

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: