed on securing the gains. Governance on the 4 strands of work from Council: Life Long Learning, Policy, Pay, Non Financial Benefits. Launch of new People Policies on 1st March 2017. Communications plan to ensure all employees know what is changing and how this will impact them and service delivery. 	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.15.01	Secure further improvements in productivity and flexibility across the workforce.	Q417/18: Investing in our Workforce Board chaired by the Chief Executive focussed on securing these gains.	Gary Fairley	31-Mar-2019	

SRP.RR.16 Growing Council


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p>Risk cause Population growth in Midlothian over the next 10 - 15 years will see Midlothian become one of the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increase by 100% between 2014 and 2039.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p>	John *Blair; Mary *Smith; Allister Short	<ol style="list-style-type: none"> Local development plan Services planning future service provision on the basis of anticipated service demands The change programme Learning Estate Strategy Capital Strategy 	4	5	

	<p>Risk effect Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.</p>					
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SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	<p>Risk cause UK vote to leave the European Union</p> <p>Risk event UK leaving the European Union</p> <p>Risk effect The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear as negotiations progress following the triggering of article 50. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.</p>	John *Blair; Mary *Smith; Allister Short	1. The Council will monitor the implications of the UK's decision to leave the EU on the Council through its risk management approach and will develop approaches to respond to specific risks as further clarity on impact becomes clearer.	3	4	


SRP.RR.18 Political uncertainty - Education Governance Review

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.18	<p>Risk cause Delivering Excellence and Equity in Scottish Education: A Delivery Plan for Scotland and new Education (Scotland) Bill 2017.</p> <p>Risk event Future decision by Scottish Government on the outcome of governance review, which seeks a move to regional based Education.</p> <p>Risk effect Midlothian Council recognises that closing the attainment gap is not a task which can be achieved by schools or the Education Service alone but requires a total Midlothian approach. The delivery plan has made a commitment to regional working although is limited in detail on what this would look like. In the event the approach taken impedes the total Midlothian approach this could inhibit rather than support the efforts to close the attainment gap.</p>	Grace Vickers	<ol style="list-style-type: none"> 1. Midlothian Council has made a formal response to the Scottish Government on its consultation. 2. Council has been kept informed of the Midlothian's response to the consultation 	3	4	

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	<p>Risk cause Failing to identify and rectify non compliance with Health and Safety regulations.</p> <p>Risk event Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. non compliance with policy and procedure not undertaking audits and inspections and the risk</p> <p>Risk effect Negative impact on outcomes for customers/service users.</p>	John *Blair; Mary *Smith; Allister Short	<ol style="list-style-type: none"> 1. Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations 2. Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 3. Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 4. Audit plan approved to monitor implementation of all approved Management Arrangements 	3	5	

	Service users and employees exposed to hazards where statutory requirements exist. Statutory health and safety - duty of care over services users and employees not met.					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.0 1	Health & Safety Management Arrangement Development	Q4 17/18: The development of the Council's Health and Safety management system has reached the Check stage of the Plan - Do -Check - Act framework. A range of Audit and review tools have been developed to provide assurance of compliance with the Management Arrangements and associated legislation. A proposed Audit and Review programme was reported to CMT and approved.	Chris Lawson	31-Mar-2018	

OPPORTUNITIES


SRP.OP.01 Shawfair


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Ian Johnson	<ol style="list-style-type: none"> 1. Shawfair Development Group. 2. Legal agreement with developers to secure developer contributions (Section 75) 3. Plan for entire community: 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools 	5	4	

SRP.OP.02 Borders Rail


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	<p>Regeneration of priority communities of Midlothian through which the railway passes.</p> <p>The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also an opportunity to encourage sustainable travel by residents of major new housing developments in the rail corridor.</p> <p>Ensuring Midlothian secures appropriate levels of Blueprint funding from the multi-agency Borders Rail 'Blueprint' funding group.</p>	Ian Johnson	<ol style="list-style-type: none"> 1. Designated Project Manager post. 2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway. 3. Dedicated Tourism Development post. 4. Timely submission of bids for approval by the Blueprint Group. 5. Implementation of the 'Gorebridge Connected' project. 6. Implementation of the Stobhill, Newtongrange town centre master plans. 7. Completion of the extensively public funded track to train project and Newtongrange Station. 8. Supporting the National Mining Museum of Scotland in maximising the benefits of the new railway. 	5	4	

SRP.OP.03 Easter Bush - Penicuik


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. Link to City Deal	Ian Johnson	<ol style="list-style-type: none"> 1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including STEM. 2. Land allocated for expansion. 3. Midlothian Science Zone. 4. Troubleshooting issues - Roads Access - tackling road access through proposal in the Local Plan and City Deal. 	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A 1	A702 Trunk Road Improvements	Q4 17/18: Priority attention required to address the current strategic road access constraints, Council Officers to work with the Easter Bush Board, Transport Scotland and others, to define funding and timing.	Ian Johnson	30-Jun-2018	

SRP.OP.04 City Deal

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation.	Ian Johnson	<ol style="list-style-type: none"> 1. Key projects identified. 2. Heads of terms agreed by partners (the six Councils of the region together with the private sector business community and higher/further education sectors) in July 2017. 3. Ensuring Midlothian's 'voice' is heard in the finalisation of the full City Deal programme of projects. 	3	5	




SRP.OP.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	<p>Midlothian Council has been identified in 2018 as not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.</p> <p>This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.</p> <p>This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.</p>	Ian Johnson	<p>1. Action by the Council and its Community Planning partners to address infrastructure pressures where possible to be embodied within the work of the partnership and implementation of the Single Midlothian Plan.</p> <p>2. Programming of resource allocation and implementation by the Integrated Joint Board to address the demand for services arising from population growth.</p> <p>3. Implementation of the provisions of the adopted Midlothian Local Development Plan, together with these associated supplementary guidance on developer contributions and affordable housing.</p>	5	5	

Risk Management report Key:

Very low risk	
Low risk	
Medium risk	
High risk	
Critical risk	

Action Key:

In progress	
Complete	
Overdue	

**Audit Scotland Report: Report on a Significant Fraud – Dundee City Council
(Audit Scotland, March 2018)****Report by: Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of the Report**

To provide Audit Committee with a summary of the Audit Scotland's 'Report on a Significant Fraud – Dundee City Council' and the council's position in relation to the report's findings. Link to the full report here:

<http://www.audit-scotland.gov.uk/report/201617-audit-of-dundee-city-council-report-on-a-significant-fraud>

2 Background

The Audit Scotland 2016/17 Audit of Dundee City Council report refers to a significant fraud perpetrated against Dundee City Council. The fraud was complex and resulted in a long-term employee embezzling £1.065 million from the council between August 2009 and May 2016. The report was submitted under section 102(1) of the Local Government (Scotland) Act 1973.

The report highlighted how the fraud was perpetrated and the weaknesses in the council's control systems.

3 The Accounts Commissions Findings

The Accounts Commission, in their role of providing assurance to the public about councils' governance and their custodianship of public money, underline the lessons to be learned by every council from this matter. Councils must ensure that fundamental internal controls are in place and working effectively. Such controls include appropriately segregating duties of those involved in managing controls, ensuring systems reconciliations are carried out, accurate documenting of procedures, and budget monitoring.

It is management's responsibility for ensuring that such arrangements are in place and thus help assure elected members and the public that risks are being identified and managed effectively. The Accounts Commission expect a council's external auditor to review such procedures and make recommendations where weaknesses are identified. Management are expected to act upon and apply recommendations from both external and internal auditors to address potential weaknesses and risks.

The wider lesson from this incident, for other councils to consider, is the importance of key internal controls. These are documented in Appendix 3 of the report together with an update on the Midlothian position.

4 Lessons for Other Councils

Audit Scotland noted in the report on the 2016/17 Audit of Dundee City Council that whilst the fraud was complex, weaknesses in the council's key internal controls, facilitated the fraud and meant that it was not detected for some time. Councils should consider whether the following fundamental internal controls are operating effectively:

- **Segregation of duties:** ensuring access to systems are restricted to appropriate levels (to negate the possibility of individuals processing transactions all the way through the payments process).
- **Reconciliations:** ensuring feeder systems are effectively reconciled to other systems (e.g. general ledger); using third party information (supplier's statements) and reconciling with payment systems.
- **System documentation:** system documentation should be maintained which details key controls to be carried out by staff to prevent fraud or error.
- **Budget monitoring:** budget monitoring should be at a level that would allow budget holders to identify anomalous payments at an early stage.

The 2018/19 Internal Audit Plan agreed by the Audit Committee in March 2018 contains planned reviews of Electronic Payments Systems (Review of security and authorisation controls, including segregation of duties), ICT Security Controls (Assess the adequacy of physical access and environmental controls to ICT equipment, software and data to prevent unauthorised access / damage, including 3rd party access and PSN compliance), and Revenue Financial Budget Monitoring (Assess the review, scrutiny and challenge on revenue financial budget monitoring reports by elected members) to provide independent and objective assurance to Management and Members around the control environments in these areas.

Currently, there are five interfaces/extracts from third party systems to the Council Finance system or direct to BACS to facilitate payments:

Interface/Extract From	Interface/Extract To	Purpose	2017-18 No.	2017-18 Value
Social Care Case Management (Mosaic)	Finance System (Integra)	Payment of suppliers	41,778	£38.02M
Council Tax (Open Revenues)	Finance System	Council Tax refunds	140	£55,416
Council Tax (Open Revenues)	BACS	Council Tax refunds	1,522	£431,578
Education Management System (SEEMiS)	BACS	Education Maintenance Allowance (EMA)	5,847	£206,910
Education Management System (SEEMiS)	BACS	Clothing Grants	4,761	£120,260

Staff in Finance, Digital Services and Business Services have reviewed current processes and procedures in order to learn lessons from events at Dundee City Council and strengthen existing controls.

Mosaic to Integra

Files are exported from the Social Care Case Management system (Mosaic) and imported to the Finance system (Integra) via automated scheduled tasks.

A report is produced by Business Services staff from Mosaic and is passed to the Payments Team, who match it to the Integra Interface File Report, checking the total number and total value of transactions.

Payments Team produce the payment run (twice weekly) and BACS files are generated.

Finance staff run an exception report against the BACS file to check for any payments over £10,000 or if there are more than one payment to the same bank account. If any exceptions are highlighted the report is passed back to a member of the Payments Team (always someone other than the person who originally produced the payment run in the Finance system) for them to validate.

The exception report is signed off to validate any such transactions.

Strengths	Weaknesses
Control totals between the two systems are checked via separate reports.	No formal record of control totals being checked.
Clear segregation of duties in place between staff preparing and making payments.	Control report from Mosaic not filed (although can be re-produced)
Separate process in place to authorise payments in Mosaic.	Lack of business process procedure documentation
Automatic export from Mosaic.	
Automatic import to Integra.	
Exception reports run against BACS file.	

Actions

- Creation of E-Form to formally record control checks and attach control reports from both Integra and Mosaic.
- Draft procedure documentation to include process mapping flows and clear roles and responsibilities for all staff involved.

Open Revenues to Integra

Where no bank details are held for the payer, the system automation tool extracts a file and places it in a location and loaded into Integra. A report is then produced from OR and passed to Creditors team to match against the Integra import report.

Any transactions then form part of the twice weekly payment runs and individuals are paid by cheque.

Strengths	Weaknesses
Control totals between the two systems are checked via separate reports.	No formal record of control totals being checked.
Reports are scanned and filed.	Lack of business process procedure documentation.
Clear segregation of duties in place between staff preparing and making payments.	
Automatic extract of file from OR.	
Automatic import to Integra	

Actions

- Creation of E-Form to formally record control checks and attach control reports from both Integra and Mosaic.
- Draft procedure documentation to include process mapping flows and clear roles and responsibilities for all staff involved.

Open Revenues to BACS

Files are automatically extracted from the Council Tax system and transferred to the secure BACS file location.

Finance staff check the control reports from the Council Tax system against the import file in the Finance system to ensure that the number of transactions and total value are identical.

Finance staff run an exception report against the BACS file that highlights any single payment over £500 or if there are more than one payment to the same bank account. If any exceptions are highlighted the report is passed back to a member of Business Applications (always someone other than the person who originally ran the file).

The exception report is signed off to validate any such transactions. Finance staff scan the control and exception reports to maintain the audit trail.

Strengths	Weaknesses
Control totals between the two systems are checked via separate reports.	
Clear segregation of duties in place between staff preparing and making payments.	
Reports are scanned and filed.	
Exception reports run against BACS file.	

Actions

None.

SEEMiS to BACS – Education Maintenance Allowance & Clothing Grants

Business Services staff generate the payment run every two weeks within SEEMiS. This then has to be authorised by another user.

SEEMiS generate a BACS file overnight – this file is stored on a secure FTP site.

Business Services staff download the BACS file (read only access) and stores it in a secure location on the council’s network. The file is picked up by finance staff and transferred to the secure BACS file store.

Finance staff do not process the file until they has received a signed off BACS Transmission Control form from Business Services. This form is approved by a manager/supervisor in Business Services

Finance staff run an exception report against the BACS file that highlights any single payment over £1000 for EMA’s and £500 for Clothing Grants. Finance staff also check if there is more than one payment to the same bank account. If any exceptions are highlighted the report is passed back to a member of Business Services.

The exception report is signed off to validate any such transactions. Finance staff scan the control and exception reports to maintain the audit trail.

Strengths	Weaknesses
Check and authorisation of BACS Transmission Control Form.	Procedure documentation is very basic.
Clear segregation of duties in place between staff preparing and making payments.	
Reports are scanned and filed.	
Exception reports run against BACS file.	

Actions

- Draft procedure documentation to include process mapping flows and clear roles and responsibilities for all staff involved.

BACS Files

There is clear segregation of duties within Digital Services between access to BACS Files and access to applications and data. Staff who have access to BACS files do not have access to the applications and vice versa.

For Mosaic and Open Revenues, BACS Files are automatically transferred from the application folder to a secure BACS file store. This routine is run every minute of every day.

Finance staff only have the ability to move files, they cannot change the content of the file once it is located in the secure BACS file store.

Digital Services maintain documentation detailing BACS file security and procedure documentation that details how each interface file works and how subsequent BACS files are processed.

Exception reports are run prior to the processing of every BACS file (including direct debit collection) and are checked and validated by Finance and Business Services staff.

5 Report Implications

5.1 Resource

There are no additional resource implications.

5.2 Risk

Whilst there are no additional direct risks associated with this report, the Audit Scotland Report, does ask members to consider the wider scrutiny and performance management and risk elements associated with their role.

5.3 Single Midlothian Plan

Themes addressed in this report:

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

5.4 Key Priorities within Single Midlothian Plan

This report does not directly impact actions and plans relating to key priorities within the Single Midlothian Plan.

5.5 Impact on Performance and Outcomes

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

5.6 Adopting a Preventative Approach

This report does not directly impact actions and plans in place to adopt a preventative approach.

5.7 Involving Communities and Other Stakeholders

This report does not directly relate to involving communities.

5.8 Ensuring Equalities

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

5.9 Supporting Sustainable Development

The recommendations in this report support Midlothian Council's position in relation to Audit Scotland's findings in the 2016/17 Audit of Dundee City Council – a report of Significant Fraud (March 2018).

5.10 IT Issues

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

6 Recommendations

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

Date: 28 May 2018

Report Contact: Gary Fairley
gary.fairley@midlothian.gov.uk

Tel No: 0131 271 3110

Background Papers:

2016/17 Audit of Dundee City Council – a report of Significant Fraud (March 2018)

Annual Governance Statement

Report by: Kenneth Lawrie, Chief Executive

1 Purpose of Report

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

2 Background

- 2.1** Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. This is to allow public funds and the assets at its disposal to be safeguarded and used efficiently and effectively in pursuit of best value.
- 2.2** Elected Members and senior management are responsible for the governance of the business affairs of Midlothian Council and have therefore developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework.
- 2.3** This framework includes a requirement that an Annual Governance Statement (AGS) should be prepared; that this be included as part of the Financial Statements; and that the AGS be authorised by the Leader of the Council and Chief Executive.
- 2.4** Each year, the level of compliance with the Code of Corporate Governance is monitored by requiring Heads of Service (including the statutory post of Section 95 Officer) to complete a self-assessment against the key elements of the Code. Input from the Monitoring Officer is also sought. Internal Audit independently reviews a sample of control elements from the Code, as well as using evidence from its own reviews of Council performance undertaken during the year. The conclusions of any external inspections are also used to help inform the AGS.

2.5 A copy of the proposed AGS for 2017/18 is shown at Appendix 1.

3 Report Implications

3.1 Resource

There are no direct resource implications arising from this report.

3.2 Risk

The AGS highlights where progress has been made in reducing risks within the Council over the period 2017/18 and also highlights where further work is planned in 2018/19 to reduce risk further.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Key Priorities within the Single Midlothian Plan

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

3.5 Impact on Performance and Outcomes

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

3.6 Adopting a Preventative Approach

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

3.7 Involving Communities and Other Stakeholders

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

3.8 Ensuring Equalities

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

3.9 Supporting Sustainable Development

There are no sustainable development issues raised in this report.

3.10 IT Issues

There are no IT issues raised in this report.

4 Recommendations

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

Date: 05 June 2018

Report Contact:

Name Alan Turpie Tel No 0131 271 3667

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Annual Governance Statement 2017/18

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

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

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

The Code of Corporate Governance details 7 core principles which are supported by 20 sub-principles and 91 behaviours and actions that demonstrate good Governance. The Council's Local Code of Corporate Governance was updated as part of the 2016/17 annual review process and was approved by Council in December 2017. Elements of good governance include:

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

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

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

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

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

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

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

None of these assessments highlighted any issues that would impact on the level of effectiveness of the Council's governance framework. Improvements identified are noted below in the action plan.

The statement has also been informed by the work undertaken by Internal Audit. The Chief Internal Auditor's overall Audit Opinion for the Annual Governance Statement is included within the Internal Audit Annual Assurance Report for 2017/18 and concludes that overall the Council's framework of governance, risk management and internal control over the period 2017/18 are generally adequate but noted some areas of non-compliance and a lack of evidence of Management monitoring therefore noting that improvements are required to the second line of defence across the Council to ensure probity in systems and operations, including the prevention, detection and resolution of fraud irregularities. Improvements in internal control, risk management and governance have been agreed by Management as highlighted in Internal Audit reports and recommendations made during the year or outstanding from previous years.

The range and breadth of Internal Audit work that has been performed during 2017/18 is sufficient to inform the Internal Audit assurance on the systems of internal control, governance arrangements and risk management.

The programme of Internal Audit work planned for 2017/18 was significantly impacted by resource changes introduced following the Internal Audit Service

Review and the deployment of Internal Audit and Counter Fraud resources to an unplanned investigation.

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

The Chief Internal Auditor 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 internal self-assessment of Internal Audit practices against the Standards was carried out in 2017/18, as required by the PSIAS, which has indicated Internal Audit conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards. An External Quality Assessment (EQA) Peer Review by Highland Council was carried out in March 2018. The full report is awaited though verbal feedback indicates conformance with the PSIAS against the 13 Assessment Areas and has highlighted a few areas where improvements can be made.

A number of risks were effectively managed in 2017/18 and Midlothian Council continues to support the Integration Joint Board with its approach to risk management.

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

Area for Improvement identified in 2016/17	Action undertaken in 2017/18
Code of Corporate Governance	Midlothian Council's Code of Corporate Governance has been updated approved by Council in December 2017.
Workforce Plans	A corporate Workforce Strategy was approved by Council in December 2017 and is supported by a detailed workforce plan and eight service specific workforce plans.
Post Project Implementation Reviews	Although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects. This continues to be an area for further improvement.
Business Continuity Policy	In November 2017 the Corporate Management Team approved the Business Continuity Policy as Phase 1 of a Business Continuity Management System and the development of supporting arrangements to provide a consistent approach across the organisation.
Register of Interests	A Register of Interests for senior Council Officials has been established.
Gifts and Hospitality	A standalone Gifts and Hospitality policy requires to be developed.
Internal Audit Plan	The Internal Audit Plan for 2017/18 was presented to Audit Committee in March 2017.

The following table sets out improvements to the governance framework which are to be progressed in 2018/19:

Area for Improvement	Proposed Action in 2018/19
Contract Management Procedures and Controls	<p>Review contract management procedures and controls ensuring that there are adequate segregation of duties and oversight / checking of compliance with the contract by Senior Management.</p> <p>Review the roles and responsibilities of</p>

Area for Improvement	Proposed Action in 2018/19
	Senior Managers to ensure an adequate understanding, awareness and accountability for day-to-day activities undertaken in their areas of responsibility.
Bribery and Corruption Policies	<p>Provide regular training to all staff to promote an understanding and awareness of the implications of the Bribery Act 2010, potential corruption in the workplace and the Council's policy on Bribery & Corruption, and client/contractor relationships.</p> <p>Instruct Staff involved in tendering contracts and allocating work to Contractors to read and acknowledge the Council's policies on Bribery & Corruption and Gifts & Hospitality.</p>
Gifts and Hospitality Policy	Review and update policies across the Council including: Code of Conduct, the creation of a standalone Gifts and Hospitality Policy, Gifts and Hospitality Register, Register of Interests (to record and manage potential Conflict of Interests), and Secondary Employment. This should include appropriate authorisations (approvals and refusals) and the central recording of declarations to enable regular and discrete review (Gifts and Hospitality, Register of Interests, and Secondary Employment).
Payments	<p>Review the process for approving and setting up new Suppliers on the payments database to enhance controls over creating a new Supplier</p> <p>Enhance ongoing monitoring and review of payments to Suppliers to complement the Budget Monitoring processes. This should involve regularly reviewing payments to Suppliers to ensure they reflect the Council's contract arrangements with Suppliers.</p>

Area for Improvement	Proposed Action in 2018/19
Asset Register	Review the Asset Register and Fleet Management system to enable better recording of information and tracking of plant and equipment purchased by the Council. This should include a regular review of assets to ensure they can be accounted for.
Internal Audit Plan	Review and promote the Council's Whistleblowing policy and the mechanisms for raising concerns, anonymously if desired, for Staff and Public

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 significant improvements are required and urgent steps will be taken in the forthcoming year to address these areas, allowing the Council to advance its corporate governance arrangements and seek continuous improvement.

Signed:

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

Date:

Midlothian Council Transformation Programme – 2017/18 Closure Report (June 2018)

Report by Kenneth Lawrie, Chief Executive

1 Purpose of Report

The purpose of this report is to present the Transformation Programme – 2017/18 closure report to Audit Committee.

2 Background

2.1 The Business Transformation Programme, Follow-up Review Report produced by Internal Audit and reported to Audit Committee in September 2016 noted a recommendation to produce an annual update report summarising the active business transformation work streams.

2.2 In response to the recommendation an annual report was presented to Audit Committee on 21 March 2017.

3 Current Position

3.1 The previous annual update of the Business Transformation Programme report provided a snapshot of the Business Transformation Programme in place prior to the introduction of the Delivering Excellence Change and Improvement Programme agreed at Council on 13 February 2018.

3.2 Whilst the Transformation Programme has played an important role in driving improvement in Midlothian in line with the Council's ambitious agenda, the need for a more comprehensive change and improvement programme, including a refreshed approach to transformation, was agreed at Council in February 2018.

3.3 In recognition of the scale of the future financial challenge faced by the Council, as set out in the Financial Strategy in February 2018, the ability to robustly track savings and performance across the full scope of the Change and Improvement Programme, incorporating transformation activity, was put in place. The change in approach also recognised the role and accountability of services and managers to deliver change from within their areas to ensure successful delivery of the Financial Strategy. The change in direction also recognised the shift of the performance improvement and transformation resource from the corporate centre to being embedded within Directorates.

- 3.4** Whilst an annual report in respect of the change in delivery and reporting of transformation activity will continue to be an essential part of providing the Audit Committee and the Council with the necessary assurances about the progress and direction of this work it is the intention that the attached report is used to formally close the pre 2018 programme for transformation and that the revised approach for transformation elements of the Change and Improvement Programme being developed be presented to Audit at a later date.

4.1 Resource

There are no direct resource implications arising out of this report.

4.2 Risk

Future risks relating to the Delivering Excellence programme which incorporates the transformation elements will be monitored and managed by the governance process to be agreed by Council at a later date.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

4.4 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan, ensuring an appropriate focus on transformation activity and programmes ensures effective use of resources to support the Council's objectives.

4.5 Impact on Performance and Outcomes

The Council's performance and outcomes will be improved by delivery of an effective Change and Transformation Programme.

4.6 Adopting a Preventative Approach

Having a robust Delivering Excellence Programme contributes to safeguarding the Council's financial resources and delivery of services.

4.7 Involving Communities and Other Stakeholders

As the report is an internally driven requirement development has required engagement with relevant officers.

4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

4.9 Supporting Sustainable Development

A robust Delivering Excellence programme reduces the risk of threats to sustainable development.

4.10 IT Issues

There are no IT issues with regard to this report.

5 Summary

The Transformation Programme Closure Report has been produced to ensure appropriate closure of the existing programme whilst providing clarity of the change and transformation programme approach going forward.

6 Recommendations

The Audit Committee is invited to:

1. Note and Consider the report

Appendix 1 – Midlothian Council Transformation Programme – 2017/18 Closure Report (June 2018)

Date 4 June 2018

Report Contacts:

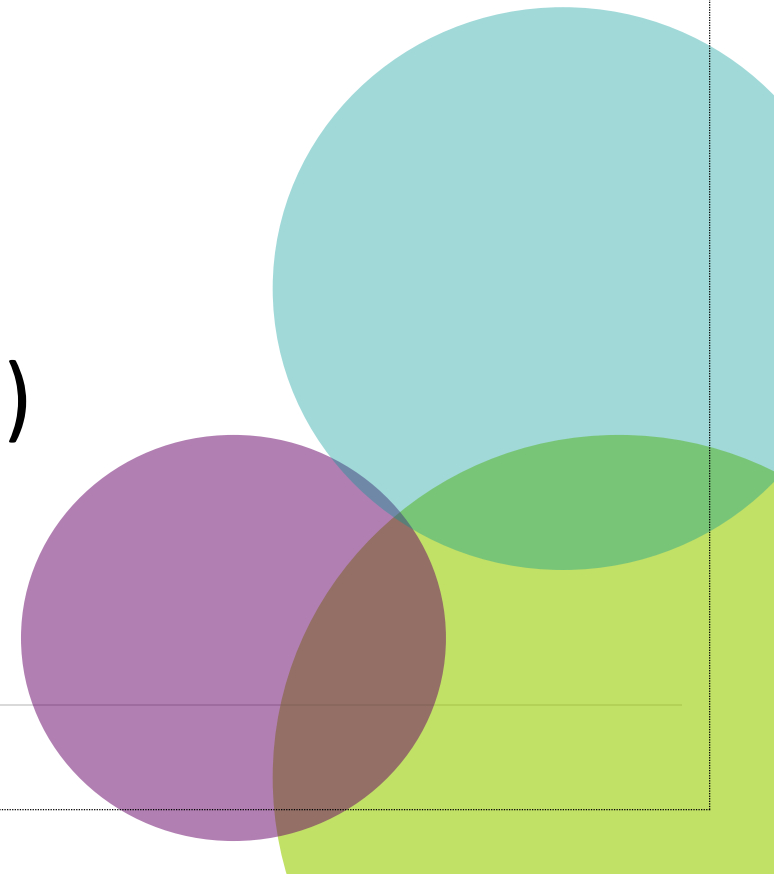
Myra Forsyth
Policy and Scrutiny Manager

Myra.Forsyth@midlothian.gov.uk

Tel No 0131 271 3445

Transforming the way we work

Midlothian Council
Transformation Programme –
2017/18 Closure Report (June 2018)



Introduction

The previous annual update of the Business Transformation Programme report provided a snapshot of the Business Transformation Programme in place prior to the introduction of the Delivering Excellence Change and Improvement Programme agreed at Council on 13 February 2018. The report was originally introduced to respond to the recommendations of Internal Audit's Business Transformation review of September 2016. Whilst the Transformation Programme has played an important role in driving improvement in Midlothian in line with the Council's ambitious agenda, whilst also generating significant savings to enable the Council to meet its budget challenges, the need for a more comprehensive change and improvement programme, including a refreshed approach to transformation, was agreed at Council in February 2018.

In recognition of the scale of the future financial challenge faced by the Council, as set out in the Financial Strategy in February 2018, the ability to robustly track savings and performance across the full scope of the Change and Improvement Programme, incorporating transformation activity, was put in place. The change in approach also recognised the role and accountability of services and managers to deliver change from within their areas to ensure successful delivery of the Financial Strategy. The change in direction also recognised the shift of the performance improvement and transformation resource from the corporate centre to being embedded within Directorates.

The future approach to transformation will continue to focus on achieving substantial and sustainable change to deliver outcomes which have a positive impact on the Council as an organisation and for our communities. Central to this approach is the recognition of the financial pressures faced within the public sector and the need to respond to the Christie Report and the Government's integration agenda which are recognised by the critical link that the approach has to the Council's wider Financial Strategy. The previous future models activity which responded to the Christie Principles identified the following core principles which continue to inform the transformation agenda going forward:

- Communities are partners in service design and delivery – Co-production
- Services are targeted and focussed – Prevention/Accessibility
- Best Value outcomes are delivered through partnership working – Community Capacity Building

Whilst an annual report in respect of the change in delivery and reporting of transformation activity will continue to be an essential part of providing the Audit Committee and the Council with the necessary assurances about the progress and direction of this work it is the intention that this report is used to formally close the pre 2018 programme for transformation and that the revised approach for transformation elements of the Change and Improvement Programme being developed be presented to Audit at a later date.

TRANSFORMATION PROGRAMME STRUCTURE

Midlothian Council, along with all local authorities, has experienced and will continue to experience significant challenges. The Council continues to face unprecedented challenge as a result of constrained funding combined with demographic cost pressures and a number of additional national and local challenges including welfare reform and significant differences in social and economic equality across Midlothian. By adopting a transformation approach, we have become more efficient and at the same time we have delivered changes resulting in improvements to the way we work, the services we deliver and the quality of life experienced by local people. These changes are evidenced in the delivery of new affordable homes, new schools, improved recycling rates, improved positive destinations for school leavers and significant changes and improvements in services to protect children and vulnerable adults.

In response to the changing context the Transformation Programme has been subject to regular review and change. The initial programme approved in February 2010 and the original Business Transformation Strategy 2010-2015 approved in June 2010 identified six key components and associated work streams of: Service Reviews; Asset Management; Organisational Review; Customer Services; Shared Services and Procurement. The programme was further developed with a revised strategy and programme presented to Council in May 2013 which reaffirmed the governance structure and requirements supporting the transformation strands.

Following further review and rationalisation of the previous strands the programme identified for the period 2014-17 was revised and this resulted in there being eight key strands for transformation, with a number of early activities being transitioned to business as usual/ongoing projects with responsibility for delivery transferring to the appropriate Head of Service/Service area.

To provide more visibility and rigour to the financial savings identified for the Transformation Programme the Head of Finance and Integrated Service Support, in introducing a Financial Strategy and regular reporting for members, incorporated an update on the financial position for the programme within the Financial Strategy Report to Council on 4 February 2014. In addition, whilst no longer key strands within transformation, the importance of the need to deliver against the financials for Asset Management and Workforce were also incorporated within the Financial Strategy report and ongoing updates.

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

'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 and following agreement with the Business Transformation Board and the Strategic Leadership Group three of the non-transformational strands (Externalisation/Insourcing, Energy, and Income Maximisation) were transitioned out of the Transformation Program (July 2015) for the appropriate officers to consider as part of their ongoing review and activity relating to the Delivering Excellence framework. The latter part of 2016 saw Integrated Health and Social Care appearing within the transformation Section of the Financial Strategy with savings of £1.550 million set for 2017/18. In line with the auditor's feedback and a shift in the programme over the last year a refocused and reduction in the number of transformational strands is shown in Figure 1.

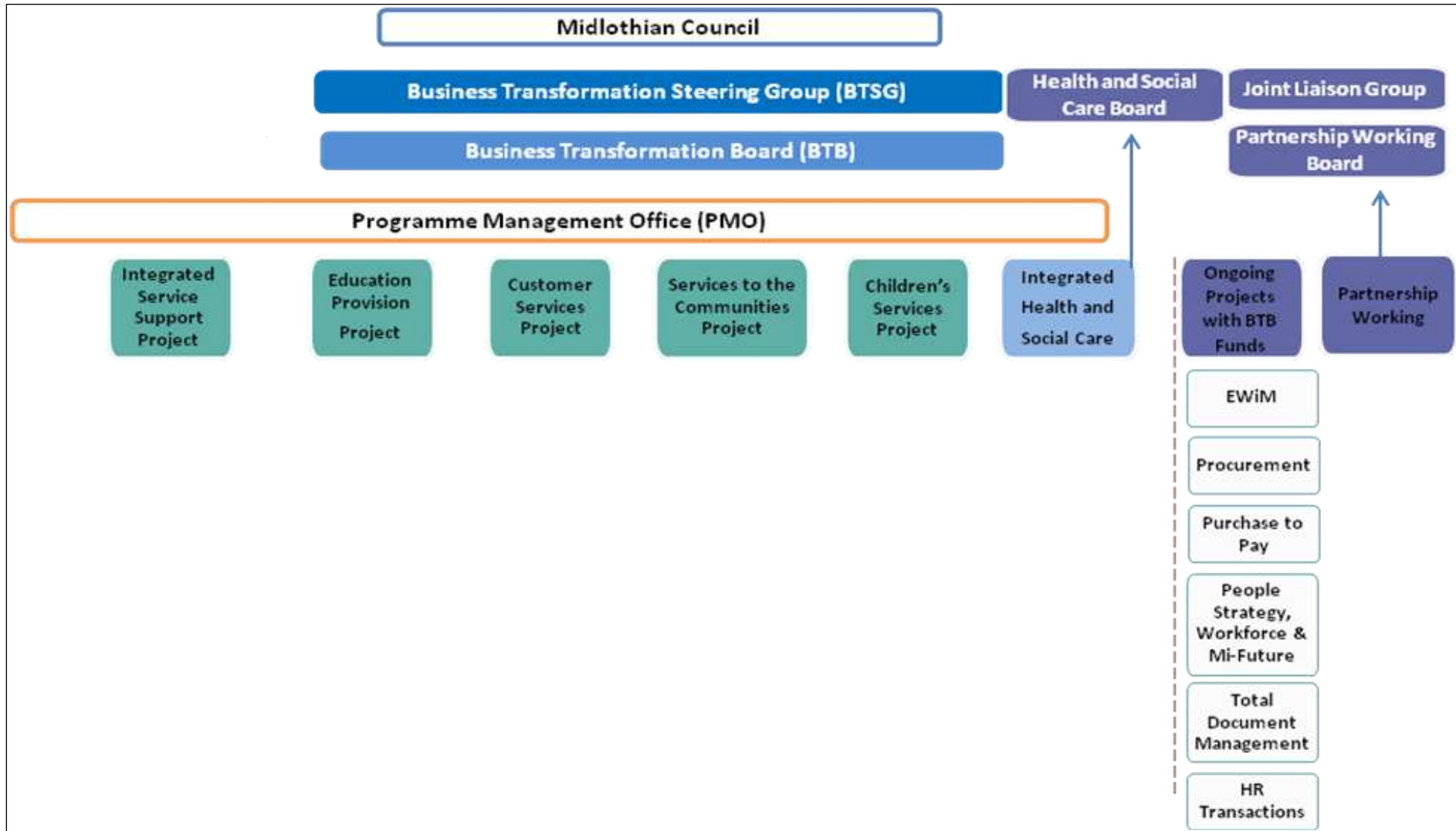


Figure 1: Council Transformation Model (2017/18)

NB: Please note that a closure report for the Children's Services strand was presented to BTSG in August 2017 and the Services to Communities Project is currently subject to a significant refresh as part of its transition to the Change and Improvement Programme in February 2018.

Financial position

Delivery of the financial savings element of the programme has been a key contributor to the wider change programme aimed at addressing the previous projected budget shortfalls. An overview of the targeted and achieved savings is shown in Table 1. Savings achieved to 31 March 2018 total £14.790 million which equates to 7.4% of the 2017/18 budgeted net expenditure.

Table 1: Transformational Savings

Financial Year	Saving Category	Target	Achieved	Variance
		£m	£m	£m
2011/12 & 2012/13	Transformation Programme	7.592	5.735	-1.857
2013/14	Transformation Programme	1.199	1.737	0.538
2014/15	Transformation Programme	1.995	1.955	-0.040
2015/16	Transformation Programme	1.721	1.977	0.256
2016/17	Transformation Programme	0.851	1.098	0.247
2017/18	Transformation Programme	2.791	2.375	-0.416
Totals		16.149	14.877	-1.272

Council has approved utilisation of £7.718 million of General Fund Reserves to fund costs associated with the ongoing transformation programme. At this time £3.421 million of this has been applied as detailed below with a further commitment of £2.271 million to meet costs of the 2017 VSER scheme. Future commitments of £1.163 million identified which leaves £0.863 million as uncommitted.

Table 2: Business Transformation Funding

Activity	Approved Funding	Projected spend to 31/3/18	Funding Remaining
Programme Management	151,318	151,318	0
Programme Facilitation	291,987	326,889	-34,902
Systems Thinking	130,140	119,580	10,560
Customer Services	337,651	321,651	16,000
IT Support	468,000	115,845	352,155
People Strategy and Organisational Review	833,342	835,419	-2,077
Shared Services	113,478	113,478	0
Procurement	144,000	144,000	0
Asset Management	10,300	10,300	0
Purchase to Pay	40,000	40,000	0
EWiM	150,000	150,000	0
Externalisation / Insourcing	10,000	10,000	0
Income Maximisation	151,446	151,446	0
Service Reviews			
Secondary School Management	60,061	60,061	0
Property Services Mobile Working	72,260	72,260	0
Arts, Creativity, Regeneration and CLD	19,796	19,796	0
Older Peoples Services	125,500	44,638	80,862
Childrens Services	55,900	55,900	0
Community care - Internal and Shared Services	30,000	0	30,000
Mobile and Flexible working	33,400	33,400	0
TDM	258,000	258,000	0
Family Resilience Project	85,602	85,602	0
Schools Review	148,000	148,000	0
Renewable Energy	160,000	20,000	140,000
Total	3,880,180	3,287,582	592,598

Programme enablers include:

People and Organisational Development – People Strategy (Transitioned to Workforce Strategy 2017/18)

A key enabler to support the organisation through change, focusing on having the right people, with the right skills, working in the right way.

Achievements through this enabler include the development of smarter working policies for:

- Promotion and support of flexible working;
- Promoting Midlothian as an employer of choice and improving the employment deal;
- Ensuring we have a workforce profile that adapts as the organisation changes; and
- An Investing in Our Workforce strategy to reshape the relationship with employees

Digital Foundation – Digital Strategy

A number of smarter working initiatives have been piloted and new technology tested that can assist transformational activity.

These new ways of working help the Council to adopt new and modern working practices and underpins a great deal of transformation across the council. Examples include the introduction of multi-functional printing, scanning and copying devices (removing traditional table top printers) and end to end transactions processing through Purchase to Pay

Transformational Resources/Governance

A review of the Transformation Team in 2017 saw the shift of both resource and activity to a Directorate level. The performance and change resource within each Directorate provides managers across the directorate with support to build organisational strength and the capacity to manage change. This change allows Directorate specific deployment of a range of skills and tools to support their Change and Improvement Programme.

Whilst the Transformation function and team no longer exists, the previous requirement to monitor and report delivery of the transformation programme centrally now sits within the Corporate Policy and Scrutiny team with the existing governance structures of the Business Transformation Board and Business Transformation Steering Group remaining in place with an expanded remit to include the wider Change and Improvement Programme oversight.

Transformation Strand Updates

Customer Services

In the Customer Service Review we realised benefits evidenced in cultural change and organisational development with a focus on innovation, change and improvement to equip the council and colleagues for an emerging future as public services continue to transform and our communities continue to change we are reliant on the resilience and flexibility in our workforce, enabling them to be part of the transformation process; working with our communities to ensure they are engaged and able to participate; maximising opportunities around alternative delivery models and taking advantage of the advances in technology as a bridge and not a barrier to deliver our Service Plan outcomes. Redesign service benefits realised included: channel shift efficiencies, telephony integration, automation of applications and transactions and customer service asset rationalisation. The transformation activity has:

- Realigned our customer service functions (libraries, customer service points, contact centre, and registration services) and created service flexibility and resilience through the implementation of the Customer Service staffing review.
- Developed and launched of a new responsive Council website to improve customer accessibility and functionality.
- Secured funding for the upgrade and extension of free public WiFi provision across libraries, our mobile library and right across our hub buildings.
- Launched our new mobile library service into communities across Midlothian and established a shared service arrangement with our neighbours in East Lothian.
- Established local Customer Hubs creating a place where we offer frontline services and support locally within the community.
- Delivered an automated contact portal for external switchboard calls and moved our main switchboard number to our customer contact centre to offer first time resolution, reduce the double handling of enquiries, and ensure distribution of calls across all available customer service advisors.
- Designed new library and customer service provision for inclusion in new fit-for-purpose community hub buildings.

The project to date has secured savings of £0.056 million in 2017/18 remaining target of £0.239 million carried forward to 2018/19.

Children's Services

A 'whole system' review of children's services, has provided the opportunity to re-build the foundation of our service provision by re-directing resources to provide earlier levels of support, reducing demand for and minimising the high costs incurred and improving outcomes for the children and young people involved.

There is significant evidence that responding at an earlier point of intervention prevents situations escalating and often results in more positive outcomes for families. In response to this and to the feedback shared, we have introduced three Early Intervention and Prevention teams, consisting of social workers and practitioners. Early engagement, underpinned by the Getting It Right First Time principles, ensures that children have the best start in life and families get the right support when it is needed.

Working with education services, we hope to re-invest money into our own local infrastructure so that we can ensure we have the skills, experience and capacity to meet the needs of those children and young people who struggle to be educated within our mainstream provisions. We also have an ongoing fostering campaign to recruit more local foster carers so that we do not have to use external carers who often live a long way away from Midlothian. Our vision moving forward is to prevent children and young people being placed in external foster placements and meet their needs within Midlothian.

Savings on Children's Services amended to later years given the demand led service pressures in 2017/18. Overall the review has reduced the Children's Services budget by £1.986 million as at 31 March 2018.

Integrated Service Support

The integrated service support project consolidates key support services, reviews and challenges service delivery and priorities as well as management arrangements and ensures appropriate spans of control through layers and specialism's. This approach has delivered service improvements and achieved cost efficiencies by eliminating duplication and silo working and supports the delivery of service 'enablers' and services across the council.

Key successes include:

- Key support functions merged across all 3 Directorates
- Creation of a 'fit for purpose' Finance and Integrated Service Support Management team
- Development of a Workforce Strategy and the creation of Workforce Profiles across the organisation to support the Investing in Our Workforce programme
- New entry level jobs created for school and college leavers (positive destinations recruitment)
- Team succession planning and career paths strengthened

Overall savings achieved total £4.854 million

Education

Delivery of world class education continues to be a priority. The ongoing review and streamlining of processes and structures ensures the appropriate utilisation of education staff across all of our schools. With a focus on delivering the most cost effective pre-school provision giving children access to a wider curriculum and educational experiences, a new preferred pre-school provision model has been delivered.

A review of secondary provision with a move away from an age/stage basis to organising opportunities that create pathways that enable young people to pursue their choices. The principals of the models of delivery have been developed and all six secondary schools will move to the new timetabling model over the next two years.

A strategy for Midlothian's learning estate which plans for new schools in Midlothian for the next 10 to 20 years has been developed and supports the implementation of the Local Development Plan.

Overall savings achieved through the review of secondary provision and pre-school provision total £1.200 million at 31 March 2018 with further savings of £0.277 million being delivered in 2018/19.

Services to Communities

This strand of transformation was agreed in 3 phases:

Phase 1. A new transparent approach to awarding grants was successfully introduced in 2015/16 with savings delivered to date rising to £500k in 2017/18.

Phase 2. A streamlined and focused review of structures within Lifelong Learning and Communities teams has provided a good foundation for resources to be deployed across Midlothian but with emphasis on those areas of priority and higher levels of inequality

Phase 3. Development of an approach to focus on the 3 priority areas (Woodburn/Dalkeith, Mayfield/Easthouses and Gorebridge) that will build strong communities where individuals and families have opportunities to improve their health and wellbeing, achieve their aspirations through education and employment, feel safe, and can play an active part in their local community.

Alongside this, it is recognised that local people are often best placed to support each other and take positive action to improve their area. Individual residents can take action that has a significant impact on their family, friends and neighbours, from volunteering with a local group, improving their own health and wellbeing, or just by being neighbourly.

Each of the 3 Priority areas has Neighbourhood plans and local action plans (developed with local people). At a strategic level, regeneration work progresses on improving Town Centre regeneration and investment in physical condition of premises.

Overall savings achieved of £0.500 million as at 31 March 2018.

Integrated Health and Social Care

Whilst Integrated Health and Social Care is not a formal strand of the Transformation Programme, the governance framework in terms of reporting to the Board and the Strategic Group is a mechanism used to ensure awareness of the current position of the integration agenda.

Regular updates focus on the foundations of progress on governance and not in relation to change/improvement initiatives planned (these are reported to Integrated Joint Board). To date the following arrangements have been put in place:

- Integrated Joint Board established
- User/Carer Collaborative in place
- New Public Partnership Forum arrangements agreed
- Joint Management Team in place/ Revised Senior Management Structures under consideration
- Interim Professional Leadership for AHPs agreed
- Risk, performance and communication frameworks agreed

Achieved savings target of £1.555 million in 2017/18.

Managing the programme – Next Steps

The latest Financial Strategy report to Council sets out the longer term projected budget shortfalls for the period 2018/19 to 2021/2022 and the contribution change activity will have in reducing the projected shortfalls. This includes savings across the existing strands of the transformation programme of £1.167 million in 2018/19 rising to £1.502 million by 2021/22.

Whilst the recently developed and approved change programme looks to address the projected budget shortfalls the programme continues to include transformational elements as follows:

- Entrepreneurial Council
- Enterprising with Communities
- Digital-led
- Shared Services

The revised transformation elements will be reflected in a refreshed Delivering Excellence Change and Transformation strategy which is currently being developed and which will be presented to Council in due course. It should be noted that the outstanding savings associated with the transformation strands covered in this report for 2018/19 and beyond will be incorporated within the wider change programme being taken forward under the Delivering Excellence Change and Transformation strategy and will therefore be subject to the governance applied for the change programme going forward.

Audit Committee Annual Report 2017/18

Report by Chair of Audit Committee

1. Purpose of the Report

The purpose of this report is to provide Members with the Audit Committee Annual Report 2017/18 and the annual self-assessments of the Committee against best practice.

2. Background

It is important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance). It incorporates CIPFA's 2013 Position Statement: Audit Committees in Local Authorities and Police which sets out CIPFA's view of the role and functions of an Audit Committee. The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.

3. Audit Committee Annual Report 2017/18 and Self-Assessments

The Audit Committee Annual Report 2017/18, which is appended to this report as Appendix 1 for consideration, is designed both to provide assurance to full Council and to identify areas of improvement which are designed to enhance the Audit Committee's effectiveness as a scrutiny body. Midlothian Council continues to be a lead authority in adopting this best practice.

The Audit Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 1 May 2018 facilitated by the Chief Internal Auditor. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration. The outcomes of the self-assessments were a high degree of performance against the good practice principles, and reasonable effectiveness with identified areas of improvement to enhance its effectiveness.

4. Report Implications

4.1 Resource

The Council has provided support and resources to the Audit Committee throughout the year including a Democratic Services Officer as the Minute secretary.

4.2 Risk

The role of the Audit Committee includes the high level oversight of the effectiveness of the Council's systems of internal financial control, internal control and governance, including risk management.

There is a risk that the Audit Committee does not fully comply with best practice guidance thus limiting its effectiveness as a scrutiny body as a foundation for sound corporate governance. The completion of the annual self-assessment and identification of improvement actions as evidenced through this Annual Report will mitigate this risk.

4.3 Single Midlothian Plan

Themes addressed in this report:

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

4.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners include the following areas as key priorities under the Single Midlothian Plan:

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

4.5 Impact on Performance and Outcomes

The members of the Audit Committee have reflected on the performance and outcomes against the remit of the Committee through the completion of annual self-assessments. The identification of improvement actions as evidenced through the Annual Report are designed to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

4.6 Adopting a Preventative Approach

Assurances received by the Audit Committee from Management, Internal Audit and External Audit set out the assessment of prevention and detection internal controls and governance arrangements.

4.7 Involving Communities and Other Stakeholders

The Audit Committee in fulfilling its governance role acts as a bridge between the Council and other stakeholders.

4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.10 IT Issues

There are no IT issues with regard to this report.

5. Recommendations

The Audit Committee is therefore asked to approve the Audit Committee Annual Report 2017/18 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3), and agrees that the Audit Committee Annual Report 2017/18 should be presented to the Council.

Date: 31 May 2018
Report Author: Jill Stacey, Chief Internal Auditor
E-Mail: Jill.Stacey@midlothian.gov.uk

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2017/18**

This annual report has been prepared to inform the Midlothian Council of the work carried out by the Council's Audit Committee during the financial year. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) to report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

Meetings

The Audit Committee has met 4 times during the financial year which included meetings on 20 June, 26 September, 12 December 2017, and 13 March 2018 to consider reports pertinent to the audit cycle.

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

The Audit Committee considered the Internal Audit Annual Assurance Report 2016/17 (June 2017) which includes the annual opinion, Internal Audit's performance against the audit plan that underpin the annual opinion, and conformance with Public Sector Internal Audit Standards (PSIAS). It considered Internal Audit's reports arising from each review setting out findings, audit opinions, good practice and recommendations. It monitored the implementation of agreed actions through receipt of two reports during the year from Internal Audit to ensure that audit recommendations had been fully implemented to its satisfaction. The Committee approved the terms of reference for Internal Audit, the Internal Audit Charter, and the Internal Audit Strategy and Annual Plan 2018/19 (March 2018).

The Audit Committee has received and considered all material arising from the External Audit strategies and plans overview for Midlothian Council from the External Auditor, EY, relating to their 5-year appointment from 2016/17 annual audit. It considered the report to Members and the Controller of Audit on the 2016/17 annual audit of the Council and reviewed the main issues arising from the external audit of the Council's statutory accounts (September 2017).

The Audit Committee considered the effectiveness of the risk management process throughout the Council through the receipt of periodic reports from the Risk Manager during the year on corporate risks and mitigations and the appropriate challenge of Senior Management to ensure that the most significant risks are being identified, evaluated and managed.

The Audit Committee considered the adequacy and effectiveness of the Council's counter fraud arrangements by way of an update report on the National Fraud Initiative, which set out the Council's participation and outcomes, and assurances from Auditors on fraud risks and counter fraud controls.

The Audit Committee is the body responsible for scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval. An Internal Audit review has highlighted that this was inconsistently applied during the year and this scrutiny role was not effectively fulfilled; recommendations are expected in this regard to improve arrangements.

The minutes of Audit Committee meetings were presented for approval by the Council, and referred any exceptional items to the Council in accordance with the remit.

Membership

The Membership of the Audit Committee is part of the approved Midlothian Council's Standing Orders (amended June 2017) namely being six Members of the Council and two non-voting members appointed from an external source. Two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers). However, this is considered as difficult to avoid in a small Council and the Audit Committee operates with an independent Chair and independent member and there is therefore effective independence and challenge. The two non-voting external members were appointed from the community following a recruitment and selection process carried out during 2017. This enhances the robustness and independence of the Audit Committee's role in the scrutiny process of internal controls and governance.

The Committee membership during the year included Mr M Ramsay (Chair), Councillors K Baird, A Hardie, D Milligan, J Muirhead, K Parry and P Smail, and Mr P De Vink.

The attendance by each member at the Committee meetings throughout the year was as follows:

Member	Meeting of 20 June 2017	Meeting of 26 September 2017	Meeting of 12 December 2017	Meeting of 13 March 2018
Mr M Ramsay (Chair)	n/a	Attended	Attended	Attended
Cllr K Baird	Attended	Attended	Attended	Attended
Cllr A Hardie	Attended	Attended	Attended	Attended
Cllr D Milligan	Attended	Attended	Attended	Apologies
Cllr J Muirhead	Attended	Attended	Attended	Attended
Cllr K Parry	Attended	Apologies	Attended	Apologies
Cllr P Smail	Attended (Chair for this meeting)	Attended	Attended	Attended
Mr P De Vink	n/a	n/a	Attended	Attended

Every meeting of the Audit Committee in 2017/18 was quorate (i.e. at least three elected members present).

All other individuals who attended the meetings are recognised as being "In Attendance" only. The Chief Executive, Directors, Head of Finance and Integrated Support (Section 95 Officer), External Audit (EY), and Internal Audit attend all Audit Committee meetings, and other senior officers also routinely attend Audit Committee meetings. The Council has provided support and resources to the Audit Committee throughout the year including a Democratic Services Officer as the Minute secretary.

Skills and Knowledge

Given the wider corporate governance remit of Audit Committees within local government and the topics now covered by the external and internal audit functions, it is noteworthy that there is a range of skills, knowledge and experience that Audit Committee members bring to the committee, not limited to financial and business management. This enhances the quality of scrutiny and discussion of reports at the meetings. No one committee member would be expected to be expert in all areas.

An Induction presentation was delivered by EY in June 2017 to the newly appointed members of the Audit Committee which outlined the External Audit implications for Midlothian, Role of the Audit Committee, CIPFA Guidance on the Audit Committee, Internal Control, Governance, the Annual Governance Statement, Risk Management, Internal Audit Role, What is expected of Audit Committee Members, Fraud, Role of the Audit Committee Chair, Key elements of an effective audit committee, and Key Evaluation Questions. The Internal and External Audit Plans for the Council and the Annual Reporting Calendar were also provided for information.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit Committee on 1 May 2018 during an Informal Session facilitated by the Chief Internal Auditor using the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance. This was useful for Members to ensure the Committee can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

The outcome of the self-assessments was a high degree of performance against the good practice principles and a medium degree of effectiveness, the latter in recognition of the significant change in membership during 2017 and the early stages of its 5-year journey. Improvements were identified focussing on skills and knowledge competency to fulfil role. In summary these are: Members Briefings / Seminars on Statutory Accounts and Treasury Management to help their understanding of these technical areas; utilising other self-assessments such as the CIPFA Skills and Knowledge toolkit; Informal Session prior to each Audit Committee meeting, without Management present, to enable the members of the Committee to meet privately and separately to raise any matters with the external and internal auditors pertinent to the annual audit cycle of reporting, in line with best practice; understanding the effectiveness of other Committees fulfilling their remits on which the Audit Committee places reliance; and establishing an Action Tracker for Audit Committee to monitor completion of their recommended actions.

Assurance Statement to the Council

The Audit Committee provides the following assurance to the Council:

- The Council has received the minutes of the Audit Committee throughout the year.
- The Audit Committee has operated in accordance with its agreed terms of reference, covering the themes of Governance, Risk and Control, Internal Audit, External Audit, Financial Reporting, and Accountability Arrangements, and accordingly conforms to the Audit Committee principles within the CIPFA Position Statement for Audit Committees.
- It did this through material it received from Internal Audit, External Audit, other Audit bodies, and assurances from Management. It focused entirely on matters of risk management, internal control and governance, giving specialist advice to the Council on the value of the audit process, on the integrity of financial reporting and on governance arrangements, and acted as a bridge between the Council and other stakeholders.
- A theme that has repeated in a number of specific reports this year refers to the effectiveness of management receiving, understanding, and acting on management information on a timely basis, and this will be an area of focus for the Audit Committee in the years ahead.
- In March 2018 the Audit Committee was advised of an ongoing fraud investigation in the Roads Service following allegations raised with Councillors in October 2017. Preliminary reports following the year-end have raised serious questions on the effectiveness of the internal controls and governance arrangements in place. When full details can be made available to the Audit Committee, the implications raised will be considered, and any recommendations made by Internal Audit and by others will be actively monitored, and reported on further in next year's report from the Chairman.
- The Audit Committee will review the Internal Audit Annual Assurance Report 2017/18 and the draft Annual Governance Statement 2017/18 at its meeting on 19 June 2018, in order to assess whether the content is consistent with its evaluation of the internal control environment and governance arrangements based on evidence received during the year.
- The Audit Committee will review the Annual Accounts 2017/18 in draft of the Council at its meeting on 19 June 2018 and will review these in final at its meeting on 25 September 2018 alongside the External Audit report on their annual audit 2017/18 in order to decide whether to recommend to the Council that they be adopted.

- The Audit Committee has reflected on its performance during the year, and has agreed areas of improvements to enable it to fulfil its scrutiny and challenge role and to enhance its effectiveness.

Recommendation of the Terms of Reference for the Audit Committee for the coming year

There are no proposals to change the Terms of Reference for the Committee at this time.

Mike Ramsay
Chairman of Audit Committee
1 June 2018

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Midlothian Council Audit Committee – 2017/18 self-assessment of Good Practice at 1 May 2018

Audit committee purpose and governance	Yes/Partly /No	Comments
Does the authority have a dedicated audit committee?	<input type="text" value="Yes"/>	
Does the audit committee report directly to full council?	<input type="text" value="Yes"/>	All Minutes of Audit Committee are circulated to full Council for noting and approval of any of their recommendations. An annual report is submitted by the Chair of the Audit Committee to full Council.
Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement	<input type="text" value="Yes"/>	Terms of Reference in place and periodically reviewed against CIPFA's best practice.
Is the role and purpose of the audit committee understood and accepted across the authority?	<input type="text" value="Yes"/>	Role of Audit Committee is set out in the Council's Standing Orders. Senior Management and Elected Members have access to Standing Orders on the Council's Intranet.
Does the audit committee provide support to the authority in meeting the requirements of good governance?	<input type="text" value="Yes"/>	Audit Committee carries out the role set out in the Terms of Reference contributing to the authority's governance framework.
Are the arrangements to hold the committee to account for its performance operating satisfactorily?	<input type="text" value="Yes"/>	All Minutes of Audit Committee are circulated to full Council for noting and approval of any recommendations. An annual report is submitted by the Chair of the Audit Committee to full Council.

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Midlothian Council Audit Committee – 2017/18 self-assessment of Good Practice at 1 May 2018

Functions of the committee	Yes/Partly /No	Comments
Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?		
• good governance	<input type="text" value="Yes"/>	Functions in Terms of Reference Nos. 1, 3 & 4
• assurance framework	<input type="text" value="Yes"/>	Function in Terms of Reference No. 6
• internal audit	<input type="text" value="Yes"/>	Functions in Terms of Reference Nos. 13-24
• external audit	<input type="text" value="Yes"/>	Functions in Terms of Reference Nos. 25-29
• financial reporting	<input type="text" value="Yes"/>	Functions in Terms of Reference Nos. 30-31
• risk management	<input type="text" value="Yes"/>	Functions in Terms of Reference Nos. 6-8
• Value for money or best value	<input type="text" value="Yes"/>	Function in Terms of Reference No. 5
• Counter-fraud or corruption	<input type="text" value="Yes"/>	Functions in Terms of Reference Nos. 9-11

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Midlothian Council Audit Committee – 2017/18 self-assessment of Good Practice at 1 May 2018

Functions of the committee (cont'd)

Yes/Partly
/No

Comments

Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?

Yes

Annual self-assessment undertaken on 1 May 2018 against CIPFA good practice checklist and effectiveness toolkit with the outcome / output referenced as part of the annual report submitted by the Chair of the Audit Committee to full Council.

Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?

Yes

Within Terms of Reference No.12 Treasury Management and Ethical Standards.

Where coverage of core areas has been found to be limited, are plans in place to address this?

Yes

Terms of Reference covers core areas.

Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?

Yes

Question is unclear on non-advisory. Terms of Reference is limited to governance, risk and control; it is non-decision-making though does have an advisory function to recommend improvements to governance, risk and control within its remit.

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Midlothian Council Audit Committee – 2017/18 self-assessment of Good Practice at 1 May 2018

Membership and support	Yes/Partly /No	Comments
<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • where independent members are used, that they have been appointed using an appropriate process. 	Partly	<p>No (1st bullet) - Two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers). However this is considered as difficult to avoid in a small Council and the Audit Committee operates with an independent Chair and independent member and there is therefore effective challenge. Yes (2nd and 3rd bullet points) – Committee comprises of six Elected Members and two independent members (one of which is the Chair) who have a mix of skills, knowledge and experience. Yes (4th bullet point) – an external recruitment, selection and appointment process was undertaken for independent members on the Audit Committee.</p>
<p>Does the chair of the committee have appropriate knowledge and skills?</p>	Yes	<p>Chair has previous experience of chairing meetings and a previous career within the financial sector.</p>
<p>Are there arrangements in place to support the committee with briefings and training?</p>	Partly	<p>Induction session on appointment to the Audit Committee in June 2017. Improvement action to undertake briefings / seminars on Statutory Accounts and Treasury Management to enhance skills and knowledge was identified during the annual self-assessment process.</p>
<p>Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?</p>	Partly	<p>Improvement action to enhance skills and knowledge was identified during the annual self-assessment process, and agreed that the CIPFA Skills and Knowledge toolkit would be used.</p>
<p>Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?</p>	Yes	<p>Chair meets with Chief Internal Auditor (CIA) in advance of each Audit Committee meeting and has option to meet with External Auditors, EY, in private. Prior to each Audit Committee the Chair has pre-meeting with Chief Executive, CIA, Director Resources, and Section 95 Officer. Chief Executive, Directors and Section 95 Officer, External Audit (EY) and Internal Audit attend all Audit Committee meetings. Improvement to arrange other private Informal Sessions with Internal and External Auditors for all Audit Committee members.</p>
<p>Is adequate secretariat and administrative support to the committee provided?</p>	Yes	<p>Democratic Services Officer assigned to the Audit Committee.</p>

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Midlothian Council Audit Committee – 2017/18 self-assessment of Good Practice at 1 May 2018

Effectiveness of the committee	Yes/Partly /No	Comments
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	<input type="checkbox"/> Yes	An annual report is submitted by the Chair of the Audit Committee to full Council setting out how it has fulfilled its remit. External Audit comment on Audit Committee as part of Governance within the Annual Audit Report.
Has the committee evaluated whether and how it is adding value to the organisation?	<input type="checkbox"/> Yes	Evaluation carried out during Informal Session on 1 May 2018.
Does the committee have an action plan to improve any areas of weakness?	<input type="checkbox"/> Yes	Improvements are set out within Audit Committee Annual Report 2017/18 focussing on skills and knowledge competency to fulfil role. In summary these are Members Briefings / Seminars on Statutory Accounts and Treasury Management to help their understanding of these technical areas, utilising other self-assessments such as the CIPFA Skills and Knowledge toolkit, Informal Sessions with Internal Audit and External Audit for private discussion, and establishing an Action Tracker for Audit Committee to monitor completion of their recommended actions.



Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
1. Promoting the principles of good governance and their application to decision making	Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it. Working with key members/governors to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	Committee scrutinised the AGS including assurances and the improvement actions. Chair met with Chief Executive regularly. Committee supports the role of audit in improving internal control and governance. Committee participated in annual self-assessment and considered Audit Scotland toolkits for Councillors. Opportunity to liaise with other Audit Committees to share practice.	3
2. Contributing to the development of an effective control environment.	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	Committee received periodic progress reports from Auditors e.g. follow-up activity. Directors attended Committee meetings to discuss progress with improvement actions. Audit Committee action tracker would be helpful to hold Management to account.	3
3. Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements. Holding risk owners to account for major/strategic risks.	Committee received periodic reports from Risk Manager on corporate risks and mitigations.	3
4. Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	Annual Strategies and Plans and periodic progress Reports received from Auditors. Induction programme outlined Governance and Assurance Framework and Audit Cycle. Reliance on other Committees fulfilling their remits; need to understand effectiveness.	3

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
5. Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.	Committee approved the Internal Audit Charter, Strategy and Plan, and received assessment against Public Sector Internal Audit Standards (PSIAS) and quality improvement plan (QAIP).	4
6. Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	Committee received National Reports from Audit Scotland including lessons learned and sharing best practice. Reliance on other Committees fulfilling their remits; need to understand effectiveness.	3
7. Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	Auditors provided assurance on value for money arrangements e.g. transformation, sustainability, and performance management. AGS sets out the Governance Framework including arrangements for best value.	3
8. Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.	Committee received annual counter fraud report and report on National Fraud Initiative on update and outcomes. Auditors provided assurance on fraud risks and counter fraud controls.	3
9. Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging transparency.	Committee scrutinised annual accounts prior to publication and audit (improve format / content for users); did not scrutinise Treasury Management reports prior to full Council. Briefings / Seminars on Statutory Accounts and on Treasury Management would help.	2

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Audit Committee – Special Meeting

Report by Head of Finance and Integrated Service Support

1. Introduction

This report invites the Audit Committee to agree to a special meeting of the committee to consider the unaudited Annual Accounts, which require to be submitted to the Auditor by 30 June 2018, and which require to be reviewed by the Committee whose remit includes audit or governance by the legislative deadline of 31 August 2018 as set out in the Local Authority Accounts (Scotland) Regulations 2014.

2. Background

The Regulations referred to above state:

- Once the proper officer is satisfied as to the matters set out in paragraph (5), the proper officer must certify these matters by signing and dating the statement of responsibilities and the balance sheets contained within the Annual Accounts and then submit the Annual Accounts to the auditor.
- The Annual Accounts must be submitted to the auditor no later than 30th June immediately following the financial year to which the Annual Accounts relate.
- A local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor.
- The meeting referred to (above) must be held no later than 31st August immediately following the financial year to which the Annual Accounts relate.

As the next meeting of the Audit Committee is scheduled for 25 September 2018 it is therefore considered necessary to hold a Special Meeting to comply with the legislative requirements as stated above.

3. Report Implications

3.1 Resource

There are no resource implications arising from this report.

3.2 Risk

Failure to hold a special meeting of the Audit Committee may result in the Council failing to comply with legislative requirements.

4.3 Single Midlothian Plan

Themes addressed in this report:

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

5. Recommendations

The Audit Committee is invited to agree to hold a special meeting of the committee to consider the unaudited Annual Accounts by the legislative deadline of 31 August 2018 as set out in the Local Authority Accounts (Scotland) Regulations 2014.

Date: 8 June 2018
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