

Notice of meeting and agenda



Audit Committee

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

Date: Tuesday, 13 March 2018

Time: 14:00

John Blair
Director, Resources

Contact:

Clerk Name: Janet Ritchie
Clerk Telephone: 0131 271 3158
Clerk Email: janet.ritchie@midlothian.gov.uk

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 12 December 2017 submitted for approval | 3 - 14 |
|-----|--|--------|

5 Public Reports

- | | | |
|-----|---|-----------|
| 5.1 | Financial Strategy 2018/19 to 2021/22 and Financial Monitoring 2017/18 - Report by Director Resources | 15 - 36 |
| 5.2 | Internal Audit Report Review of Controls Operating over Accounts Payable - Report by Internal Audit | 37 - 50 |
| 5.3 | Internal Audit Report Complaints - Report by Internal Audit | 51 - 72 |
| 5.4 | Risk Management Q3 Update for 1 October 2017 - 31 December 2017 - Report by Risk Manager | 73 - 102 |
| 5.5 | Midlothian Council Annual Audit Plan 2017/18 - Report by EY, External Auditors | 103 - 130 |
| 5.6 | Internal Audit Charter - Report by Chief Internal Auditor | 131 - 138 |
| 5.7 | Internal Audit Strategy and Annual Plan 2018/19 - Report by Chief Internal Auditor | 139 - 152 |

6 Private Reports

No business to be discussed

7 Date of Next Meeting

Tuesday 1 May 2018 at 11 am

Minute of Meeting



Audit Committee

Date	Time	Venue
Tuesday 12 December 2017	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

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

In attendance:

Kenneth Lawrie	Chief Executive
John Blair	Director Resources
Gary Fairley	Head of Finance and Integrated Service Support
Stephen Reid	Ernst and Young
Alan Turpie	Legal Services Manager
Suzanne Ross	Solicitor
Elaine Greaves	Internal Audit Manager
Jill Stacey	Chief Auditor, Scottish Borders & Midlothian Council
Ricky Moffat	Head of Commercial Operations
Ian Johnson	Head of Communities and Economy
Alison White	Head of Adult Services
Heather Mohieddeen	Senior Auditor
James Polanski	Auditor
Amber Ahmed	Auditor
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies

2. Order of Business

The order of business was amended as follows and included the additional paper 5.12 Local Code of Corporate Governance 2017 which had been previously circulated.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

On a motion by Councillor Muirhead and seconded by Councillor Hardie the minutes of the Audit Committee meeting of 26 September 2017 were submitted and approved as a correct record.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Shared Chief Auditor Post between Midlothian and Scottish Borders Councils	Chief Executive
Outline of report and summary of discussion		
<p>There was a report submitted to the Audit Committee by the Chief Executive advising of a 12 month pilot arrangement over the sharing of a Chief Auditor/Audit Manager Post between Midlothian and Scottish Borders Councils which will also create the opportunity for a wider exploration of joint working activities and benefits.</p> <p>The Chief Executive welcomed the newly appointed shared Chief Internal Auditor, Jill Stacey to the meeting and provided the Committee with an outline of the report highlighting the potential benefits as well as the challenges of sharing the Chief Auditor/Audit Manager post across both Councils.</p> <p>Thereafter the Chief Executive responded to questions raised by Members which included:</p> <ul style="list-style-type: none">• The protocol for the allocation of tasks for both Councils and the structure in place for managing this.• The net savings to Midlothian Council of £30,000 relative to the appointment to the full time management position in the previous structure.		

- The External Auditor confirmed that this pilot programme supports the recommendation relevant to Item 11 within the Action Plan in the External Auditor's Annual Report regarding transformational change.
- Wider exploration of joint working across other Councils.

The Chair added his welcome to Jill Stacey and looked forward to working with her in the future.

Decision

The Audit Committee noted:

- i) the interim appointment of a shared Chief Internal Auditor post between Midlothian and Scottish Borders Council with effect from 1 December 2017 for a period of 12 months;
- ii) that there will be a wider exploration of joint working activities and benefits on the proposals set out in this report;
- iii) that a detailed programme for implementing the shared post arrangements set out in this report including wider staff and trade union consultation will be developed; and
- iv) that a further report will be presented to the Committee after an initial 6 month period.

Action

Chief Executive

Report No.	Report Title	Submitted by:
5.2	Risk Management, Update for 1 July 2017 – 30 September 2017	Risk Manager
Outline of report and summary of discussion		
<p>There was a report dated 22 November 2017 submitted by the Risk Manager with the 2017/18 quarter 2 strategic risk management update, covering the period 1 July 2017 – 30 September 2017.</p> <p>The Head of Commercial Operations presented the report to the Committee highlighting the main sections from within the report. Thereafter Executive Officers responded to questions raised by Members which included:</p> <ul style="list-style-type: none"> • The impact of the pay and grading review. The Director Resources confirmed there will be a report presented to Council in the next quarter with details of benefits from the terms and conditions and also the investments in the staffing. • An explanation to why the Pension fund has not been included as a significant risk to Midlothian in this report. The Head of Finance and Integrated Service Support explained that the Accounts make provision for the Council's own pension liabilities. 		

- The City Deal that has now been agreed and will this impact on the risk evaluation. The Chief Executive explained that although the Heads of terms were signed off in July 2017 the process to develop detailed business cases for all aspects of the City Deal was still ongoing and the Council was working closely with partners to complete this with a target date of the end of March 2018.

Decision

The Audit Committee noted the quarter 2 2017/18 Strategic Risk Profile report and considered the current response to the issues, risks and opportunities highlighted.

Report No.	Report Title	Submitted by:
5.3	National Fraud Initiative Update 2016/17	Internal Audit Manager
Outline of report and summary of discussion		
<p>A report dated 30 November 2017 was presented by the Senior Auditor updating the Audit Committee on the completion of the National Fraud Initiative data matching exercises for 2016/17, and the outcomes of these exercises.</p> <p>Thereafter the Executive Officers responded to questions raised by Members with regards to the figures detailed in Appendix 1 on payroll and blue badges.</p>		
Decision		
The Audit Committee noted the content of the report.		

Report No.	Report Title	Submitted by:
5.4	Internal Audit Report – Health and Safety	Internal Audit Manager
Outline of report and summary of discussion		
<p>A report dated November 2017 was presented by the Internal Auditor which reviewed the adequacy of the control framework designed by management to allow compliance with Health and Safety legislation. The Council has a legal duty to put in place suitable arrangements in response to statutory requirements and ultimately to manage and control key health and safety risks creating a safe and healthy working environment.</p> <p>Thereafter the Head of Commercial Operations responded to questions raised by Members which included what actions had been taken to address the issues highlighted in the report; the outstanding items from the action plan 2013-16 and the collaboration with East Lothian Council's Health and Safety Team.</p>		

The Head of Commercial Operations continued by explaining that an Action Plan is now in place and all outstanding items are being addressed and will be completed by the end of the financial year, the benefits of having a shared Risk Manager for both Midlothian and East Lothian Council and that both Councils will be at the same stage by March 2018.

In response to a question from the Chair with regard to the RIVO system not meeting the Council's information security policy but whether it met East Lothian's information security policy, the Head of Commercial Operations agreed to provide feedback on this matter.

Decision

The Audit Committee otherwise noted the content of the report.

Action

Head of Commercial Operations

Report No.	Report Title	Submitted by:
5.5	Internal Audit Report – Monitoring of External Care Homes	Internal Audit Manager
Outline of report and summary of discussion		
<p>A report dated November 2017 was presented by the Internal Auditor which provided an opinion on the adequacy of Midlothian Council's monitoring arrangements over the third party suppliers it has appointed to provide care home services.</p> <p>Thereafter the Head of Adult Services responded to questions raised by Members which included:</p> <ul style="list-style-type: none"> • The number of issues raised and confirmation that all actions have been addressed. • Data protection weaknesses and the risk of individual information being accessed. External providers not using the Egress system but confirmation that this is more anonymised data than individual data. • Confirmation that all Care Homes are externally audited by the Care Inspectorate. • The issue of whether external agencies are adhering to the Council's systems and it was confirmed that the problem is not widespread and this can happen when there is a change of management in the care home. • The functionality of both Mosaic and the new internal monitoring system CM2000 and the fact that these systems are for recording different data. 		
Decision		
The Audit Committee noted the content of the report.		

Report No.	Report Title	Submitted by:
5.6	Internal Audit Report – Tyne Esk LEADER	Internal Audit Manager
Outline of report and summary of discussion		
<p>A report dated November 2017 was presented by the Internal Auditor which reviewed the adequacy of the internal controls in place for the administration of the Tyne Esk LEADER Programme.</p> <p>Thereafter Executive Officers responded to questions raised by Members which included:</p> <ul style="list-style-type: none"> • Clarification on the eligibility of tendering quotes and the connected parties. • Overdue claims that do not meet Scottish Government Service Level agreement. 		
Decision		
The Audit Committee noted the content of the report.		

Report No.	Report Title	Submitted by:
5.7	Internal Audit Report – Follow-up Review of Audit Recommendations	Internal Audit Manager
Outline of report and summary of discussion		
<p>A Report dated November 2017 was presented by the Internal Audit Manager highlighting that this follow-up audit reviewed a sample of recommendations that have been signed off as complete in 2016/17 to determine whether they had been implemented satisfactorily and thus give assurance over the ongoing improvement of internal control.</p> <p>The Internal Audit Manager responded to a question raised by Councillor Smaill with regards to the inclusion of the Transformation Programme in this audit review and she explained that only a sample of recommendations were selected from the Pentana system for this review.</p> <p>The Chair suggested that due to the importance of the Business Transformation Programme that when planning the Audit Plan for 2018/19 that the focus is on this critical area.</p>		
Decision		
The Audit Committee agreed that the Business Transformation Programme is considered when planning the Audit Plan for 2018/19 and to otherwise note the content of the report.		
Action		
Internal Audit Manager		

Report No.	Report Title	Submitted by:
5.8	Internal Audit Recommendations Progress Report	Internal Audit Manager
Outline of report and summary of discussion		
<p>A report dated 15 November 2017 was presented by the Internal Audit Manager informing the Audit Committee of the number of recommendations raised by Internal Audit over the last 4 years and the Council's performance in addressing these issues by the agreed implementation dates.</p> <p>The Chair raised a question with regards to the actions in the review of controls operating over pre-school provision partnership providers and who takes responsibility of this. The Director Resources agreed to follow this up with colleagues.</p> <p>Thereafter the Executive Officers and the External Auditor responded to questions raised by Members which included:</p> <ul style="list-style-type: none"> • Management review current risk score and confirmation that there are arrangements in place to monitor these agreements. • The outstanding action with regards to Petty Cash was due to the move to E-forms and that progress has been made on this. • The External Auditor provided an explanation on the ways that the external audit focusses on the management implementation of actions and the importance that progress was being made. 		
Decision		
<p>The Audit Committee agreed:</p> <ul style="list-style-type: none"> • That feedback would be provided by the Director Resources with regards to issues involving pre-school provision partnership providers. • To note that Internal Audit will continue to monitor for completion the outstanding issues and will provide reports to the Audit Committee. • To otherwise note the content of the report. 		
Action		
Director Resources		

Report No.	Report Title	Submitted by:
5.10	Audit Scotland Report: Local government in Scotland: Financial Overview 2016/17 (Audit Scotland, November 2017)	Chief Executive

Outline of report and summary of discussion

A report dated 28 November 2017 was presented by the Chief Executive providing the Audit Committee with a summary of the Audit Scotland report, 'Local government in Scotland; Financial Overview 2016/17' and the Council's position in relation to the report's findings. The report provides a high-level, independent view of the Council's financial performance and position in 2016/17.

The Chief Executive highlighted the notable items from the Audit Scotland Report which included Exhibit 9 (p22), 11(P24) and 13 (26).

Thereafter the Head of Finance and Integrated Service Support responded to questions raised by Members on the rules regarding the use of various Reserves and the projected level of Reserves and the reasons why money should not be moved to and from different funds.

The External Auditor stated there are specific statutory requirements for each of the Reserves and their role is to ensure that the Council Officers apply the rules accordingly.

Decision

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

Report No.	Report Title	Submitted by:
5.11	Equal Pay in Scottish Councils	Head of Finance and Integrated Service Support

Outline of report and summary of discussion

A report dated 30 November 2017 was presented by the Head of Finance and Integrated Service Support informing the Audit Committee of the findings in the Accounts Commission report 'Equal Pay in Scottish Councils' published on 7 September 2017 (the 'AC Report') and the actions taken by the Council in relation to the issues identified in the report.

Thereafter arising from questions from Members it was clarified that there was provision within the accounts for the number of outstanding pay claims and the number of claims is no longer a risk for the Council. Also raised was other forms of pay and equality and the pay differentials across all grades.

Decision

The Audit Committee noted:

- a) The key messages in the Accounts Commission Report;
- b) The current positive position of the Council with regard to the issues and questions raised by the Commission;
- c) The relatively small number of remaining claims which Legal Services are seeking to resolve;
- d) The actions being taken for governance and oversight of equal pay in the future.

Report No.	Report Title	Submitted by:
5.12	Local Code of Corporate Governance 2017	Director Resources
Outline of report and summary of discussion		
A report dated 5 December 2017 was presented by the Monitoring Officer advising the Audit Committee of the terms of the draft Local Code of Corporate Governance which has been prepared following an updated framework document from CIPFA/SOLACE and which it is intended to be presented to Council to seek formal adoption.		
Decision		
The Audit Committee noted the content of the report.		

At the request of the Chair, the Committee agreed to consider the private report item no. 6.1 Internal Audit Report – Stores at this point in the meeting prior to returning to the final public report, item no. 5.9 Financial Monitoring 2017/18 and Financial Strategy 2018/19.

6. Private Reports

In view of the nature of the business to be transacted, the Committee agreed that the public be excluded from the meeting during discussion of the undernoted item, as contained in the Addendum hereto, as there might be disclosed information as defined in paragraph 8 and 14 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

Report No.	Report Title	Submitted by:
6.1	Internal Audit Report – Stores	Internal Audit Manager
Decision		
The Audit Committee noted the content of the report.		

5. Public Reports continued

Report No.	Report Title	Submitted by:
5.9	Financial Monitoring 2017/18 and Financial Strategy 2018/19 to 2021/22	Director Resources
Outline of report and summary of discussion		
<p>A report dated 30 November 2017 was presented to the Audit Committee by the Director Resources and the Head of Finance and Integrated Service Support bringing to the committee's attention to the most recent reports presented to Council by the Head of Finance and Integrated Service Support, in relation to Financial Monitoring and Financial Strategy. The report refers to the following reports:</p> <ul style="list-style-type: none"> • Financial Monitoring 2017/18 – General Fund Revenue • General Services Capital Plan 2017/18 • Housing Revenue Account • Financial Strategy 2018/19 to 2021/22 • Treasury Management Mid-Year Review Report <p>Thereafter due to the time constraints the Chair asked the Committee if it was appropriate to hold an interim meeting in the New Year to consider this report once the figures had been updated.</p> <p>Councillor Smaill highlighted that as the Council meeting was in February and the next scheduled Audit Committee was not until March he believed that an additional meeting of the Audit Committee prior to the Council meeting was essential.</p> <p>The Chair pointed out that the purpose of the Audit Committee was to ensure the governance structure was being maintained and that these figures will be going to other Council meetings for scrutiny.</p> <p>Councillor Parry therefore sought clarification on the purpose of the additional meeting as these financial matters would be discussed at the full Council and she believed that this item should not have been moved from the original position on the agenda and that a full discussion could have been had during the meeting and any issues raised at that time and that she would move against an additional meeting.</p> <p>The Chief Executive stated it was a matter for the Committee whether to hold an additional meeting and in terms of the role of this Committee that their primary function was to scrutinise and question whether the processes in place were satisfactory.</p> <p>After further discussion the Chair agreed that a formal vote be taken on the matter of holding an interim meeting prior to the February Council meeting.</p>		

As a motion Councillor Smaill, seconded by Councillor Hardie moved that an additional meeting to consider the structure and the content of the savings programme and the associated papers relating to the finances of the Council for the forthcoming year and the five year period be held on an agreed date prior to the Council meeting on 13 February 2018.

As an amendment Councillor Parry, seconded by Councillor Baird moved that there was no requirement for an additional meeting as these financial matters would be discussed at the full Council meeting.

On a vote being taken two members voted for the motion and two for the amendment with two abstentions.

Having taken advice from the Monitoring Officer the Chair cast his deciding vote in favour of the amendment which accordingly became the decision of the Committee.

Decision

The Audit Committee noted the content of the report.

The meeting terminated at 1.07 pm

Financial Strategy 2018/19 to 2021/22 and Financial Monitoring 2017/18**Report by John Blair, Director, Resources****1 Purpose of Report**

The purpose of this report is to bring to the Committee's attention to the reports presented to Council on 13 February 2018 by the Head of Finance and Integrated Service Support, in relation to the Financial Strategy and Financial Monitoring. The reports are available on the Council website and can be accessed using the links below and specifically relate to:

[Audit Committee Meeting – 13 March 2018](#)

Financial Strategy

- [Financial Strategy 2018/19 to 2021/22 with Appendix 1 and 7](#)
[Appendices 2 – 5](#)
[Appendix 6 Fees and Charges 2018/19](#)
[Appendix 8 Members Pack](#)
[Appendix 9 Shaping our Future Consultation Summary findings](#)
[Appendix 10 Overarching EQIA](#)

Also appended to this report is the motion approved by Council on 13 February 2018 in respect of the Financial Strategy.

- [Treasury Management and Investment Strategy 2018-19](#)
[Appendices 1 and 2](#)
[Treasury Management Strategy Statement and Annual Investment Strategy 2018-19](#)

Financial Monitoring

- [Financial Monitoring 2017/18 – General Fund Revenue](#)
[Appendix 1](#)
[Appendix 2](#)
- [General Services Capital Plan 2017/18](#)
- [Housing Revenue Account](#)
[Appendices 1 and 2](#)

2 Background

These reports have previously been considered by the Council on 13 February 2018 as detailed above.

3 Report Implications

These remain unchanged from those highlighted in the Head of Finance and Integrated Service Support's reports.

4 Recommendations

The Committee is invited to scrutinise for its interest the reports by the Head of Finance and Integrated Service Support.

Date: 28 February 2018

Report Contact:

Name Janet Ritchie Tel No 0131 271 3158

janet.ritchie@midlothian.gov.uk

Appendix: Midlothian Council Labour Group Budget Proposals

Midlothian Council Labour Group Budget Proposals.

Introduction

When Labour formed the Administration of Midlothian Council in May last year we inherited a budget that already had a planned overspend of £4m. Within days we discovered that a £2.5m overspend had been incurred in 2016/17 and that there was a projected unplanned overspend for the current year of another £2.3 million. This meant the Council was on track to spend £6.3m more than it was taking in in this current year.

Substantial efforts have been made to bring the additional overspends in the current year under control and some significant headway has been made.

While we acknowledge, and have to deal with, the consequences of the immediate financial position, we do not accept that it needs to be like this, and will continue to fight for fair funding from both Westminster and Scottish Governments.

Prior to coming to any view on the proposals put before us, we first obtained detailed briefings from officers so our group fully understood the implications arising from the proposals being made. We then embarked on a meaningful engagement programme, led by representatives of the administration, during which we met with, user groups, trades unions, representatives of the voluntary sector, individual staff and groups of staff, after school clubs, community councils, school pupils and community youth groups, representatives of national groups and many individuals. We also provided opportunities for people to feedback their views on line.

We have listened carefully to all the views expressed and have read the many emails and letters that we have received before coming to our conclusions. We have taken account of the Equality Impact Assessments which accompanied the officer recommendations and had these re-assessed to reflect our amendments.

To produce a balanced budget for the 18/19 financial year, we have little choice other than to accept a number of officer recommendations, which will reduce levels of service in a number of areas. We are aware that this undoubtedly will have a detrimental impact on our communities, however we have rejected or amended a number of proposals which we believe will have too great an impact on hard working families and our most vulnerable, which we are not prepared to accept.

We have had to take this approach, which is similar to those taken in previous years, because the timescales prevented us doing otherwise. However, we fundamentally believe that the huge budget gaps projected for future years makes it imperative we take a different approach going forward.

Over the next 15 years Midlothian will be Scotland's fastest growing Council area. This presents us with some difficult challenges. For example: -

- The number of school places required will double
- The number of people over 65 will rise from 13,300 to 20,200 by 2028

- The number of over 75's will double.
- The number of over 90's will treble.

However, this also presents us with some exciting opportunities.

Labour is committed to delivering world-class education here in Midlothian within the resources available. Most of our schools are currently less than 15 years old. We have developed a programme of school building that will ensure that we will have the capacity to deal with the expected growth in the coming years. The developers of the new housing estates will predominantly pay for these. We are developing our new high schools using a "centres of excellence" model, which will help provide our young people with the best start in their working life.

In Midlothian, we have almost 5,000, individuals or families on our housing waiting lists, despite having built over 1,000 new council houses over the last 10 years. Labour has a plan in place to build at least another 1,000 over the next 5 years and are committed to delivering this. We are committed to achieving this while still maintaining high standards within our existing stock. For clarity it should be noted that the full cost of our housing programme is met from Council Rents and Government Grants and not from Council Tax.

Here in Midlothian the proportion of our population involved in volunteering is among the highest in Scotland. This Administration recognises the importance of the Voluntary Sector, our partnership with it, and how vital it is to maintaining the fabric of society.

We need to ensure that Council targets support to organisations, groups and individuals who make the most positive contribution to delivering services that are vital to our most vulnerable people, or can make the best contribution to ensuring that our young people get the best start in life. We see the voluntary sector as a vital partner in preserving what we can of the services that so many people rely on.

We listened to the concerns of our citizens regarding the safety and security of our communities and we have already reinstated one of the Police CAT teams removed by the previous administration, with the second team due to come on stream by the end of March, bringing an additional 14 front line police officers back to Midlothian.

In order to ensure that we can continue to make progress on these issues we need to place Midlothian Council on a more sustainable financial footing. We believe that the Council needs to carry out a fundamental review of the services it provides, prioritising resources to the services that are most important to those in most need in our community.

This may mean that we have to take decisions, in conjunction with local communities, that results in us stopping the delivery of some services completely. It has to mean that the services we continue to deliver, are provided as efficiently and effectively as possible. What we do, we need to do well.

Cuts in grants from both Westminster and Holyrood over the years, together with 10 years of Council Tax freezes have left us in the position we are currently in.

Until we have Governments in the UK and/or in Scotland prepared to accept that we need to raise taxes to pay for the services that people need and expect, we will continue to have these serious financial difficulties. Until then we are required to work within the constraints placed upon us, prioritising our resources to make sure we protect our most vulnerable.

To that end, we have the following amendments to the papers presented by officers today.

If accepted, these amended budget proposals will result in a surplus of £0.200m which should be earmarked to fund training for staff who are displaced to assist in enabling them to transfer into jobs in areas of growth within the Council.

Detail of Amendments

We intend to reluctantly accept the majority of the proposals presented by Officers, however we have rejected or amended the following.

Abolition of Welfare Rights Service

Universal credit and changes to other benefits are causing huge issues in our communities. We cannot afford to remove these posts as they are invaluable to support those suffering from the effects of austerity from both the Westminster and Scottish Governments. We therefore reject this proposal completely and ask that officers bring forward a report about improving access to Welfare Rights Services in Midlothian which meets the needs of the most vulnerable members of our society.

Overall Reduction in Planning Service (2 Posts)

While we accept the amount suggested here we believe the method of achieving it should be by requiring major developers to contribute towards provision of these 2 posts which would concentrate on processing the large applications as quickly as possible, while ensuring the independence of the planning process.

Delete post of Newtongrange Community Learning Centre Manager

While discussions are taking place within the Newtongrange Community regarding the redevelopment of the village centre it would not be right to prejudge the outcome by accepting this proposal.

Reduction in the Grants Budgets

Many of the papers in the officer recommendations before the council refer to the voluntary sector or community groups picking up responsibility for services or mitigating service reductions by working in partnership to deliver services in the future. In these circumstances, we do not believe that there should be any reduction in overall grants to voluntary organisations. We would expect that voluntary organisations work together creatively to ensure as efficient delivery of their services as possible. In order to achieve this we propose to extend the Grants allocated at the June 2017 Council by a further six months to give voluntary groups a full year allocation. During this period we need to review the method of allocation to ensure that the Council's strategic priorities and objectives are being met by the allocation of the grants. We would look to work in genuine partnership with all community organisations over the coming months to revise the Council's policies on this.

Deletion of Pest Control Services

From the feedback we have received from users this is clearly a valued service. We believe that this saving should be achieved by increasing charges for the service, rather than deleting the part time post.

Reduction of Early Intervention & Prevention Services

The mitigating factors given in the proposals for this saving include the potential benefits in early intervention afforded by the introduction of the 1,140 hours free child care, however this will be phased in gradually over the next few years. In the meantime, we need to make

sure that those in most need of protection receive that protection and therefore we reject this saving at this time.

Charging for Instrumental Tuition

With so many areas of Education spending protected by statute or indeed by necessity and given that Education accounts for 45% of the Council's budget, it is important that we are able to find savings or identify income generation within the service wherever possible.

It is our view that the decision of the previous administration to make music tuition free, while a laudable aim, was not appropriate when Councillors were aware that our financial position was becoming more and more difficult.

We recognise that within the proposals from officers there are safeguards, which will ensure that those least able to pay will not, and those who are often caught in the middle, can be assisted by bursaries. However, we recognise there are great concerns, expressed at all of our consultation meetings and in correspondence we have received, about the effect this may have on the numbers of pupils who may no longer choose to take up music, which we accept has wide ranging educational benefits. We therefore propose that while we support the introduction of charges for music tuition that this be limited to 50% of the levels, being proposed by officers.

Charging Schools for Instrument Tuition

During the budget engagement process, Head teachers and other teaching staff stressed the importance of music tuition in their schools. By limiting the increase in charges to parents, and given the need to find savings within education, we are prepared to accept that schools should meet the cost of music tuition fees for SQA candidates in S4 to S6.

Review let charges for after school clubs

After school clubs have developed in Midlothian over several years and are a vital resource for modern working families.

Through the budget engagement process it is clear that, within the ASC's there are wide variations in charging policies, levels of contributions from volunteers; pay, conditions and training for staff; the quality and quantity of the facilities used.

It has also become evident that Midlothian Council does not have a clear policy on after school clubs and how they can best contribute to the needs of Midlothian families.

The Labour administration believes that the Council, after school clubs and parents must, in the coming year, work together to formulate policy, which ensures that clubs make a realistic contribution towards the cost of the Council facilities they use and which ensures that they are charging realistic prices which reflect families ability to pay.

On that basis, we reject the proposal for the reduction in the subsidy (from 5% to 50%) for After School Clubs use of Council facilities. However, they should pay the basic increases in rates for hiring facilities agreed elsewhere in this paper.

We would like to thank the After School Clubs who engaged in constructive discussions on these matters and look forward to working with them and Parents over the coming year to secure their continuing contribution to our communities.

Remove Primary School Swimming

Swimming is an essential life skill, and while there may be alternative ways for some parents to provide this, we believe that this service ensures that all children have the opportunity to learn to swim. We reject this proposal.

Reduce Central Education Budgets

Within this budget saving proposal is the removal of a number of Life Long Learning staff (Funded from the Homelink budget) who have been instrumental in supporting many of our hardest to reach young people into positive destinations. We believe this is a vital service that helps make sure some of our most vulnerable young people get the best start in their adult life and we therefore reject £97k of this saving to ensure this service is retained.

Rebalancing Care- Rebalancing Expectations

There are already savings of £1.040m within the transformation strand of work within adult social care in 2018/19 and there are £4.620m in further savings proposed by officers for future years. Recognising that there are increasing demands on this service and that there have been significant overspends in the past, we are not confident of the Council's ability to realise these savings in full in future years. We therefore do not agree the future savings proposed on this item should be reflected in the future years projections.

Telecare/Housing Support

We reluctantly accept the increase in charges for housing support for under 65's noting that the charges are means tested and the most vulnerable will be protected. However, we reject the 100% proposed increase in telecare charges, which is a flat rate non-means tested charge.

In doing so we acknowledge that the telecare facility not only provides security for our most vulnerable, but also must prevent potential additional costs for our health service.

Community Safety Team

We do not accept the proposal to withdraw the full funding from the provision of a community safety team. While we have already delivered on our election pledge to fully reinstate the CAT teams this Group has never viewed this as a binary choice between these two services. We believe that an essential component of the effective use of the CAT teams has been the quality of the data on which the Council and the Police rely in order to effectively target this resource. We therefore agree that, in addition to retaining the resolution service, to also retain a data analyst post at 0.5 FTE and a Police Anti-Social Behaviour Officer post at 0.5FTE. We agree that the Police are not always the appropriate response to anti-social behaviour and therefore agree to retain 2 Anti-Social Behaviour Officer Posts.

We also look to officers to negotiate with other Social Landlords in the County to attempt to obtain a contribution from them towards these costs. We therefore reject £130k from this item to provide the above.

Library Services

While the Council is moving to shift public interaction with the Council from phone/in person to electronic we still have to accept that not every member of the public, particularly the old and vulnerable have access to computer facilities in their homes. Our local libraries are much valued resources within our communities, providing access to computers for those who don't have this at home and advice on how to use them where required. They are also focal points within our communities and play a hugely important role in community life. We therefore oppose the closure of any of our libraries, however we accepted the revised and greatly reduced £50k saving proposed on the basis that no libraries will close as a result.

Charging for Waste Bins and Boxes

We only partly agree this proposal. We agree that developers of new estates should be charged for initial bins and boxes, but reject charging the public for replacements due to loss or vandalism.

Extend Collection Frequencies

We believe that a fundamental review of all front line services is required and we therefore reject this proposed saving at this time. Midlothian incurs considerable landfill costs resulting from significant numbers of our residents who do not participate adequately in our recycling arrangements. Additional measures for enforcement need to be put in place to make sure that they do.

Close Penicuik Recycling Centre

Given the requirement for a fundamental review of all front line services it would not be prudent at this time to accept this saving.

Reduce Street Sweeping Frequencies

Previous cuts in these services have already led to significant deterioration in the condition of our streets and we therefore reject this saving.

Reduce Grass Cutting Standards

Previous cuts in these services have already led to significant deterioration in the condition of our parks and we therefore reject this saving.

Stop Support for Gala's and Events

Local Galadays are important Historical tradition, particularly in our mining communities and are an integral part of the identity of Midlothian. We therefore reject this proposed saving. However, we need to look at the level of resources afforded to each community to ensure a fair distribution of both finance and support provided.

Review Spending on Road Maintenance

Previous cuts to this service has already led to significant deterioration in the condition of our streets and we therefore reject this saving.

Reduce the Winter Maintenance Budget

We do not consider a further reduction in this budget is acceptable. The budget has been cut over the past few years and, as a consequence, in the current financial year, which has not included a particularly bad winter we have already gone over budget. We need to radically rethink the service we provide to our residents and reduce the expectations that some of our residents have. We require a report on ways in which we can work with the community to resolve this.

Remove the non statutory school crossing service where crossing controls are in place

While this represents a change from the original officer proposals we still believe that there are problems with it. We do believe there is a need to look at areas where they could be removed. However, it is not as simple as removing where crossing controls are in place. There are still dangers in some areas even though there are crossing controls in place. We therefore reject this saving.

Stop supported bus grants and reduce community transport support

The few remaining supported bus services are vital lifelines for their communities. However, there are many more areas that are not adequately served. With Councils no longer able to provide the support it is more vital than ever that the Scottish Government re-regulates or nationalises public transport. We therefore reject this proposal.

Reduce the ring and go scheme

This scheme provides vital transport links where no bus services exist and should be retained. We therefore reject this proposal.

Stop the Taxi Card Scheme

This scheme provides vital transport links where no bus services exist and should be retained. We therefore reject this proposal.

Pass all disclosure costs to employee/volunteers

This would represent a further burden for the voluntary sector and we therefore reject it.

Cessation of Sporting Grants

We reject this saving proposal.

Accordingly The Labour Group proposes the following recommendations to Council:-

- a) Note the position in respect of the Scottish Government Grant Settlement for 2018/19 as set out in section 2;
- b) Note the current projected cost of services, key assumptions and resultant budget shortfalls as set out in section 3 and endorse the key assumptions on which the budget projections are based;
- c) In line with the provisions of the Grant Settlement package set a Band D Council Tax of £1,283 for 2018/19 as set out in appendix 1;

- d) Note the continuing uncertainties and the potential impact as outlined in the differing scenarios as set out in section 6;
- e) Consider the Change Programme elements proposed by the Strategic Leadership Group as set out in section 8 and:-
 - I. Approve the amended savings proposals associated with the additions to the Transformation Programme as set out in the amended appendix 2;
 - II. In respect of the Strategic Leadership Group savings proposals associated with the additions to the Transformation Programme in later years, which were for noting, to :-
 - i. Remove the savings targets for Integrated Health and Social Care resulting in the amended savings targets as set out in appendix 3;
 - ii. At this time note the exclusion from the assessment of the remaining budget gaps for later years of these amended savings targets amounting to £1.245 million for 2019/20 rising to £7.345 million by 2021/22;
 - iii. Note that this provides a clearer assessment of the remaining financial challenge facing this Council for future years as set out in the amended table 10 below;
 - III. Note the amended operational savings summarised in the amended appendix 4;
 - IV. Approve the amended service review and policy savings proposals as set out in the revised appendix 5;
 - V. Note the additional income, as amended , anticipated from fees and charges as set out in section 8.7 and remit to the Director of Resources, in conjunction with the Leader of the Council to finalise the detailed charges set out in appendix 6;
- f) Approve the resultant amended allocation of £39.750 million to the Midlothian Integrated Joint Board for 2018/19 in respect of delegated services;
- g) Approve the resultant 2018/19 service budget as set out in the revised appendix 7 with a contribution to Earmarked Reserves of £0.200 million;
- h) Agree that this earmarked reserve of £0.200 million be utilised to support training and development opportunities for staff who are seeking redeployment;
- i) As stated in our budget amendment proposals, continuing to deal with the financial challenges faced by this Council in this way are impossible. Therefore Council agrees that

the Chief Executive in conjunction with the Council Leader bring forward as part of a revised transformation programme proposals which include a bottom up / cross council service review programme. This programme will be overseen by a three member cross party working group, in addition to the Council Leader, and recommendations from that group will be reported directly to Council;

- j) In considering the recommendations not only consider the contents of the overview of feedback from engagement activity set out in appendix 9 and the amended overarching EQIA set out in appendix 10 but also record our gratitude to all of those in our Community who participated in the engagement activity and who have helped inform these recommendations;
- k) Otherwise note the contents of the report.

Table 10: Financial Strategy 2018/19 to 2021/22

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Budget Shortfall Table 1	10.430	20.048	29.198	37.987
Less: Change Programme				
Transformation Programme 8.2				
- Existing Programme	(1.167)	(1.502)	(1.502)	(1.502)
- Approved additions to Programme only - as amended	(1.632)	(3.037)	(3.582)	(3.897)
Total Transformation Programme as amended	(2.799)	(4.539)	(5.084)	(5.399)
Asset Management 8.3	(0.000)	(0.288)	(0.288)	(0.288)
Loan Charges 8.4	(0.500)	(0.500)	(0.500)	(0.500)
Operational Savings 8.5	(1.370)	(2.286)	(2.601)	(2.836)
Savings Options 8.6				
- Policy Cost Reductions as amended	(3.380)	(4.574)	(4.774)	(4.974)
- Service Reviews as amended	(1.165)	(1.815)	(2.715)	(3.109)
Total Policy Savings as amended	(4.545)	(6.389)	(7.489)	(8.083)
Fees and Charges as amended 8.7	(0.142)	(0.194)	(0.234)	(0.254)
Less:				
Council Tax Increase of 3%	(1.274)	(2.569)	(3.884)	(5.218)
Sub Total	(0.200)	3.283	9.118	15.409
Transfer to Earmarked Reserves	0.200	0.000	0.000	0.000
Remaining Budget Gap	0.000	3.283	9.118	15.409

REVENUE BUDGET 2018/19 SUMMARY

Service Function	Budget 2018/19 £
Management and Members	1,868,156
<u>Education Communities and Economy</u>	
Childrens Services	15,237,667
Communities and Economy	3,251,589
Education	90,145,858
<u>Health and Social Care</u>	
Adult Social Care	39,749,938
Customer and Housing Services	11,329,784
<u>Resources</u>	
Commercial Services	14,461,662
Finance and Integrated Service Support	11,425,333
Properties and Facilities Management	13,207,746
Lothian Valuation Joint Board	550,550
Centrally Held Budget Provisions	717,900
Non Distributable Costs	1,338,437
GENERAL FUND SERVICES NET EXPENDITURE	203,284,620
Loan Charges	7,060,000
Investment Income	(371,475)
Council Transformation Programme savings targets	(3,487,965)
Allocations to HRA, Capital Account etc.	(4,934,180)
NET EXPENDITURE	201,551,000
Transfer to Earmarked Reserves	(200,000)
Scottish Government Grant	154,432,000
Council Tax	47,319,000
TOTAL FUNDING	201,551,000

Change Programme Overview

Financial Strategy Report - 13 February 2018 - Additions to Transformation Programme as Amended by Labour Group

Appendix 2

Strand	SERV	No.	DESCRIPTION	Cumulative Savings					
				Year 1	Year 2	Year 3	Year 4	TOTAL	Staff FTE
				2018/19	2019/20	2020/21	2021/22	SAVINGS	
				£m	£m	£m	£m	£m	
Entrepreneurial Council	EDUC	1.2	Review Surestart Contracts	0.050	0.050	0.050	0.050	0.050	0.0
Entrepreneurial Council	EDUC	1.3	Review Early Years Contracts	0.010	0.063	0.063	0.063	0.063	0.0
Entrepreneurial Council	CO	6	Advertising on Council refuse vehicles	0.015	0.015	0.015	0.015	0.015	0.0
Entrepreneurial Council	CO	13	Increase charges where appropriate	0.150	0.300	0.450	0.600	0.600	0.0
Entrepreneurial Council	CO	27	Increase training offer - increase income Risk Management	0.025	0.050	0.050	0.050	0.050	0.0
Entrepreneurial Council	CO	28	Sales Force Spend to Generate	0.025	0.100	0.200	0.250	0.250	0.0
Entrepreneurial Council	PFM	9	Café Service Social Enterprise/Branding	0.010	0.030	0.050	0.050	0.050	0.0
Entrepreneurial Council	PFM	11	Renegotiate Skanska subcontract	0.100	0.100	0.100	0.100	0.100	0.0
Entrepreneurial Council	PFM	20	Wrap around care provision - holiday club	0.025	0.050	0.075	0.100	0.100	0.0
Entrepreneurial Council			Total	0.410	0.758	1.053	1.278	1.278	0.0
Shared Services	PFM	6	Sharing Catering management with neighbouring LAs	0.025	0.050	0.050	0.050	0.050	1.0
Shared Services			Total	0.025	0.050	0.050	0.050	0.050	1.0
Digital Lead	CHS	4	Libraries Service	0.050	0.100	0.200	0.200	0.200	8.0
Digital Lead			Total	0.050	0.100	0.200	0.200	0.200	8.0
Integrated Service Support	FISS	1	Management Structure	0.080	0.080	0.080	0.080	0.080	1.0
Integrated Service Support	FISS	2	Digital Services Review	0.150	0.150	0.150	0.150	0.150	2.0
Integrated Service Support	FISS	4	Service Improvement Plans/Business Processes/Service Reduction	0.250	0.750	0.750	0.750	0.750	37.0
Integrated Service Support			Total	0.480	0.980	0.980	0.980	0.980	40.0
Workforce	EXE	1	Senior Management Team Review	0.050	0.250	0.250	0.250	0.250	2.0
Workforce	EDUC	1.1	Reduce Learning Assistants by 10%	0.198	0.330	0.330	0.330	0.330	13.0
Workforce	FISS	5	Remove Regular Car Allowance	0.050	0.150	0.250	0.315	0.315	0.0
Workforce	FISS	6	To remove Lease Car Scheme and the cessation of Employee Retention Allowances	0.025	0.075	0.125	0.150	0.150	0.0
Workforce	FISS	8	To Review Support to Elected Members	0.075	0.075	0.075	0.075	0.075	2.0
Workforce	PFM	10	Janitorial Service shared between 2 primary schools	0.225	0.225	0.225	0.225	0.225	11.0
Workforce			Total	0.623	1.105	1.255	1.345	1.345	28.0
IH&SC	HSC	2	Telecare/Housing Support	0.044	0.044	0.044	0.044	0.044	0.0
IH&SC			Total	0.044	0.044	0.044	0.044	0.044	0.0
			TOTAL	1.632	3.037	3.582	3.897	3.897	77.000

Change Programme Overview

Financial Strategy Report - 13 February 2018 - Additions to Transformation Programme - Later years items as amended by Labour Group

Appendix 3

Strand	SERV	No.	DESCRIPTION	Cumulative Savings					
				Year 1	Year 2	Year 3	Year 4	TOTAL	Staff FTE
				2018/19	2019/20	2020/21	2021/22	SAVINGS	
				£m	£m	£m	£m	£m	
Digital Lead	FISS	3	Digital by Default across Council	0.000	0.000	0.000	0.500	0.500	0.00
Entrepreneurial Council	CW	3	Entrepreneurial Council	0.000	0.000	0.500	1.000	1.000	0.00
Entrepreneurial Council	CO	32	Provide Taxi Testing Service at Hopefield	0.000	0.000	0.060	0.060	0.060	0.00
Entrepreneurial Council	PFM	1	Building Services Company	0.000	0.000	0.250	0.610	0.610	0.00
Entrepreneurial Council	PFM	3	Construction and Design Service Consultancy	0.000	0.090	0.190	0.190	0.190	0.00
Entrepreneurial Council	PFM	4	Income from Professional Consultancy	0.000	0.050	0.050	0.050	0.050	0.00
Entrepreneurial Council	PFM	8	Expand Catering/Function Service	0.000	0.020	0.025	0.030	0.030	0.00
Entrepreneurial Council	PFM	12	Property Company	0.000	0.000	0.000	0.240	0.240	0.00
Entrepreneurial Council	PFM	13	Renewable Sources of Energy	0.000	0.000	0.000	0.280	0.280	0.00
Entrepreneurial Council	PFM	16	Community run 'Pure Gymn'	0.000	0.000	0.000	0.200	0.200	8.00
Entrepreneurial Council	PFM	22	Selling Services	0.000	0.050	0.050	0.050	0.050	0.00
Entrepreneurial Council	PFM	23	Destination Hillend	0.000	1.000	1.000	1.000	1.000	0.00
Services with Communities	CW	1	Co Production Community Engagement	0.000	0.000	0.000	1.000	1.000	0.00
Services with Communities	PFM	21	Transfer all halls and pavillions to community groups	0.000	0.000	0.100	0.100	0.100	0.00
Shared Services	CW	2	Shared Services	0.000	0.000	1.000	1.000	1.000	0.00
Shared Services	FISS	7	Shared Service	0.000	0.000	0.000	1.000	1.000	15.00
Shared Services	PFM	14	PPP Shared management with other LA	0.000	0.035	0.035	0.035	0.035	1.00
			TOTAL	0.000	1.245	3.260	7.345	7.345	24.000

Change Programme Overview

Financial Strategy Report - 13 February 2018 - Operational Savings as amended by Labour Group

Appendix 4

Strand	SERV	No.	DESCRIPTION	Cumulative Savings					
				Year 1	Year 2	Year 3	Year 4	TOTAL	Staff FTE
				2018/19	2019/20	2020/21	2021/22	SAVINGS	
				£m	£m	£m	£m	£m	
Investing in Workforce	CW	5	Investing in Our Workforce	0.000	0.100	0.250	0.300	0.300	0.0
Investing in Workforce			Total	0.000	0.100	0.250	0.300	0.300	0.0
Financial Discipline	CW	6	Financial Discipline	0.100	0.150	0.200	0.250	0.250	0.0
Financial Discipline	CORP	1	Increased Fees and Charges	0.120	0.120	0.120	0.120	0.120	0.0
Financial Discipline	RES DIR	2	Financial Discipline: Phase 2	0.100	0.100	0.100	0.100	0.100	0.0
Financial Discipline	RES DIR	3	Supplier Management	0.100	0.100	0.100	0.100	0.100	0.0
Financial Discipline	RES DIR	4	Reduce External Vehicle/Plant Hires	0.050	0.050	0.050	0.050	0.050	0.0
Financial Discipline			Total	0.470	0.520	0.570	0.620	0.620	0.0
Operational cost	CW	4	Valuation Board Savings target 1%	0.005	0.010	0.015	0.020	0.020	0.0
Operational cost	FISS	11	Further Phase of Print Copy Post reductions Strategy	0.075	0.150	0.150	0.150	0.150	0.0
Operational cost	PFM	25	Temperature Reduction (Heating Policy)	0.140	0.140	0.140	0.140	0.140	0.0
Operational cost	PFM	26	Reduce Investment in Sports Equipment	0.050	0.050	0.050	0.050	0.050	0.0
Operational cost	PFM	27	Energy Savings from SALIX Investment	0.060	0.090	0.090	0.090	0.090	0.0
Operational cost	PFM	31	New Depot Additional Floor	0.000	0.000	0.080	0.080	0.080	0.0
Operational cost			Total	0.330	0.440	0.525	0.530	0.530	0.0
Operational Workforce	CE	9	Communities Team: staff saving	0.027	0.027	0.027	0.027	0.027	0.8
Operational Workforce	CE	10	Reduction in the Economic Development Service	0.015	0.030	0.030	0.030	0.030	0.8
Operational Workforce	CE	11	Deletion of Building Standards Trainee Post	0.028	0.028	0.028	0.028	0.028	1.0
Operational Workforce	CHS	6	Service Management	0.000	0.071	0.071	0.071	0.071	1.0
Operational Workforce	CO	36	Reduce staff - Land and Countryside	0.050	0.100	0.100	0.100	0.100	4.0
Operational Workforce	CO	37	Reduce the fleet workshop budget	0.050	0.100	0.100	0.100	0.100	1.0
Operational Workforce	CO	38	Management/Service Review	0.150	0.300	0.300	0.300	0.300	8.0
Operational Workforce	CO	39	Staff Reduction Commercial Operations Management	0.000	0.080	0.110	0.110	0.110	3.0
Operational Workforce	FISS	9	Reduce Recruitment/Contract change volumes to reduce associated admin	0.050	0.050	0.050	0.050	0.050	2.0
Operational Workforce	FISS	10	Charge for non employment etc references	0.010	0.010	0.010	0.010	0.010	0.0
Operational Workforce	FISS	12	Cease all off payroll payments/reject non compliant documentation	0.000	0.000	0.000	0.100	0.100	3.0
Operational Workforce	FISS	13	Withdraw/Charge for physio support	0.000	0.000	0.000	0.030	0.030	0.0
Operational Workforce	PFM	28	New Depot Management Efficiencies	0.000	0.150	0.150	0.150	0.150	2.0
Operational Workforce	PFM	29	Management Service Review	0.090	0.180	0.180	0.180	0.180	4.0
Operational Workforce	PFM	30	Mobile cleaning service	0.050	0.050	0.050	0.050	0.050	3.0
Operational Workforce	RES DIR	1	Windfall Voluntary Severance Packages	0.050	0.050	0.050	0.050	0.050	1.0
Operational Workforce			Total	0.570	1.226	1.256	1.386	1.386	34.5
			TOTAL	1.370	2.286	2.601	2.836	2.836	34.500

Change Programme Overview

Financial Strategy Report - 13 February 2018 - Policy Savings Proposals as amended by Labour Group

Appendix 5

Strand	SERV	No.	DESCRIPTION	Cumulative Savings					
				Year 1	Year 2	Year 3	Year 4	TOTAL	Staff FTE
				2018/19	2019/20	2020/21	2021/22	SAVINGS	
				£m	£m	£m	£m	£m	
Service Review	CE	2	Overall reduction in the Planning Service Budget	0.106	0.106	0.106	0.106	0.106	0.0
Service Review	CE	6	Review of the pest control service within Environmental Health	0.007	0.007	0.007	0.007	0.007	0.0
Service Review	CE	7	Deletion of Environmental Health support post (noise control/enforcement)	0.028	0.028	0.028	0.028	0.028	0.8
Service Review	CE	8	Overall further reduction in the Environmental Health Service	0.108	0.108	0.108	0.108	0.108	2.0
Service Review	EDUC	1.5	Integration of Pathways, Pave and Pave 2	0.000	0.200	0.200	0.200	0.200	0.0
Service Review	EDUC	1.10	Reduce central education budgets, including Homelink	0.106	0.106	0.106	0.106	0.106	0.0
Service Review	CHS	2	Homelessness	0.260	0.260	0.560	0.560	0.560	0.0
Service Review	CHS	3	Housing	0.100	0.100	0.100	0.100	0.100	0.0
Service Review	CHS	5	Revenues and Benefits	0.400	0.800	1.400	1.794	1.794	11.0
Service Review	CO	19	Transform Lighting operations	0.050	0.100	0.100	0.100	0.100	3.0
Service Review			Total	1.165	1.815	2.715	3.109	3.109	16.8
Policy	CE	5	Reduce contribution to Strategic Planning Authority	0.020	0.020	0.020	0.020	0.020	0.0
Policy	EDUC	1.4	Review DSM	0.750	0.500	0.500	0.500	0.500	16.7
Policy	EDUC	1.6	Charging for Instrumental Tuition	0.099	0.165	0.165	0.165	0.165	0.0
Policy	EDUC	1.7	Charging for Instrumental Tuition for SQA courses	0.290	0.290	0.290	0.290	0.290	0.0
Policy	EDUC	1.11	Reduction in Teacher Numbers	0.236	0.378	0.378	0.378	0.378	9.0
Policy	EDUC	1.12	Reduction in Relative Teacher Numbers	0.350	0.560	0.560	0.560	0.560	14.0
Policy	EDUC	1.13	Remove Outdoor Learning Resource	0.078	0.125	0.125	0.125	0.125	2.6
Policy	EDUC	2.1	Lifelong Learning and Employability	0.184	0.209	0.209	0.209	0.209	3.5
Policy	EDUC	2.2	LL&E Further service reductions	0.050	0.119	0.119	0.119	0.119	1.0
Policy	CHS	1	Community Safety	0.300	0.300	0.300	0.300	0.300	5.0
Policy	CO	1	Charge for bins and boxes	0.050	0.110	0.170	0.230	0.230	0.0
Policy	CO	4	Charge for garden waste collection	0.000	0.510	0.510	0.510	0.510	0.0
Policy	CO	5	Charge for commercial waste at Stobhill CRC site	0.035	0.050	0.050	0.050	0.050	0.0
Policy	CO	7	Increase the level of recycling	0.025	0.075	0.075	0.075	0.075	0.0
Policy	CO	10	Reduce the number of grass football and astro pitches across Midlothian and consider the introduction of hybrid pitches	0.050	0.050	0.050	0.050	0.050	1.0
Policy	CO	11	Reduce the provision of all floral displays and shrub beds	0.065	0.130	0.130	0.130	0.130	4.0
Policy	CO	14	Increase lair provision at Dalkeith cemetery	0.025	0.050	0.050	0.050	0.050	0.0
Policy	CO	15	Close Polton Bowling Club	0.020	0.020	0.020	0.020	0.020	0.0
Policy	CO	17	Reduce the structures maintenance budgets	0.050	0.050	0.050	0.050	0.050	0.0
Policy	CO	18	Reduce street lighting maintenance budget	0.150	0.150	0.150	0.150	0.150	2.0
Policy	CO	22	Stop all open space CCTV activity	0.030	0.030	0.030	0.030	0.030	0.0
Policy	CO	23	Introduce and Increase Parking Charges	0.050	0.050	0.050	0.050	0.050	0.0
Policy	PFM	2	Reduction in Housing Voids Standards	0.080	0.080	0.080	0.080	0.080	2.0
Policy	PFM	5	Increasing the charging for school meals	0.040	0.080	0.120	0.160	0.160	0.0
Policy	PFM	7	Trolley Service/Internal Catering to cover costs	0.013	0.013	0.013	0.013	0.013	0.0
Policy	PFM	15	PPP maximised use of contracted hours	0.040	0.060	0.060	0.060	0.060	0.0
Policy	PFM	18	LifeGuard Cover	0.100	0.100	0.100	0.100	0.100	4.0
Policy	PFM	19	Concessionary Charging Policy - Leisure	0.100	0.100	0.100	0.100	0.100	0.0
Policy	PFM	24	Increased Fees and Charges	0.100	0.200	0.300	0.400	0.400	0.0
Policy			total	3.380	4.574	4.774	4.974	4.974	64.8
			TOTAL	4.545	6.389	7.489	8.083	8.083	81.6

Change Programme Overview

Financial Strategy Report - 13 February 2018 - Additions to Transformation Programme rejected by Labour Group

Appendix 2

Strand	SERV	No.	DESCRIPTION	Cumulative Savings					
				Year 1	Year 2	Year 3	Year 4	TOTAL	Staff FTE
				2018/19	2019/20	2020/21	2021/22	SAVINGS	
				£m	£m	£m	£m	£m	
Services with Communities	CE	4	A tailored and informed approach to Reduction in the Large and Small Grants budgets	0.000	0.200	0.200	0.200	0.200	0.0
Services with Communities				0.000	0.200	0.200	0.200	0.200	0.000
Workforce	CS	1	Reduction of Early Intervention & Prevention Services	0.130	0.130	0.130	0.130	0.130	4.0
Workforce	FISS	8	To Review Support to Elected Members	-0.025	-0.025	-0.025	-0.025	-0.025	-1.0
Workforce			Total	0.105	0.105	0.105	0.105	0.105	3.0
IH&SC	HSC	2	Telecare/Housing Support	0.265	0.265	0.265	0.265	0.265	0.0
IH&SC			Total	0.265	0.265	0.265	0.265	0.265	0.0
			TOTAL	0.370	0.570	0.570	0.570	0.570	3.000

Change Programme Overview

Financial Strategy Report - 13 February 2018 - Additions to Transformation Programme - Later years items rejected by Labour Group

Appendix 3

Strand	SERV	No.	DESCRIPTION	Cummulative Savings					
				Year 1	Year 2	Year 3	Year 4	TOTAL	Staff FTE
				2018/19	2019/20	2020/21	2021/22	SAVINGS	
				£m	£m	£m	£m	£m	
IH&SC	HSC	1	Rebalancing Care/rebalancing Expectations	0.000	1.040	3.080	4.620	4.620	0.00
			TOTAL	0.000	1.040	3.080	4.620	4.620	0.000

Change Programme Overview

Financial Strategy Report - 13 February 2018 - Operational Savings rejected by Labour Group

Appendix 4

Strand	SERV	No.	DESCRIPTION	Cummulative Savings					
				Year 1	Year 2	Year 3	Year 4	TOTAL	Staff FTE
				2018/19	2019/20	2020/21	2021/22	SAVINGS	
				£m	£m	£m	£m	£m	
Operational Workforce	FISS	14	Pass all disclosure costs to employees/volunteers	0.000	0.000	0.000	0.060	0.060	0.0
Operational Workforce			Total	0.000	0.000	0.000	0.060	0.060	0.0
			TOTAL	0.000	0.000	0.000	0.060	0.060	0.000

Change Programme Overview

Financial Strategy Report - 13 February 2018 - Policy Savings Proposals - rejected by Labour Group

Appendix 5

Strand	SERV	No.	DESCRIPTION	Cumulative Savings					
				Year 1 2018/19	Year 2 2019/20	Year 3 2020/21	Year 4 2021/22	TOTAL SAVINGS	Staff FTE
				£m	£m	£m	£m	£m	
Service Review	EDUC	1.10	Reduce central education budgets, including Homelink	0.097	0.097	0.097	0.097	0.097	0.0
Service Review			Total	0.097	0.097	0.097	0.097	0.097	0.0
Policy	CE	1	Review of Rights and Advice Services	0.000	0.040	0.090	0.140	0.140	0.0
Policy	CE	3	Staff saving from community asset transfer of Newtongrange Community Learning Centre building	0.025	0.025	0.025	0.025	0.025	1.0
Policy	EDUC	1.6	Charging for Instrumental Tuition	0.098	0.164	0.164	0.164	0.164	0.0
Policy	EDUC	1.8	Review let charges for after school clubs	0.250	0.450	0.450	0.450	0.450	0.0
Policy	EDUC	1.9	Remove Primary School Swimming Programme	0.038	0.061	0.061	0.061	0.061	0.6
Policy	CHS	1	Community Safety	0.130	0.130	0.130	0.130	0.130	3.0
Policy	CO	1	Charge for bins and boxes	0.020	0.020	0.020	0.020	0.020	0.0
Policy	CO	2	Extend collection frequencies	0.100	0.100	0.100	0.100	0.100	3.0
Policy	CO	3	Close Penicuik recycling centre	0.100	0.100	0.100	0.100	0.100	2.0
Policy	CO	8	Reduce Street Sweeping Frequency	0.030	0.030	0.030	0.030	0.030	1.0
Policy	CO	9	Reduce grass cutting standards	0.150	0.150	0.150	0.150	0.150	5.0
Policy	CO	12	Stop support to gala's and events	0.075	0.075	0.075	0.075	0.075	0.0
Policy	CO	16	Review spending on road maintenance	0.250	0.250	0.250	0.250	0.250	4.0
Policy	CO	20	Reduce the winter maintenance budget	0.050	0.050	0.050	0.050	0.050	0.0
Policy	CO	21	Remove the non statutory school crossing service	0.100	0.150	0.150	0.150	0.150	10.0
Policy	CO	24	Stop supported bus grants and reduce community transport support	0.150	0.250	0.250	0.250	0.250	1.0
Policy	CO	25	Reduce the ring and go scheme	0.030	0.030	0.030	0.030	0.030	1.0
Policy	CO	26	Stop the taxi card scheme	0.050	0.050	0.050	0.050	0.050	1.0
Policy	CO	29	Increase walking distance to School	0.038	0.062	0.062	0.062	0.062	0.0
Policy	PFM	17	Cessation of Sporting Grants	0.014	0.014	0.014	0.014	0.014	0.0
Policy			total	1.698	2.201	2.251	2.301	2.301	32.6
			TOTAL	1.795	2.298	2.348	2.398	2.398	32.6



Internal Audit Report
Review of Controls Operating over Accounts Payable
Issued: 21 February 2018
Final Report

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

Table of Contents	
Page 1	Executive Summary
Page 4	Audit Issues and Management Action Plan
Page 10	Definitions of Ratings and Distribution List (Appendix 1)
Page 12	Terms of Reference (Appendix 2)

Executive Summary

1.0 Introduction

All payments to suppliers and other third party organisations are made through the Purchase Ledger of the Council's finance system, Integra. There are approximately 14,400 suppliers listed on Integra of which approximately 3,500 are currently active. 113,028 payments were made in the 2016/17 financial year, amounting to £982 million (this includes Treasury Management payments). There are two interfaces with Integra: from the Council tax system (Open Revenues) and Social Care Case Management system (Mosaic), both of which feed payments directly to Integra.

The ongoing Purchase to Pay (P2P) project is transforming the way transactions are carried out. The P2P Project regularly reports to its own Project Board and to the ISS Project Board as and when required. As the P2P Project is ongoing, there are currently different methods of processing orders and invoices:

1. Integra Purchase Order (currently 80% complete across identified Council Services)

Any member of staff (who has appropriate permissions) can raise a requisition within Integra. This request is sent by workflow to their authorising manager who may approve, reject or cancel the requisition. If approved by the authoriser, this will turn the requisition into a purchase order (PO) to be issued to the supplier. All authorisations are controlled by authority limits within Integra.

Staff within services will then receipt goods on Integra as and when they arrive by completing a Goods Received Note (GRN). Once the invoice is received and has been registered against the PO, the Creditors team run an invoice matching routine. This carries out a 3 way match between the PO, GRN and Invoice. If all 3 match (within tolerance levels) then the invoice is paid without any further authorisation as this has taken place at the front end of the process.

If the 3 way match is not successful then invoice certification workflow is triggered back to the authorising manager for them to approve the variance, if deemed appropriate.

2. Non-Integra Purchase Order

Where there is no Integra PO, a green authorisation slip is attached to the invoice and authorised by a manual signature by the appropriate service manager. These are 100% checked by the Creditors team for errors prior to payment processing.

Historically, all invoices have been manually registered on Integra by staff across the Council. The P2P project has recently completed a successful pilot with Housing staff to replace this with the use of scanning and Optimal Character Recognition technology. This new process will also include workflow authorisation of invoices by managers where there is no PO, thus removing the need for the green authorisation slip. This will be implemented across other Council services in 2018.

Payments are subject to Late Payments legislation and have to be paid within strict deadlines. This obligation is contained within a Statutory Performance Indicator (SPI) which the Council has to report on nationally each year. The definition of the SPI for invoice payments within 30 days changed significantly from 1 April 2017 meaning that the SPI cannot be compared with previous year's data.

2.0 Objectives of the Audit

The objective of the audit was to provide an opinion on the adequacy of controls over payments to suppliers through the Accounts Payable (Integra) system. A copy of the terms of reference for the review is attached at Appendix 2.

3.0 Conclusion

During the audit we focused on payments processed through the Accounts Payable system made in the 2016/17 Financial Year. A number of key controls were seen to be operating and these include:

- the Council sends and receives notifications from other local authorities to be aware of fraud attempts that have occurred in their area. The Council will also inform the bank if there have been any attempted frauds;
- the Integra system will alert a user registering an invoice if a duplicate invoice number is keyed in for the same supplier;
- two payment files are processed per week allowing flexibility for services to arrange making payments;
- there are procedures on change of bank details in the Payment Guidelines and staff are aware of the Financial Regulations and Payment Guidelines. Procedure notes cover the authorisation of orders and invoices before payment and the timely payment of invoices;
- there is segregation of duties between staff processing invoices and those paying those invoices which is further improved with the introduction of new processes through the P2P project;
- a payment run checklist is used to process payments and is retained for audit trail purposes;
- financial reconciliations are undertaken on a daily basis;
- remittances are only emailed to suppliers which reduces administration costs;

- only a limited number of staff can make changes to the Integra system;
- a new supplier E-form has to be completed by the service and approved by Procurement before a new supplier is set up on the payments system;
- a Construction Industry report is run to identify tax payable to HMRC; and
- training is provided when systems are updated.

We have made recommendations where control issues were identified and these are also noted within the Audit Issues and Management Action plan but briefly relate to:

- Internal Audit testing identified 23 potential duplicate payments totalling £12,087. As at 20/02/18, 18 payments totalling £11,072 had been returned or credited with 5 outstanding payments totalling £1,015 still being pursued with the relevant suppliers;
- the supplier change report had not been checked following an upgrade to the system in October 2016. It has been advised that in January 2017, when Management discovered these checks had not been carried out, every change was checked by a member of staff independent of the Creditors team;
- audit testing identified some change of supplier detail forms had not been countersigned in the period prior to October 2016;
- services are continuously using the sundry supplier code for regular payments to suppliers. Procurement procedures stipulate that the service should complete a 'New Supplier' form to set the supplier up on the system if regular payments are due to be made;
- the Creditors team do not have any specific business continuity plans and rely on the Digital Services business continuity plan;
- a number of supplier change request reports and financial reconciliation reports could not be located indicating that either the controls were not undertaken or the reports are missing. Management have advised that all reports will be scanned;
- there are no procedures for setting up new suppliers and deactivating suppliers on the Integra system. There are details on the Procurement Intranet page on how to request for new suppliers to be added to the system but this is information relevant for services; and
- 2 invoices (dated March 2017) from a testing sample of 12 were not scanned onto the system. Management advised all invoices should be scanned immediately following a payment run.

As noted above, some weaknesses have been identified in the controls and improvements are possible. Therefore we have on this occasion rated the review as **average** as per the definitions on page 10. This is at a time of significant change and challenge for those involved in the accounts payable process who should be commended on their efforts and results in that operating environment. We have raised one High, eight Medium and four 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 Duplicate Payments

A data match of all payments made in 2016/17 identified 23 potential duplicate payments totalling £12,087. As at 20/02/18, 18 payments totalling £11,072 had been returned or credited with 5 outstanding payments totalling £1,015 still being pursued with the relevant suppliers.

Management have advised that every duplicate payment has been analysed and there is no specific pattern arising ie the overpayments have arisen for a variety of reasons. Business Services managers will discuss with each employee involved in the duplicate payments to determine their role in the payment process, why it happened and what action needs to be taken going forward to prevent any future duplicate payments being processed. In addition, an email reminder will be issued to staff advising that invoices must not be copied as that is one of the reasons why duplicate payments may arise.

No	Recommendation	Priority	Manager	Target Date
1	<p>The duplicate payments identified by Internal Audit need to be investigated by the Payments Team Leader and recovery of any overpayments to suppliers identified should be undertaken.</p> <p><u>Management Comment:</u> Management, in liaison with Internal Audit, will put in place with immediate effect further data matches of payments to identify duplicate payments and take appropriate action.</p>	High	Business Applications Manager	Complete

4.2 Change of Supplier details

A security protocol is set up for when a supplier wishes to change their details, including bank details, which staff must follow. The Supplier Change report highlights changes to bank accounts and is required to be reviewed on a weekly basis. Any supplier changes made by the Creditors team need to be checked independently by another member of staff within the Creditors team. There are 10 system admin users who have access to all of the programs in Integra including changing supplier details. This is why changes to supplier details should be independently checked on a regular basis to ensure changes made to supplier details are genuine.

The supplier change report had not been checked following an upgrade to the system in October 2016. It has been advised that, in January 2017, when management discovered these checks had not been carried out, every change was checked by a member of staff independent of

the Creditors team. In addition, audit testing identified some change of supplier detail forms had not been countersigned in the period prior to October 2016 and supplier change reports were not adequately filed. For other supplier changes, the supplier change report is checked on a regular basis by the Creditors team and there is a segregation of duty in place to ensure that staff in the Creditors team do not check their own changes.

In April 2017 additional secure payments functionality was procured and introduced in Integra. Any changes to supplier bank account details suspends the account for that supplier until the change is authorised in Integra by another member of staff. No payments can be made to the supplier until the change is authorised. The authorisation of these changes is completed by staff outwith the Creditors team. There is also a process in place which involves staff contacting the supplier to confirm any change of bank details and this involves asking a number of security questions (eg amount of last invoice) which must be answered correctly to enable the change to be validated. This information is recorded on the change of bank details forms.

No	Recommendation	Priority	Manager	Target Date
2	All supplier change reports should be scanned to provide a suitable audit trail.	Low	Business Applications Manager	30 June 2018

4.3 Sundry Supplier

It is the responsibility of each service to request approval from Procurement to use a non-contracted supplier and payments through the sundry supplier code should only be for one off payments. Services are required to complete a 'new supplier form' (or from September 2017 they are required to complete an E-form) which is checked and approved by Procurement who instructs the Creditors team to add the supplier onto the purchase ledger. The supplier form is a key control in ensuring that only approved suppliers are paid. The following issues were identified:

- In 2016/17, 2,792 payments were made through the sundry supplier code amounting to approximately £1.7M. Testing identified that services are continuously using the sundry supplier code for regular payments to suppliers and are not following the procurement procedures. For example, six payments were made to one supplier in 2016/17 (via the sundry supplier code) which totalled £13,488. The Creditors team checks Sundry Supplier payments in excess of £3K on an ad hoc basis; and
- there are no procedures for setting up new suppliers and deactivating suppliers on the Integra system. There are details on the Procurement Intranet page on how to request for new suppliers to be added to the system but this is information relevant for services.

No	Recommendation	Priority	Manager	Target Date
3	<p>Sundry payments should continue to be monitored and services challenged where it is used to pay suppliers for more than one off payments.</p> <p>Management Comment: Actions have already been put in place by Management. In October and December 2017, emails were issued to all staff advising that sundry suppliers should be used for one off payments and going forward there will be stronger scrutiny and challenge of invoices raised using the sundry supplier code.</p>	Medium	Business Applications Manager	Complete
4	Guidelines for setting up new suppliers and de-activating suppliers on the Integra system should be in place within the Creditors section.	Low	Business Applications Manager	30 Sept 2018

4.4 System Issues and Business Continuity

The development of Integra via the P2P project has significantly improved purchasing arrangements across the Council. The ability to authorise purchase orders is controlled by the authorisation hierarchy which should reflect limits within the Authorised Signatories Database. A list of authorised users on Integra was obtained and the following issues were identified:

- two leavers were identified as system users. Business Applications staff receive a leavers' report from Human Resources but as Integra is driven by Active Directory permissions there is no separate username and password required to login;
- staff access rights to Integra are not being regularly reviewed. However it was advised that staff receiving training on Integra will have had their access rights checked at the time of training;
- the Integra authorisation hierarchy was not aligned with the Authorised Signatory Database. Audit testing found 3 employees (from a sample of 15) who had lower limits on the Integra system than on the Authorised Signatory Database (one of these employees is a Head of Service); and
- the Creditors team do not have any specific business continuity plans and rely on the Digital Services business continuity plan. This may result in payments to suppliers being delayed if there was a long term issue with the systems.

No	Recommendation	Priority	Manager	Target Date
5	Once the Purchase to Pay project is complete, user access rights to Integra should be regularly reviewed. <u>Management Comment:</u> Management will review user activity on a regular basis and check when an employee was last logged in. Any user accounts not active for more than 6 months will be de-activated.	Medium	Business Applications Manager	30 June 2018
6	Authority limits in Integra need to reflect authority limits in the Council's Authorised Signatory Database.	Medium	Business Applications Manager	Complete
7	An operational business continuity plan should be in place for the Creditors function.	Medium	Business Applications Manager	31/03/19

4.5 Financial Reconciliations

4.5.1 Control Accounts

- The control account includes all credits and invoices that were processed through the purchase ledger. Totals from the daily purchase ledger control report are reconciled to the totals from the general ledger. There is a difference of £1,010 between the Purchase Ledger and General Ledger (this amount has remained constant since at least 2003). We noted that the Payments Team Leader and other staff in the Creditors team process the payment file on the Purchase Ledger and the Payments Team Leader reconciles the total values to the General ledger. A lack of segregation of duty can increase the risk of errors and fraud. However, invoices are registered on Integra and authorised by services.

4.5.2 VAT reconciliations

- The VAT amount from the invoice is entered on the Integra system when the invoice is registered by the service and errors are checked by the Payments Team Leader. The figures from the VAT report are reconciled to the General Ledger by the Payment Group Leader, and if there are any exceptions, these are investigated. Testing identified minor VAT errors which the Payment Team Leader reviews and checks. However there is lack of information on how immaterial exceptions were investigated and it was found that reconciliation reports had not always been signed off.

4.5.3 Local Procedures and Financial Records

- The Purchase Leger control account reconciliations are undertaken by the Payments Team Leader. It was found that there are a lack of local procedures in the Creditors section on how to undertake financial reconciliations. This is not considered as a significant issue as the Payments Team Leader has been in post for over 20 years. However, the aim of local procedures is to establish guidelines for new Creditors' staff to allow them to undertake their duties in an efficient and secure manner.
- A number of financial reconciliation reports could not be located indicating that either the controls were not undertaken or the reports are missing. Management have advised that all reports will be scanned.
- There was a lack of evidence to show which members of staff had checked the financial reconciliation reports.

4.5.4 Purchase Order Control Accounts reconciliations

- When the system was initially implemented, the Lead Applications Officer undertook the Purchase Order commitment reconciliation and the Goods Received Note (GRN) reconciliation. The Purchase Order commitment confirms the outstanding Purchase Order with the Invoice Balance and the GRN confirms goods received but not invoiced. It was advised that the Purchase Order control account has been reconciled to September 2017 but has since not been able to be reconciled. This has been recognised as a bug by the software supplier. These reconciliations are part of the overall system controls but have no impact on the Balance Sheet.

No	Recommendation	Priority	Manager	Target Date
8	All Control Account reconciliations should be authorised by a line manager on a regular basis.	Low	Business Applications Manager	30 Sept 2018
9	Exceptions and errors identified on the reconciliation reports needs to be noted and signed off.	Low	Business Applications Manager	30 Sept 2018
10	Local procedures for undertaking VAT and Control reconciliations should be generated and an adequate filing system should be in place.	Medium	Business Applications Manager	30 Sept 2018
11	Once the current issue is resolved by the software supplier, Purchase Order Control Account reconciliations should be brought up to date.	Medium	Business Applications Manager	30 Sept 2018

4.6 Administration

During our audit testing we noted the following Issues:

- 2 invoices (dated March 2017) from a testing sample of 12 were not scanned on the system;
- Internal Audit testing of the VAT spreadsheet provided by Creditors highlighted 21 suppliers with invalid VAT numbers. Testing results were sent to the Payments Team Leader for further investigation which revealed that 14 VAT numbers have been incorrectly input, 6 suppliers were incorrectly included on the VAT spreadsheet as they do not claim for VAT on their invoices and 1 supplier has not been used since 2015. The Council should ensure that suppliers have a valid VAT registration as HMRC may impose an administration penalty if an error is discovered during an inspection; and
- the Integra system holds historic records which have not been archived and the Hague Premier Cheque printing programme holds a record of all previous print logs dating back to 2010. Management are aware that this is a computer system issue that is not compliant with the Council's retention period, which only allows services to keep records for 6 years, nor will it meet requirements of the new General Data Protection Regulation (GDPR) which comes into force in May 2018, requiring a longer-term solution.

No	Recommendation	Priority	Manager	Target Date
12	<p>Invoices should be scanned on a timely basis.</p> <p><u>Management Comment:</u> Invoices are scanned immediately following the twice weekly payment run assuming resources allow. The P2P project is introducing the use of scanning and Optimal Character Recognition technology which will be implemented across the Council in 2018.</p>	Medium	Business Service Manager	Complete
13	The incorrect Supplier VAT numbers identified by Internal Audit need to be corrected in the supplier record in Integra.	Medium	Business Applications Manager	Complete

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

- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Gary Fairley, Head of Finance and Integrated Service Support
- Jacqui Dougall, Business Services Manager
- Mike O'Rourke, Business Applications Manager

Audit Team

Author: Amber Ahmed, Auditor

Reviewer: Elaine Greaves, Principal Internal Auditor

TERMS OF REFERENCE:
<p><u>Audit Objective</u></p> <p>The objective of this audit is to form an opinion on the adequacy of controls over payments to suppliers through the Accounts Payable (Integra) system.</p> <p><u>Scope of Audit</u></p> <p>The audit will review the following areas:</p> <ol style="list-style-type: none"> 1. the controls in place to limit the risk of payment errors and / or fraudulent payments (including authorisation of payments, control of supplier lists, system access and adequacy of audit trails); 2. the controls in place to allow payments to be accurately accounted for in the financial systems; and 3. business continuity arrangements in place should the systems used to process accounts payable be unavailable. <p><u>Excluded from Scope</u></p> <ul style="list-style-type: none"> • Petty cash payments which have been subject to separate review; • Payments made via purchase cards which will be subject to separate review; • Mosaic (social care payments) and TOTAL Mobile (property maintenance, roads and fleet payments) which will be subject to separate review; and • Payroll and Treasury payments made through the Integra system which are subject to separate review.
<p><u>Potential Risks</u></p> <p>Principal potential risks are:-</p> <ul style="list-style-type: none"> • Financial loss caused by fraudulent payments, payments made to invalid suppliers or invalid invoices ; • Financial loss due to errors in payment amounts / duplicate payments which cannot be recovered; • Supplier complaint, reputational damage and loss of discounts due to untimely payments; • Incorrect Management decisions/reporting due to inaccurate/inadequate Management and financial information; and

<ul style="list-style-type: none"> • Unauthorised access/amendments or loss of data due to poor access controls or inadequate business continuity arrangements with the Integra system. 		
Audit Approach		
<p>The audit approach consists of:</p> <ul style="list-style-type: none"> • fact-finding interviews with key employees; • review of each of the risk exposures and risk treatment; • closure meeting with local management to discuss the findings and any recommendations from the review; • draft and final reporting; and • presentation to the Audit Committee. 		
Timescales & Reporting		
<p>The audit will commence in late January 2017 and will be reported to the next available Audit Committee.</p> <p>Any issues arising will be communicated directly to local management as they are identified. A formal audit report will be produced summarising the findings and any recommendations identified during the review.</p>		
Information Requirements		
<p>Access to all relevant systems, documentation and employees.</p>		
Audit Staff		
Auditor:	Raymond Trower	0131 271 3573
	Amber Ahmed	0131 271 3280
Reviewer:	Elaine Greaves	0131 271 3285



Internal Audit Report

Complaints

Issued: 22 February 2018

Report

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

Table of Contents	
Page 1	Executive Summary
Page 5	Audit Issues and Management Action Plan
Page 18	Definitions of Ratings and Distribution List (Appendix 1)
Page 20	Terms of Reference (Appendix 2)

Midlothian Council - Internal Audit Report – Complaints

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. The audit reviewed the Council's policies, procedures, and systems in place to support the Council's complaints process.

Background

All local authorities are legally required to comply with the Scottish Public Services Ombudsman's (SPSO) Complaints Handling Procedure (CHP). The model CHP was published under section 16B of the SPSO Act 2002 (as amended by the Public Sector Reform (Scotland) Act 2010). All local authorities were required to adopt the model CHP from 2012-13 onwards.

The Social Work Model Complaints Handling Procedure (CHP) was published on 15 December 2016 under section 16B of the Scottish Public Services Ombudsman Act 2002 (as amended by the Public Services Reform (Scotland) Act 2010). The Social Work Model CHP applies to all local authorities with effect from 1 April 2017. These changes include provision for the Ombudsman to consider the merits of social work decisions as part of the SPSO's independent investigation of complaints.

The aim of the model CHP is to simplify and improve complaints handling through a standardised system for complaints across all local authorities. Midlothian Council has adopted and implemented the SPSO's model Complaints Handling Process. Midlothian Council's Corporate Complaints Handling Procedure was approved by the Corporate Management Team in March 2013. The Council's Social Work Complaints Procedure was distributed to relevant management by the Head of Adult Services in March 2017, and the Midlothian Integrated Joint Board (MIJB) approved the MIJB complaints procedure in June 2017.

Procedure

Complaints can be made in person through any of the Council's frontline services, by phone, by email, or by post. Complaints are recorded on the Council's in-house developed Customer Relationship Management System (CRM). The majority of the Council's complaints are received via the Contact Centre within Customer and Housing Services, and then allocated on to the relevant service to take forward as required.

Midlothian Council follows the SPSO's classification model of complaints: Stage 1 complaints which should be responded to in 5 working days, and Stage 2 complaints which should be responded to in 20 working days. Stage 1 complaints are typically more straightforward in nature and require little or no investigation. Stage 2 complaints are often complex or require a detailed investigation. Customers can escalate a complaint from Stage 1 to Stage 2 where they remain unsatisfied with the response from the Council. Similarly, if a complex complaint has been

Midlothian Council - Internal Audit Report – Complaints

received, management can elect to have this Complaint immediately classified as Stage 2. If the customer remains dissatisfied with the Council's decision, or if they are unhappy with the way their complaint has been handled, then the customer can refer the issue to the SPSO. Investigation response letters are generic and must include a correctly detailed signpost to the SPSO so that customers are informed about what they can do next should there be a need.

Complaints that can be immediately addressed by the Contact Centre can be closed in the system as '1st point resolutions'. In these cases the Contact Centre Officer will listen to and document the customer's complaint, including the outcome given to the customer and any actions taken as a result of the complaint. Actions logged against a complaint could include details such as: an update email has been sent (to a service area officer); or that a specific job has been raised with the service using established processes. This is the standard practice for routine and simple complaints.

Complaints that cannot be treated as 1st point resolutions are called 'service resolutions'. Both of these categories are reported internally and externally as stage 1 complaints. A service resolution is where the Contact Centre worker will allocate a complaint to a service area and subsequently a 'feedback officer' (normally a manager within the service concerning the complaint) via the CRM system. The feedback officer will review the customer's complaint, and provide a response to the customer that includes an outcome. Responses can be verbal or written, there is no stipulation.

Outcomes are categorised as upheld, partially upheld, or not upheld. Some complaints have more than one issue that needs addressed, and all issues within the overarching complaint are given an outcome. This is also the case for stage 2 complaints.

The CRM system allows a detailed audit log of the complaint to be held and reported on. This includes, the date the complaint was received, the employee who logged the complaint, the assigned feedback officer, the customer's complaint, action taken including the outcome allocated to the complaint, the stage of the complaint, and correspondence received by, and submitted to the customer can be uploaded to the system securely ensuring only those required to view it can do so. The system is also enabled to forecast the 'respond by' date, by considering the pre-determined time limits for each stage from date of receipt, and excludes weekends/public holidays as it should. It also generates auto-emails to notify feedback officers and sends reminders out on the days leading up to the approaching time limitation.

Complaints performance information is submitted quarterly to the Performance Review and Scrutiny Committee, and is published on the Council's website. This information details, by service, the cumulative number of complaints received: the number complete at stage 1 and at stage 2; average time taken to respond to complaints for both stage 1 and stage 2; and the number and percentage completed within the appropriate timeframe for both stage 1 and stage 2. Management review complaints, the process, and provide oversight through the Divisional Management Team (DMT) meetings.

Midlothian Council - Internal Audit Report – Complaints

Support and oversight for the complaints process is undertaken by the Customer Service Improvement Officer within Policy and Scrutiny. This support includes provision of expert internal briefing and intelligence based on relevant legislation; influencing national forums on Midlothian Council's behalf; staff training; developing corporate approaches to the national procedure; support for all complaint queries; support for Stage 2 investigations; preparation of performance information and reporting to management, elected members and SPSO; retrieval, preparation and reporting of lessons learned; external research on corporate benchmarking and sharing best practice internally; system development; and preparation of the annual complaints report for internal and external viewing.

For 2016/17, Midlothian Council reported a total of 5,799 closed Stage 1 complaints and 86 closed Stage 2 complaints.

The Council is planning to upgrade the existing CRM system, jointly with East Lothian Council, during 2018.

2.0 Objectives of the Audit

The audit objective is to provide assurance on the adequacy of the Council's processes and internal controls in place for complaints handling. A copy of the terms of reference for the review is attached at Appendix 2.

3.0 Conclusion

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

- complaints procedures, in line with the SPSO's requirements, are in place;
- systems are in place to allow a detailed log of the complaint to be recorded along with the complaint acknowledgement and response;
- the right to complain is publicised through various means including the Council's website, leaflets at centres, schools handbooks and the tenant's handbook;
- complainants can contact the Council in a number of ways to have their issues heard;
- from the sample of complaints reviewed, feedback officers adequately respond to customer complaints;
- resource is now in place to provide training and support to relevant staff on the complaints process; and
- regular reporting to the Performance Review and Scrutiny Committee is in place in terms of statistics and benchmarking, an annual report of complaints data to the SPSO, and a public Annual Complaints Report detailing the 8 SPSO performance indicators has been prepared, submitted to senior management, and is available for the public to view on the Council's website.

Midlothian Council - Internal Audit Report – Complaints

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

- a full training programme for the complaints process needs to be established, which outlines the staff that require training and their attendance recorded;
- a review of the recording of complaints within social work services and schools should be undertaken to ensure that Stage 1 complaints can be easily identified and reported on;
- management should ensure complaints correspondence is uploaded to the CRM system, or where correspondence is not available or was not required, ensure sufficient supporting notes evidencing the action taken are input into CRM;
- performance reports indicate the Council is not achieving its targets for closing complaints within timescale;
- staff should only have access to the complaints and complaint correspondence they are permitted to view;
- complaints procedures and Contact Centre staff guidance should be subject to ongoing review;
- management should further review with the Customer Service Improvement Officer late complaints to establish the reasons for the delay and to establish methods to improve performance;
- now that a 'lessons learned' feature has been added to CRM, more work can be done in assisting management in establishing the root cause of complaints;
- the complaints quality assurance process should be further developed; and
- the following improvements were noted in relation to performance reporting: working days in CRM should be in line with the SPSO definition, quarterly reporting of complaints information to CMT should be in place, SPSO recommendations should be tracked in Pentana Performance, and Management should consider also reporting on compliments in the Complaints Annual Report, PRSC, and periodic complaints updates to senior management.

As noted above, some weaknesses have been identified in the controls and improvements are required in certain parts of the Council to ensure compliance with the SPSO's model. However, a complaints framework, with associated procedures and systems, is in place to manage complaints.

Therefore, we have on this occasion rated the review as **average** as per the definitions on page 18. We have raised a number of 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 Procedures and Governance Arrangements

Approval of CHP and Elected Member Oversight

It was noted during the audit that the current version of the Corporate Complaints Handling Procedure (CHP) was approved by the Council's Corporate Management Team (CMT), but was not subsequently submitted to elected members. Similarly, the Social Work Complaints Procedure was not submitted to a Council committee or to CMT (although the MIJB CHP was submitted to the MIJB for approval). A high level review of other Scottish Local Authorities noted that approval of the CHP had elected member oversight. However, it was noted this issue has been partly addressed through submission of the Annual Complaints Report to elected members which sets out the Council's obligations in relation to Complaints.

Review of Complaints Handling Procedures

The Corporate CHP has not been updated since March 2013. The legislation has been updated since the procedure was last published with Social Work complaints now being treated similarly to all other Council complaints. An appendix in the Corporate CHP refers to the old Social Work complaints arrangements and requires to be updated. Regular reviews and updates of the Corporate CHP will ensure that the procedure reflects current practice.

The Council's Social Work Model Complaints Handling Procedure has had minimal changes when compared to the published SPSO model. Although the policy is in line with the SPSO's model, it could better reflect the Council's internal processes, relevant staff contacts, and systems used to record complaints. Improvements in this area should ensure that the procedure is relevant to staff by detailing how employees should document complaints, how they respond to complaints, and any relevant authorisations or assistance they should seek.

Whilst the Council's website provides a good summary of the Council's complaints process, the Council's Corporate CHP and Social Work Model Complaints Handling Procedure are not available in full on the Council's website.

Reporting to the CMT and the Annual Complaints Report

It is noted that from 2013/14 the SPSO has had a requirement to publically report on Complaints performance annually. Midlothian Council prepared an Annual Complaints Report for the first time in 2016/17, and this was reported to CMT and Cabinet. It has been advised that part of the reason for the delay was due to the post of Customer Service Improvement Officer being filled on various short term basis, but this issue has now been resolved.

Midlothian Council - Internal Audit Report – Complaints

The report updating CMT on the Complaints process along with the Annual Complaints Report was submitted to CMT in November 2017. This report recommended that, going forward, quarterly update reports should be submitted to CMT to comply with the Corporate CHP, in addition to the quarterly performance reporting to Cabinet and the Performance Review and Scrutiny Committee.

The Corporate CHP states:

- *we must publicise on a quarterly basis complaints outcomes, trends and actions taken;*
- *use case studies and examples to demonstrate how complaints have helped improve services; and*
- *this information should be reported regularly (and at least quarterly) to the Corporate Management Team.'*

For the first time, Midlothian Council will have to report on the Social Work Model Complaints Handling Procedure for 2017/18. This can be done as a separate section of the 2017/18 Annual Complaints Report, or as an entirely separate report.

No	Recommendation	Priority	Manager	Target Date
1	Senior management should review the oversight role elected members' committees and senior management committees should have in the scrutiny of the Council's Complaints Handling Procedure and review of the Council's Annual Complaints Report.	Medium	Directors	31/12/2018
2	The Corporate Complaints Handling Procedure should be subject to ongoing review and update. The full CHP should then be added to the relevant section of the Council's website.	Medium	Policy and Scrutiny Manager	31/12/2018
3	The Social Work Model Complaints Handling Procedure should be subject to ongoing review and update to reflect internal processes, key contacts, and systems used to record complaints. The full SW CHP should then be added to the relevant section of the Council's website. It is important that the Council ensures all social work complaints are captured as the SPSO will require separate reporting on social work complaints from 2017/18.	Medium	Health and Social Care Joint Director / Director, Education Communities & Economy	31/12/2018
4	The quarterly reporting of complaints information to CMT should include an update on complaints outcomes, trends and actions taken, along with case study examples as required by the CHP.	Medium	Policy and Scrutiny Manager	30/06/2018

4.2 Training and Awareness of Complaints Handling Procedures

Face-to-Face Training

The Customer Service Improvement Officer Post has been filled on various short-term basis over the past few years. This issue was fully resolved in August 2017 with an employee returning to the post on a permanent basis and the complaints function being incorporated into the Policy and Scrutiny team. Although a full program of training has not yet been implemented, various update sessions have been held with Head Teachers and senior teaching staff, the Contact Centre, and Divisional Management Teams. It has been advised that training has previously been provided by the SPSO to supplement in-house training. A training program needs to be fully developed and a process in place to identify the staff requiring training and to record their attendance at the training.

E-Learning

Although an E-learning package is in place, staff have not been required to complete this course since the launch of the learning package in 2013. The package itself focuses on the legislation, and does not detail how employees should record complaints in the system or who to report complaints to. This will be reviewed to support the identified training programme.

Complaints Leaflet at Council Offices

A printed leaflet summarising the Council's complaints process was available at all Council offices included in the audit review. Additionally, staff interviewed were aware of the correct process to follow to log a customer's complaint using the leaflet. The leaflet distributed at Council offices and buildings (receptions, libraries, leisure centres, etc.) is not up to date and includes phone numbers that no longer work, references to posts that no longer exist, and refers to the out of date social work complaints process.

No	Recommendation	Priority	Manager	Target Date
5	A complaints training programme should be established and implemented. This could include liaising with the SPSO to review any training that they provide. Training needs to be fully mapped (in terms of who needs to receive training) and their attendance/completion recorded. This should include update of the E-Learning packages as required.	High	Policy and Scrutiny Manager	31/12/2018
6	The Complaints leaflet distributed to Council services should be reviewed and updated. Management Comment: Policy and Scrutiny is awaiting confirmation of details from social work before this can be updated.	Medium	Policy and Scrutiny Manager	31/12/2018

4.3 Recording of Complaints

Contact Centre Guidance and Logging of Complaints

The process for recording complaints and guidance available to staff at the Contact Centre was reviewed. It was noted that the operational process guidance needs to be refreshed to reflect current practices between the Contact Centre and the services they support. Procedures in the Contact Centre need to provide further clarity on when a complaint should be dealt with as a first point within the Contact Centre, passed to the service, or dealt with as a Stage 2 investigation.

Education (Schools) Complaints

Midlothian's CHP states in relation to the recording of schools' complaints: *'Stage 1 complaints about schools should be directed to and dealt with directly by the school concerned'* and *'Stage 1 complaints will be recorded and monitored within each school, utilising a uniform method of recording. Stage 2 complaints will be recorded and monitored via the Corporate CRM system.'*

A limited sample of schools (2 secondary and 1 primary) were selected to review their arrangements for logging complaints as part of the audit. Although through discussion with the schools we were satisfied that customers would be directed to the correct staff and receive an appropriate response from the school, none of the schools sampled had a central record of stage 1 complaints for Internal Audit to review. It has been advised that complaints documentation is held in individual pupil files. Therefore, it is difficult to demonstrate that Stage 1 complaints have been responded to in these schools in line with the CHP, and similarly this means that the majority of Stage 1 complaints dealt with at a school are currently excluded from the quarterly complaints statistics.

Schools complaints at Stage 2 should be recorded in CRM as the procedure states that the Head Teacher should inform the Schools Group Managers / Head of Education (who have access to CRM) of the complaint. There is a risk that Stage 2 complaints may not be managed in line with the CHP if there is no record of the Stage 1 complaint. 19 Stage 2 complaints were recorded for Education in 2016/17, but only 2 were recorded in Q1 and Q2 of 2017/18 which could suggest potential underreporting.

Midlothian Council's Schools are on a separate IT network and require a program called Citrix to securely access the Council's CRM system. At the time of the audit review, the Citrix link for Education was not operational. However, Digital Services have advised that they plan to have the Citrix link between the networks working again in the coming months.

A sample of schools handbooks were reviewed as part of the audit. It was noted during the review that some of the Secondary school handbooks did not adequately outline the Council's complaints procedure.

Midlothian Council - Internal Audit Report – Complaints

Social Work Complaints

Stage 2 complaints for Social Work are submitted to the Head of Service or Director, and added to the CRM system by the service's personal assistants. Discussion with various managers and team leaders within Health and Social Care identified that Stage 1 complaints directly received by the service are responded to by the relevant manager, but are generally not logged in CRM. Instead these complaints have been recorded as a 'Case Note' on the Mosaic social work case management system. Therefore, these complaints are not included in the quarterly complaints statistics.

Children's Services advised that when a client writes in then this is recorded in the CRM system, or if a complaint via phone call is received by a service manager and it is not possible to resolve the issue, then the complaint should be logged. This is logged at Stage 2 normally. However, routine phone call complaints received are not formally logged by the service.

Some managers within Health and Social Care advised during the audit their intention to log Stage 1 complaints in CRM going forward. However, a review of current users indicates that many social work employees do not currently have access to record complaints on CRM and these staff will need training on the system before being granted access.

Complaints from the public submitted to Councillors and Directors

The audit identified that complaints raised by Councillors and referred to Directors on behalf of constituents are not logged in CRM. In addition, complaints sent by customers directly to senior management are not consistently recorded across all Directorates.

Complaints via Social Media

Although there is evidence in place that complaints received through social media are addressed, these complaints are not formally logged and reported on through the CRM system. Additionally, no separate record is maintained of complaints received through social media, making it difficult to quantify the number of complaints received through this channel. This issue was noted in the Council's Annual Complaints Report.

No	Recommendation	Priority	Manager	Target Date
7	Operational process guidance for the Contact Centre needs to be refreshed to reflect current practices between the Contact Centre and the services they support. Procedures in the Contact Centre need to provide further clarity on when a complaint should be dealt with as a first point within the Contact Centre, passed to the service, or dealt with as a Stage 2 investigation.	Medium	Customer Service Manager / Policy and Scrutiny Manager	31/12/2018

Midlothian Council - Internal Audit Report – Complaints

No	Recommendation	Priority	Manager	Target Date
8	A review of the process for recording complaints within schools should be undertaken to ensure that Stage 1 complaints can be easily identified and reported on. This should also include a review of the CHP to ensure that the practices undertaken in schools are aligned with the CHP and to provide more specific guidance to staff on the identification of a complaint and when/what to record.	High	Head of Education	31/12/2018
9	Schools' Handbooks should be reviewed and updated to ensure they adequately detail the Council's complaints procedure.	Low	Head of Education	31/12/2018
10	A review of the process for recording complaints within Health and Social Care and Children's Services should be undertaken to ensure that Stage 1 complaints can be easily identified and reported on. This should also include a review of the CHP to ensure that the practices undertaken are aligned with the CHP and to provide more specific guidance to staff on the identification of a complaint and when/what to record.	High	Head of Adult Services / Head of Primary Care / Head of Children's Services	31/12/2018
11	Complaints referred to Directors by Councillors and those received directly by Directors and senior management should be logged on the CRM system and dealt with in accordance with the CHP.	High	Directors	31/12/2018
12	Complaints received from customers via social media should be identified, logged on the CRM system and dealt with accordingly through the CHP.	Medium	Communications Team Lead	31/12/2018

4.4 Response to Complaints

Complaints Documentation

A sample of complaint responses were reviewed as part of the audit. It was noted that correspondence relating to the complaint was often not added to the CRM system. This includes both the complaint acknowledgement and the response to the customer. In a sample of 17 stage 2 complaints reviewed (excluding Children's Services complaints), 12 did not have correspondence or appropriate notes added to CRM.

Reassuringly, in almost all cases, management were able to provide a copy of the complaint response for Stage 2 complaints and were able to demonstrate that the customer had received a satisfactory response in line with the Council's CHP. However, there is a risk that responses to

Midlothian Council - Internal Audit Report – Complaints

complainants may go missing if it is not attached to the complaint system (for example, if staff leave and the correspondence is held in the Outlook email system). This could impact on the SPSO's review of evidence if a complaint is escalated from Stage 2 to the SPSO, and if responses are not maintained, it could impact customer service.

For Stage 1 complaint 'service resolutions' it was noted that although there may not always be a formal letter (as a short email or telephone call may be sufficient) from the sample reviewed instances were noted where insufficient notes had been added to the CRM system detailing the action taken as a result of the complaint (e.g. what was said to the customer and how the complaint was resolved). Again, when contacted, management were able to provide additional details.

Integration of Letter Templates into CRM

The process of adding correspondence into CRM is complex and requires files to be saved with a particular reference into a specific folder. The complexity of this process is one of the reasons why correspondence is rarely uploaded and some feedback officers when asked were not sure how to upload correspondence to CRM. For the new system, management should review if it is possible for letter templates to be further integrated into the system to ease this process.

Children's Services Correspondence

It has been advised that complaints correspondence relating to Children's Services is not uploaded to the CRM system as it is perceived that the system is not sufficiently restricted given the sensitivity of the information included in the correspondence. Complaints correspondence is instead managed by the Personal Assistants to the Director and Head of Service but it was noted that this is not specifically tied to the call reference in the CRM system, making some correspondence harder to locate and increasing the risk that correspondence could go missing. The Customer Service Improvement Officer requires sight of correspondence to assist in supporting the Stage 2 complaint process. Similarly, the service has removed information from the 'notes section' on CRM. There have been instances where the complaint has been re-logged without the notes, but then not requested that the original be deleted, resulting in an additional complaint being logged. If the complaint is re-logged on a later date it will also affect complaints time indicators. The notes within the complaints system are needed in order for the Customer Service Improvement Officer to provide their quality assurance role over complaints.

Access Issues and Structure of Council within CRM

Digital Services advised that access was limited by service, with feedback officers generally only being able to access their own service. Access is wider for the Customer Service Improvement Officer, the Contact Centre, and some Digital Services staff. User access rights information provided to Internal Audit by Digital Services was at a high level and did not fully detail what users could access. Testing identified that one employee in Customer and Housing Services could access Communities and Economy correspondence and one employee within Education was unable to open Education correspondence. For the new system, access should be reviewed to ensure staff can only access the

Midlothian Council - Internal Audit Report – Complaints

correspondence they are permitted to view. Also, all feedback officers can access the front screen for complaints from any part of the Council, but it has been advised that this cannot be changed due to how the system has been designed.

Timeliness of the Response

The Council's complaints target is to respond to 95% of complaints within the appropriate timescale of 5 days for Stage 1 and 20 days for Stage 2. Response to Stage 1 complaints within the appropriate timescale shows that almost all services are not achieving their service's target for completion of Stage 1 complaints within timescale. For Q1 and Q2 of 2017/18, 94% of complaints were responded to within 5 days. In 2016/17 98% of Stage 1 complaints were closed within the target timescale.

A review of 2017/18 performance information shows that the Council has significantly improved in responding to Stage 2 complaints within the appropriate timescale, with almost all services except two managing to respond to Stage 2 complaints in 20 days. For Q1 and Q2 of 2017/18, 87% of complaints were responded to within 20 days. In 2016/17 only 64% of Stage 2 complaints were closed within the target timescale.

No	Recommendation	Priority	Manager	Target Date
13	Management should advise 'feedback officers' to ensure complaints correspondence is uploaded to the CRM system, or where correspondence is not available or was not required, ensure sufficient supporting notes evidencing the action taken are input into CRM. Assistance in uploading correspondence to the current system should be provided by relevant staff within the services (PAs, Customer Services and Policy and Scrutiny).	Medium	Directors / Policy and Scrutiny Manager	30/06/2018
14	Children's Services' complaints correspondence and complaints notes should be recorded on the new CRM system once sufficient assurances have been obtained from Digital Services on the access to Children's Services' correspondence and complaint notes.	Medium	Director, Education, Communities and Economy / Head of Children's Services	31/12/2018
15	For the new CRM system, staff should only have access to the complaints and complaint correspondence they are permitted to view.	High	Customer Service Manager	31/12/2018

Midlothian Council - Internal Audit Report – Complaints

No	Recommendation	Priority	Manager	Target Date
16	For the new CRM system, management should review if it is possible for letter templates to be further integrated into the system to make the process more user friendly.	Medium	Customer Service Manager	31/12/2018
17	Management should further review with the Customer Service Improvement Officer late complaints to establish the reasons for the delays and to establish methods to improve performance.	High	Policy and Scrutiny Manager / Heads of Service	31/12/2018

4.5 SPSO Recommendations

It was identified during the audit that the Council is adequately informed of SPSO recommendations and action plans as part of the annual report to Cabinet on the Complaints about Midlothian Council Services handled by the Scottish Public Services Ombudsman. However, it is noted this could be further improved by liaising with the Customer Service Improvement Officer for SPSO recommendations and tracking the recommendations in Pentana Performance.

No	Recommendation	Priority	Manager	Target Date
18	Management should liaise with Policy and Scrutiny for SPSO recommendations so these can be tracked in Pentana Performance.	Low	Directors	30//06/2018

4.6 Performance Information

It was noted during the review that currently the process for preparing performance information is quite complex, and requires preparation of queries to the complaints database with specific criteria, and significant spreadsheet manipulation. Due to the complexity, there is a higher risk of error. A minor issue identified was that some minor discrepancies in the number of complaints reported were noted when comparing one report of Complaints received over a year compared with the preparation of the latest quarterly return at the time (2017/18 Q2). A procured CRM system should allow for less complicated performance reporting.

Midlothian Council - Internal Audit Report – Complaints

Target date for Complaints within CRM

A review of the compilation of the complaints performance information identified that the way Midlothian calculates the target date for complaints is not exactly in line with the SPSO definition of 'working days'. It was identified that Midlothian grants 1 additional day to the 5 and 20 working days as the Council is not counting the day the complaint is received as a 'working day'. SPSO defines the first working day as the day the complaint was received, unless the complaint was received close to the end of the working day. This will affect the reporting of performance information for complaints.

Customer Satisfaction with the Complaints Procedure

As noted in the Annual Complaints Report, Indicator 7 – Customer Satisfaction about the Complaints Procedure, was not adequately reported on in 2016/17. As outlined in the Annual Complaints Report, in the past there has been poor uptake in responses regarding satisfaction with the process, but the intention is to develop a new survey with a wider reach to ensure this indicator can be reported on in future years.

Lessons Learned

Lessons learned were formally reported to Senior Management as part of the Annual Complaints Report. It is noted that a lessons learned facility was recently added to the Council's CRM system in November 2017. Therefore, there is scope for more improvements to be identified through use of this feature as noted in the Annual Complaints Report.

Compliments

The Council's CRM system is used to record compliments as well as complaints. Management should consider reporting on compliments in the Complaints annual report, PRSC, and periodic complaints updates to senior management.

No	Recommendation	Priority	Manager	Target Date
19	Management should record working days in CRM in line with the SPSO definition. Management Comment: This will be in place by 1 April 2018. We will not change the method of recording during the year so all complaints reported on in the 2017/18 annual complaints report will have been recorded on the same basis.	Medium	Policy and Scrutiny Manager	30/06/2018
20	Now that a 'lessons learned' feature has been added to CRM, more work should be undertaken to provide quality assurance over Complaints and assist management in establishing the complaint's root cause. Similarly, for the 2017/18 Annual Complaints report more steps should be taken to report on Customer Satisfaction with the	Medium	Policy and Scrutiny Manager	31/12/2018

Midlothian Council - Internal Audit Report – Complaints

No	Recommendation	Priority	Manager	Target Date
	Complaints procedure. Management Comment: The method of conducting satisfaction surveys is being looked at nationally by the SPSO. Midlothian Council will act on the SPSO's recommendation for this.			
21	Management should consider also reporting on compliments in the Complaints annual report, PRSC, and periodic complaints updates to senior management.	Low	Policy and Scrutiny Manager	31/12/2018

4.6 System Issues

Deputies for Feedback Officers

There is a facility within Microsoft Outlook to establish shared folders for Feedback officers. This allows other delegated officers to also receive the alert if a complaint is received by a feedback officer, and ensures that complaints can still be responded to if staff are absent. However discussions with management revealed that this is not being widely used. Management should ensure for the new CRM system that adequate deputies for feedback officers are in place at the outset.

Authorisation of Extensions and Allocation of Complaint to Stage 2

In relation to extensions, the Corporate CHP states: *'This decision must be taken by the Head of Service or Complaints Coordinator and must only happen when an extension will make it more likely for the complaint to be resolved at the frontline resolution stage.'* It was noted during the review that non-senior management staff appeared to have the access to grant an extension. However, there is little evidence of this being misused as so few extensions have been granted for 2016/17 (9) and Q1 (1) and Q2 (0) of 2017/18. There is in fact scope to increase the use of extensions for complex service resolutions or for reasons when there is a valid delay.

Management should review the access list in the new version of CRM to ensure management have adequately delegated access to grant extensions and staff are adequately trained to understand their use.

Complaints Recorded with the Incorrect Status

During the review complaints were identified that started as a '1st point resolution' but proceeded to a 'service resolution'. In these cases it was noted that the status of the complaint was locked at the point the Contact Centre worker took the complaint (eg as upheld, partially upheld, or

Midlothian Council - Internal Audit Report – Complaints

not upheld) and the service manager was not able to update the complaint's status after reviewing the complaint. The Customer Service Improvement Officer has advised that this is not the correct approach and is the result of 'service resolutions' being incorrectly classified as '1st point resolutions'. Therefore, Internal Audit views this as a system limitation that we recommend should be addressed in the new CRM system.

GDPR Compliance

It was noted during the review that management have identified that the existing CRM system will not be compliant with the General Data Protection Regulation which will be effective from 25 May 2018. This issue is being addressed through procurement of a new CRM system which should be in place in 2018.

Double Keying

The Contact Centre out-of-hours service managed by East Lothian does not have access to Midlothian's CRM system. Therefore, these calls have to be retrospectively input into CRM by Midlothian staff. Also, the online complaints e-form does not integrate with the system, and Contact Centre staff have to input customer details into CRM. These issues are being addressed through procurement of a new CRM system.

Multiple Unique Customer Reference Numbers

The Council's CRM system uses the Councils Open Revenues (Council Tax system) to obtain details of addresses of residents in Midlothian and individuals living there. A unique customer reference number is in place giving each customer their own account in CRM. It was noted during the audit that some customers have multiple UCRNs (approximately 80). Multiple UCRNs for the same customer means the customers record of complaints may be split between two accounts meaning staff may not have a full audit trail of all complaints if only one is reviewed. These have been passed to Digital Services to review.

Input of Complaint Closing Date

It is possible for managers to input any closing date when closing off a complaint. Ideally the system should block feedback officers from inputting a date before the date the complaint was received or from the date it was last delegated to a feedback officer. Therefore, there is a risk that managers could overstate the target date that they complete a complaint, although no evidence to suggest this is being done was noted in the audit review.

No	Recommendation	Priority	Manager	Target Date
22	Management should ensure for the new CRM system that adequate deputies for feedback officers are in place at the outset.	Medium	Customer Service Manager	31/12/2018

Midlothian Council - Internal Audit Report – Complaints

No	Recommendation	Priority	Manager	Target Date
23	The access list in the new version of CRM should be reviewed to ensure that management have adequately delegated access to grant extensions and staff are adequately trained to understand their use.	Medium	Customer Service Manager	31/12/2018
24	Management should review the reasons for some customers having multiple UCRNs and if there is scope for these to be combined.	Medium	Customer Service Manager / Digital Services Manager	31/12/2018
25	For the new CRM system, management should ensure that '1 st point resolutions' do not progress into 'service resolutions' as this is not the correct escalation procedure (as these are both Stage 1 complaints). This should be addressed either through training or the system preventing this course of action.	Medium	Customer Service Manager / Policy and Scrutiny Manager	31/12/2018
26	For the new CRM system, feedback officers should be prevented from inputting a closing date for a complaint before the date received, date of the complaint and the date the complaint was delegated to a feedback officer.	Medium	Customer Service Manager	31/12/2018

Midlothian Council - Internal Audit Report – Complaints

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
- Mary Smith, Director, Education, Communities and Economy
- Allister Short, Joint Director of Midlothian Health and Social Care Partnership
- Gary Fairley, Head of Finance and Integrated Service Support
- Garry Sheret, Head of Property and Facilities Management
- Ricky Moffat, Head of Commercial Operations
- Grace Vickers, Head of Education
- Ian Johnson, Head of Communities and Economy
- Joan Tranent, Head of Children's Services
- Alison White, Head of Adult Services
- Morag Barrow, Head of Primary Care
- Kevin Anderson, Head of Customer and Housing Services
- Jane Milne, Customer Service Manager
- Myra Forsyth, Policy and Scrutiny Manager
- Claire Butters, Customer Service Improvement Officer

Audit Team

Author: James Polanski, Auditor

Reviewer: Elaine Greaves, Principal Internal Auditor

APPENDIX 2

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Background:

All local authorities are legally required to comply with the Scottish Public Services Ombudsman's Complaints Handling Procedure (CHP). The model CHP was published under section 16B of the SPSO Act 2002 (as amended by the Public Sector Reform (Scotland) Act 2010). All local authorities were required to adopt the model CHP from 2012-13 onwards.

The Social Work Model Complaints Handling Procedure (CHP) was published on 15 December 2016 under section 16B of the Scottish Public Services Ombudsman Act 2002 (as amended by the Public Services Reform (Scotland) Act 2010). The Social Work Model CHP applies to all local authorities with effect from 1 April 2017. These changes include provision for the Ombudsman to consider the merits of social work decisions as part of the SPSO's independent investigation of complaints.

The aim of the model CHP is to simplify and improve complaints handling through a standardised system for complaints across all local authorities. This audit will cover both the Corporate CHP and the Social Work CHP.

Audit Objective:

The audit objective is to provide assurance on the adequacy of the Council's processes and internal controls in place for complaints handling. The audit will include a review of the following:

- the policies, procedures, roles, and responsibilities, in place for complaints handling and adherence to the requirements of the SPSO model CHP;
- the adequacy of the training for employees involved in the complaints handling process;
- the processes in place to ensure that all complaints are adequately recorded and allocated to the appropriate service / officer;
- the adequacy of action taken in relation to complaints received, including escalation of complaints, timeliness of the response (within the SPSO time limits), adequacy of the response, and the opportunities for lessons learned;
- communication with the SPSO and implementation of any relevant SPSO recommendations; and
- the adequacy of complaints performance information reported to management and Council, including quarterly management information on outcomes, trends, and action taken, and the reporting of the 8 SPSO performance indicators.

Midlothian Council - Internal Audit Report – Complaints

Exclusions and Limitations		
No specific exclusions.		
Potential Risks		
<p>Potential risks include:</p> <ul style="list-style-type: none"> • non-compliance with the SPSO's model code(s) of conduct including the requirement to demonstrate compliance through quarterly reporting and the reporting of the 8 SPSO performance indicators, which could result in reputational damage; • management information / performance indicators are inaccurate / incomplete; • failure to learn from complaints and improve customer service and implement appropriate corrective action; • lack of staff training leading to the mismanagement of complaints received; • complaints are not adequately recorded or monitored, which results in delays in responding to customer complaints, an inappropriate response to customer complaints, or a failure to respond to customer complaints; • complaints are not escalated to the appropriate Council officer in order to ensure their successful resolution; and • failure to adequately respond and / or resolve complaints in a timely manner leading to a negative reputational impact and poor customer satisfaction. 		
Audit Approach		
<p>The audit approach consists of:</p> <ul style="list-style-type: none"> • 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 October 2017 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:	Elaine Greaves	0131 271 3285

Risk Management, Update for 1 October 2017 – 31 December 2017**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 3 strategic risk management update, covering the period 1 October 2017 to 31 December 2017.

2 Background

Midlothian Council is operating in an increasingly demanding environment. Councillors face major challenges from continued reductions in the funding from the Scottish Government, and greater demands for services from an ageing population and, growing school age population.

Against this backdrop the Council needs to respond effectively to national policy priorities in the Scottish Government's Programme for Government and, along with partners, needs to demonstrate progress in integrating health and social care and in meeting the requirements of the Community Empowerment Act.

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 becoming the most significant factor in seeking to identify and deliver on the reduction in expenditure and increased income generation needed to get the Council to a balanced budget position in future years.

2.2 The Scottish Government published the new Education (Scotland) Bill 2017 on 7 November which makes further changes to the education landscape ahead.**2.3** Following the UK decision to leave the European Union the Council were advised of some of the potential impacts in a report taken to Council on 29 August 2017 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 Strategic Risks for the Council are summarised in table 2 below.

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Fastest Growing Council	4	5	20	High	
Scottish Abuse Inquiry	5	4	20	High	
Historic Abuse Claims Project	4	5	20	High	
Balancing budget in future years	4	4	16	High	
The 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 financial stability issue facing the Council has been re-assessed following the decision by the Council on 13 February 2018 passing a balanced budget for 2018/19. In addition to this, steps have been taken placing a moratorium on non-essential spend through the remainder of 2017/18. This issue has been re-assessed as medium risk, given the balanced budget approved also enabled a return to be planned for in reserves.

2.6.2 The Change Programme

The strands of work necessary to address the projected budget shortfalls represent a change programme, encompassing:-

- Business Transformation Steering Group;
- The Delivering Excellence programme;
- The delivery of savings approved for 2017/18; and the continued control over expenditure;
- The Transformation Programme;
- The EWIM programme;
- An updated Capital Strategy and Reserves Strategy;
- Operational savings encompassing financial discipline measures;
- The development of further savings options for 2018/19 and beyond.

2.6.3 Welfare Reform

Universal Credit Full Service was rolled out in Midlothian on 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.

2.7 STRATEGIC RISKS – RATED CRITICAL/HIGH

2.7.1 Balancing budget in future years

The Council's Financial Strategies core objective is to secure the Council's continued financial sustainability during what is and will continue to be an extended period of significant financial constraint, coupled with increasing service demands and increasing customer expectations.

In order to ensure the Services provided meet the needs of service users and are as efficient as possible the Council are implementing a Change Programme, incorporating the Delivering Excellence framework for service review and redesign. This approach is expected

to bring forward savings options in addition to ensuring service user needs are achieved.

A report setting out future budget savings was presented to Council on 13 February 2018, where the Council passed a balanced budget. This risk has been re-assessed and is now considered a high risk down from the previous critical risk rating.

2.7.2 Fastest growing Council

Midlothian Council has been identified by the Scottish Government 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.

2.7.3 Scottish abuse inquiry and Abuse Claims

On 1st 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. A report will go to Council in March 2018 to provide an update to Elected Members on how Midlothian Council will manage any claim.

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, with a focus on securing the gains.

2.7.5 The Change Programme

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

- Business Transformation Steering Group;
- The Delivering Excellence programme;
- The Transformation Programme;
- The EWIM programme;
- An updated Capital Strategy and Reserves Strategy;
- Operational savings encompassing financial discipline measures;
- The development of further savings options for 2018/19 and beyond.

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.

2.8 STRATEGIC OPPORTUNITIES

2.8.1 Shawfair

The Shawfair development with its new rail link provides a major incentive for house builders, employers, retailers and commercial interests; including opportunities to secure a low carbon community through a district heating scheme from the Zero Waste facility.

2.8.2 Borders Rail

The Borders Rail provides the opportunity to support the 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. The Railway has also acted as a catalyst for housing growth in Midlothian.

2.8.3 Easter Bush

Easter Bush offers fast growing opportunities in Science Technology Engineering and Mathematics (STEM), with opportunities to link directly with Education. Maximising partnership links between schools the University sector and the Bush will all support STEM opportunities.

2.8.4 City Deal

Midlothian Council is part of the South East Scotland Region City Deal bid for funding to Scottish and UK Governments.

The purpose of which is to support the acceleration of economic growth through investment in infrastructure/ housing/ skills and innovation.

Midlothian Council and our city deal partners have received confirmation from UK Government and Scottish Government Officials on a £600m city deal for Edinburgh and South East Scotland.

2.8.5 Fastest Growing Council

Midlothian Council has been identified as the fastest growing Council in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council the Council has the opportunity to influence the future develop of Midlothian and associated infrastructure, with a focus on area targeting, improving economic opportunities, improving education and health outcomes.

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 3 2017/18 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

Date: August 2017

Report Contact:

Chris Lawson, Risk Manager

Tel No: 0131-271-3069

chris.lawson@midlothian.gov.uk

Background Papers: **Appendix 1** Strategic Risks Profile
Quarter 3 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 will be presented to Council on 13 February 2018.</p> <p>Development of a robust framework to effectively monitor the activity of the Change Programme.</p>	Q3 17/18: 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.	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	


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. 	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.06.02	Review of response when families fall into arrears	<p>Q3 17/18:</p> <ul style="list-style-type: none"> • Preventative Approach – While there is an inevitability that some of the responses will be reactive wherever possible opportunities will continue to be sought to take a proactive approach to prevent crisis intervention • Co-ordinated Service Provision – Opportunities to co-ordinate service provision continue so people can receive information and advice from as wide a range of professionals as possible. • Build individuals own / community capacity – Consistent with co-production approach work takes a capacity building approach where possible. • Protecting Financial Position of Midlothian Council – Welfare Reform creates a financial exposure to Midlothian Council. Actions continue to be taken to mitigate this exposure where possible. 	Joan Tranent Kevin Anderson	31-Mar-2018	


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 years projected budget gaps</p> <p>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.</p>	Gary Fairley	1. Multi-year Change Programme presented to Council 13.02.2018. 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 Reserves Strategy. 7. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.02.01	Developing and implementing a Change Programme to ensure long term financial sustainability.	Q3 17/18: 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.	John *Blair; Ricky *Moffat; Garry *Sheret; Mary *Smith; Kevin Anderson; Gary Fairley; Ian Johnson; Allister Short; Joan Tranent; Grace Vickers; Alison White	26 -Jun-18	


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	<p>1. The Financial Strategy to 2021-22 2. Development of a 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. Sustainable Capital Strategy. 5. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p>	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.01.0 1	Developing and implementing a Change Programme to ensure the long term financial sustainability.	Q3 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.	Q3 17/18: Fundamental review of Capital Strategy and Capital Plan report to Council June 2018	Gary Fairley	26-Jun-18	






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</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings</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</p>	Gary Fairley	<ol style="list-style-type: none"> 1. Financial Strategy and Change Programme 2. Leadership from Executive Team and Senior Leadership Group. 3. 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.	Q3 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	Q3 17/18: Revised Managing Change Policy	Gary Fairley	13-Feb-2018	
SRP.RA.02.03	Developing Workforce Plans and Workforce Strategy aligned to the Change Programme	Q3 17/18: finalised Workforce Strategy and Workforce Plans targeted at Council meeting on 19.12.2017.	Gary Fairley	19-Dec-2017	
SRP.RA-02.01	Developing and implementing a Change Programme to ensure the long term financial sustainability.	Q3 17/18: Updated Financial Strategy presented to Council 13.02.18 which includes details of Change Programme to allow engagement.	Gary Fairley	26-Jun-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	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.	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.0 1	Legal & Regulatory Compliance	Q3 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; Grace Vickers; Alison White	31-Mar-2018	
SRP.RA.03.0 2	Governance Statement and Annual Assurance arrangements	Q3 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-Mar-2018	
SRP.RA.03.0 3	Demographic Growth	Q3 17/18: The Council has prepared a Learning Estate Strategy to reflect the projected growth in demand through to 2040.	Grace Vickers; Garry *Sheret;	31 Jul - 2020	
SRP.RA.03.0 5	Participatory Budgeting	Q3 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.	Q3 17/18: Education Service are preparing for a new Education Act which will require statutory reporting against progress to close the gap in attainment,	Grace Vickers	31-Mar-2018	

		duty to collaborate in new regional collaborative.			
--	--	--	--	--	--

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</p> <p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers</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.</p>	Marina Naylor	<p>01 - Focus on having the right people, performing and healthy 02 - 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership 02 - People Management policies reviewed as part of wider review of pay and grading 03 - Making performance matter 04 - A range of initiatives to keep staff informed of change (In brief, Staff Magazine, Espresso Sessions for Managers on new People Management Policies) 05 - Workforce planning 06 - Investing in our workforce board 07 - Healthy Working Lives Gold Award 08- Occupational Health provision in place 09 - Employee Assistance and Physio therapy services to support employee health and attendance 10 - Non-redundancy policy supported by SWITCH and Organisational Change Policy</p>	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Developing Workforce Plans and Workforce Strategy aligned to the Change Programme	Q3 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.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> <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>	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> <p>3. Service Directions in Place.</p>	3	3	

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.</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	<p>1. Information Management Group</p> <p>2. Public Sector Network Compliance.</p> <p>3. Meta Compliance</p> <p>4. Information Management, awareness raising program (Private-i)</p> <p>5. General Data Protection Regulation Project Plan.</p>	3	5	



Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.03	General Data Protection Regulation Project Plan	Q3 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.	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. Implementation of a 4 week pilot to divert all possible nursing home admissions to the Flow Centre and then to MERRIT to prevent admission to hospital 2. Increased use of Midlothian Community Hospital to support patient moves to downstream beds and relieving some of the pressures on acute sites 3. Review of in-house service provision to increase capacity within Re-ablement through more effective use of the Complex Care service 4. Additional management support being provided to external Care at Home provider to address concerns over service delivery 5. Work underway to transfer care at home service that is now due to end on 31 March 2017 to ensure continuity of care for clients 6. Management support being provided to external Care at Home service to bring stability and improvements in service delivery 7. Recruitment campaign for additional staff over the summer months is underway, targeting local universities and colleges 8. Overall review of care at home services now nearing completion – this will create blueprint for future planning and delivery of services 9. Tender published on Procurement website for new Framework Agreement in Midlothian to deliver care at home 10. Temporary appointment of senior manager to take on discharge co-ordination role across Midlothian 	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.08.02	<p>Appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.</p> <p>Development of robust Asset Management Plans and associated investment needs for all categories of assets</p>	Q3 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.08.03	Review of Capital Plan.	Q3 17/18: Having established the Capital Plan and Asset Management Boards work is ongoing to review the Capital Strategy with a report targeted to Council in June 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:- 01 – 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. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency inline with key partner organisations. 04 – 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.</p>	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	Q3 17/18: Business Continuity Guide being developed. Contingency Improvement Plan well developed and due to be shared with Contingency Planning Group ahead of reporting to CMT for approval.	Chris Lawson	31-Mar-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	<p>Risk cause Code of conduct for Members and employees actions falling short of International Standards.</p> <p>Risk event Failure in openness, accountability, clarity.</p>	Alan Turpie	<p><u>Potential</u> sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non compliance with codes of conduct and reduction in standards in public life</p>	3	4	

	Risk effect Service, partnerships and project outcomes not achieved Non compliance with conduct standards and reduction in standards in public life		04 Annual Assurance Statement.			
--	--	--	--------------------------------	--	--	--


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.10.02	International Governance Standards	Q3 17/18: Governance standards reviewed in-line with new CIPFA/SOLACE Guide and new Corporate Governance Framework approved by CMT.	Alan Turpie	31-Mar-2018	

SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective. Risk event Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities. 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.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in December 2016, positive feedback with allocated funding. 5. Community Safety Strategic assessment in progress. 6. Financial Strategy 7. Workforce Strategy 8. Digital Strategy 9. Procurement Strategy in place 10. Capital and Reserves Strategy 11. Control of land use and promotion of development through Midlothian Local Development Plan.	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	Q3 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
SRP.RR.12	Risk cause Work procedures/process inadvertently create the capacity	Ricky *Moffat; Garry *Sheret;	1. Services have been prompted to consider fraud and waste within Service Risk Registers.	3	3	


	<p>for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed.</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>Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White</p>	<p>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.</p>			
--	---	---	---	--	--	--


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	<p>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</p>	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.01	Adaptive Planning	Q3 17/18: Adaptive planning proposal to be brought forward to CMT.	Ian Johnson	31-Mar-2018	



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 where 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	Q3 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-2018	


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	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	Q3 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-2018	
SRP.RA.14.2-2	Communications Strategy	Q3 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-2018	

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	<p>1. Investing in our Workforce Project Board focussed on securing the gains.</p> <p>2. Governance on the 4 strands of work from Council: Life Long Learning, Policy, Pay, Non Financial Benefits.</p> <p>3. Launch of new People Policies on 1st March 2017.</p> <p>4. Communications plan to ensure all employees know what is changing and how this will impact them and service delivery.</p>	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.15.01	Secure improvements in productivity and flexibility across the workforce.	Q317/18: Investing in our Workforce Board chaired by the Chief Executive focussed on securing these gains.	Gary Fairley	31-Mar-2018	

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	<p>1. Local development plan</p> <p>2. Services planning future service provision on the basis of anticipated service demands</p> <p>3. The change programme</p> <p>4. Learning Estate Strategy</p>	4	5	

	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.					
--	---	--	--	--	--	--


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	Risk cause UK vote to leave the European Union Risk event UK leaving the European Union 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.	John *Blair; Mary *Smith; Allister Short	01 - 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	<p>01 - Midlothian Council has made a formal response to the Scottish Government on its consultation.</p> <p>02 - Council has been kept informed of the Midlothian's response to the consultation</p>	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	<p>01 - Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations</p> <p>02 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers</p> <p>03 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency</p>	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.					
--	---	--	--	--	--	--


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.0 1	Health & Safety Management Arrangement Development	Q3 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 a catalyst for housing growth.</p> <p>Ensuring Midlothian secures appropriate levels of Blueprint funding.</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	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	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.A1	A702 Trunk Road Improvements	Q3 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	1. Key projects identified. 2. Heads of terms agreed by consortium for discussion with Scottish and UK Government Officials. 3. Confirmed detailed city deal programme.	3	5	

SRP.OP.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as one of the fastest growing Council's in Scotland. 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	Ian Johnson	1. Community Planning Partnership 2. The Single Midlothian Plan 3. The Integration Joint Board	5	5	

	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.					
--	--	--	--	--	--	--

Midlothian Council

Annual Audit Plan Year ending 31 March 2018

Audit Committee – 13 March 2018

Contents

Section	Pages
Executive Summary	1-2
Audit Context	3-5
Financial Statements and Accounting	6-13
Wider Scope Audit Risks	14-16
Other work; timing and deliverables; fees	18-20
Appendices	
Appendix A – Code of Audit Practice: responsibilities	22
Appendix B – Required communications with the audit committee	23
Appendix C – Auditor Independence	24-25

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Council (the Council) for the five year period 2016/17 to 2020/21.

This Annual Audit Plan, prepared for the benefit of Council management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2018, the second year of our appointment. In preparing this plan, we have updated our understanding of the Council through planning discussions with management, review of relevant documentation and committee reports, and our general understanding of the environment in which the Council is currently operating.

After consideration by the Council, the plan is provided to Audit Scotland and published on their website.

Scope and responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Council and the auditor, more details of which are provided in Appendix A.

Financial statement audit

We are responsible for conducting an audit of the financial statements of the Council. We will provide an opinion on the financial statements as to:

- Ø whether they give a true and fair view of the financial position of the Council and its group as at 31 March 2018 and its expenditure and income for the year then ended; and
- Ø whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published by the Council along with its financial statements.

Wider scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider-scope public audit. Our audit work over the wider scope audit dimensions compliments our financial statements audit.

Materiality

Planning materiality £4 million	Materiality has been set at £4 million, which represents 1.3% of the prior years gross expenditure on provision of services. It excludes the 'gross-up' of IJB income and expenditure.
Tolerable Error £2 million	Tolerable error has been set at £2 million, which represents 50% of materiality. We set at this level due to audit adjustments arising in the prior year financial statements.
Summary of uncorrected differences £0.2 million	<p>We will report all uncorrected misstatements relating to the primary financial statements greater than £0.2 million.</p> <p>Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.</p>

Key contacts

Stephen Reid, Partner
sreid2@uk.ey.com

Keith Macpherson, Senior Manager
kmacpherson@uk.ey.com

Sarah Croft, Manager
scroft@uk.ey.com

Ernst & Young LLP, 144 Morison Street, Atria One, Edinburgh EH3 8EB

Independence

We confirm that we have undertaken client and engagement continuance procedures, included in which is our assessment of our continuing assessment of our independence to act as your external auditor.

Executive summary - dashboard



The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and any change in risk profile in the year.

Financial statements audit

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk / Significant risk	No change	In accordance with ISA (UK) 240, we respond to the presumed fraud risk in respect of improper income recognition. We extend our work to consider the recognition of expenditure, in accordance with Practice Note 10, issued by the Financial Reporting Council, as applicable to public sector audit.
Misstatements due to fraud or error	Fraud risk	No change	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of property, plant and equipment	Inherent risk	No change	The fair value of property, plant and equipment (PPE) represent significant balances in the Council's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension liability valuation	Inherent risk	No change	Accounting for Local Government Pension Scheme involves significant estimation and judgement. Management use specialists to support these judgements and ISAs (UK) 500 and 540 require us to undertake procedures on the use of those experts and any underlying assumptions made.
Preparation of the financial statements	Inherent risk	New risk	The prior year unaudited financial statements contained material errors within the primary financial statements. As a result we have identified a new inherent risk in respect of preparation of the financial statements.
Accounting for Public Private Partnerships	Inherent risk	New risk	The Council's Public Private Partnership in respect of the Newbattle Centre is expected to become operational at the year end. We will involve EY specialists in considering the accounting treatment for the financial model.

Wider scope audit

Audit dimension	Risk identified	Change from PY	Details
Financial sustainability	Wider scope focus area	Increased risk	The Council's faces an extremely challenging financial position with significant savings required to be made through transformational change over the next five years.
Financial management	Wider scope focus area	Increased risk	In recent years, significant reductions in the general fund have occurred as efficiency savings have not been achieved, service demands have exceeded budget and reserves were also utilised to balance the 2017/18 budget. We will consider and report on the 2017/18 budget outturn.
Governance & transparency	No specific risk focus	No change	No specific risk identified in this area, but procedures to consider the leadership and scrutiny of the budget, the Council's internal audit arrangements for the year and the implementation of audit recommendations will be undertaken.
Value for Money	No specific risk focus	No change	No specific risk identified but we will review option appraisal analysis undertaken by management to assess whether spend is being aligned with the Council's priorities and outcomes.

1. Audit context

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Council operates to inform our audit approach.

Local government environment

The Accounts Commission published their Local government in Scotland: Financial overview 2016/17 report in November 2017. Part 3 of this report focussed on the financial outlook facing councils. The Commission's key message was that the environment remains challenging, with further real-terms reductions in funding and a range of cost and demand pressures on budgets.

In total, councils approved savings of £317 million in setting budgets for 2017/18 along with the use of £105 million of reserves. It was noted that for certain councils, the application of reserves in this way to fund services could lead to them running out of general fund reserves, unless remedial action is taken successfully.

Other key messages were:

- Ø Robust medium-term financial strategies and savings plans are increasingly critical to financial sustainability.
- Ø Strong leadership is increasingly important and it is essential that councillors work effectively with officers, their partners and other stakeholders to identify and deliver necessary savings.
- Ø Engagement with local communities is important when planning and delivering services and identifying savings.

Scrutiny

The Local Scrutiny Plan – April 2017 to March 2018 set out the planned scrutiny activity in Midlothian Council during the financial year 2017/18. The plan was based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the Council.

The conclusion of the shared risk assessment for 2017/18, was that no significant risks were identified that would require specific scrutiny by members of the LAN in the year. However, financial sustainability was highlighted as an area of significant challenge for the Council, and that this would be reported by the appointed auditor. Our findings in this respect were included in our Annual Audit Report on the Council and form the basis of our risk assessment for the 2017/18 audit.

The process to agree the Local Scrutiny Plan for 2018/19 is currently in progress and will be reported to the Council in due course.

Headwinds in the public sector

Within the 2017/18 audit planning guidance, Audit Scotland identified a number of risk areas currently impacting the public sector in Scotland.

EU Withdrawal	Continuing uncertainty exists around the detailed implications for the UK, and Scotland around EU withdrawal. While this continues, it is important for all public sector bodies to remain aware of, and consider the implications for them in areas such as funding, workforce and regulation.
Ending of the public sector pay cap	With the Scottish Government lifting the 1% pay cap, all audited bodies need to consider both the direct, and indirect, consequences on their budgets as a result of likely future pay increases.
Openness and transparency	There are signals of changing and more challenging expectations for openness and transparency in public business. In view of this direction of travel, Audit Scotland noted that 2016/17 annual audit reports highlighted the need for public bodies to keep this area under review and to consider whether there is scope to enhance transparency.

Headwinds in the public sector (continued)

Scotland's new financial powers	The provisions of the 2012 and 2016 Scotland Acts and the accompanying Fiscal Framework agreement are leading to fundamental changes to the Scottish public finances. New tax raising, borrowing and social security powers provide the Scottish Parliament with more policy choice, but also mean the Scottish budget is subject to greater volatility, uncertainty and complexity. There is also a stronger link between the performance of the Scottish economy (relative to the rest of the UK) and available funding.
Response to cyber security risks	Audit Scotland has indicated their intention to issue further guidance in relation to this risk, setting out the risk context for public bodies, and the new cyber resilience requirements being introduced by the Scottish Government.

Our audit response:

We will engage with management across the Council to understand their preparation and consideration of these risk areas, and others identified by the Council. In particular we will consider how the Council structures its risk management arrangements to capture and respond to risk identification.

2. Financial statements and accounting

2. Financial statements and accounting



The Council's Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit opinion

We are responsible for conducting an audit of the financial statements of the Council. We will provide an opinion on the financial statements as to:

- Ø whether they give a true and fair view of the financial position of the Council and its group as at 31 March 2018 and its expenditure and income for the year then ended; and
- Ø whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published by the Council along with its financial statements.

Audit approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Ø Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Ø Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Ø Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Ø Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Ø Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Ø Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Ø Maintaining auditor independence.
- Ø Substantive tests of detail of transactions and amounts. For 2017/18 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Gross expenditure on provision of services, excluding the 'gross-up' of income and expenditure for the Integration Joint Board = £314 million

Planning materiality £4 million	Planning materiality (PM) – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2017/18 has been set at £4 million. This represents 1.3% of the Council's prior year gross expenditure on provision of services excluding IJB.
Tolerable Error £2 million	Tolerable error (TE) – materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £2 million which represents 50% of planning materiality.
Summary of Audit Differences £0.2 million	Summary of Audit Differences (SAD) Nominal amount – the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £0.25 million. We have set it at £0.2 million, which represents 5% of planning materiality.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

2. Financial statements and accounting



We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Significant risk – risk of fraud in income and expenditure recognition

What is the risk?	Our identified response to the risk
<p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Misstatements that occur in relation to the risk of fraud in income and expenditure recognition have been identified as having the potential to affect the following income and expenditure accounts (balances in the 2016/17 financial statements):</p> <p>Income Account: £132 million</p> <p>Expenditure Account: £352 million</p> <p>We have not identified a significant risk of improper recognition of income in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income.</p>	<ul style="list-style-type: none"> Ø Review and discuss with management any accounting estimates on income or expenditure recognition for evidence of bias. Ø Substantive testing of income and expenditure transactions around the year at a lower threshold. Ø Testing of income and expenditure cut-off around the year end at a lower threshold. Ø Assess topside adjustments / journal entries for evidence of management bias and evaluate for business rationale

Significant risk – misstatement due to fraud or error

What is the risk?	Our identified response to the risk
<p>The financial statements, as a whole, are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> Ø Identifying fraud risks during the planning stages. Ø Inquiry of management about risks of fraud and the controls put in place to address those risks. Ø Understanding the oversight given by those charged with governance of management's processes over fraud. Ø Consideration of the effectiveness of management's controls designed to address the risk of fraud. Ø Determining an appropriate strategy to address those identified risks of fraud. Ø Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

- Ø Significant risks identified in the audit relate to the risk of fraud in income and expenditure recognition. We also perform general procedures in all audits to respond to the risk of misstatement due to fraud or error caused by management override of controls.
- Ø We will report our findings in these areas to you within our 2017/18 Annual Audit Report.

2. Financial statements and accounting



We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Other areas of audit focus

What is the risk?	Our identified response to the risk
<p>Valuation of property, plant and equipment</p> <p>The fair value of PPE and investment properties (IP) represent significant balances in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>We identified a number of errors in Council's valuations in prior year. This was mainly due to a lack of robust review and scrutiny of valuations by the in-house team. In addition, we found that the process to ensure timely consideration of the impact of market movements on valuations could be enhanced.</p>	<p>We will:</p> <ul style="list-style-type: none"> Ø Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. Ø Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre). Ø Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer. Ø Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated. Ø Consider changes to useful economic lives as a result of the most recent valuation. Ø Test accounting entries have been correctly processed in the financial statements.
<p>Pension liability valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by City of Edinburgh Council. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.</p> <p>The Council's net pension fund deficit is a material estimated balance. At 31 March 2017 this totalled £118 million. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> Ø Liaise with the auditor of Lothian Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. Ø Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. Ø Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
<p>Ø The valuation of property, plant and equipment and accounting for net pension deficit are assessed as inherent risks. Management involves specialists in the preparation of these accounting valuations and estimates. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on these balances.</p>	

Other areas of audit focus

What is the risk?	Our identified response to the risk
<p>Financial reporting risk</p> <p>The prior year unaudited financial statements contained a significant number of errors including those impacting the primary financial statements. The financial statements, including the unaudited financial statements presented for public inspection, are an important dimension in the Council's financial governance arrangements.</p> <p>Management should ensure that there is effective oversight and scrutiny arrangements over the financial statements preparation process.</p> <p>The audited financial statements contained an unadjusted audit difference of £2.2 million in respect of HRA developer contributions. We have identified with management a need to consider further the accounting treatment for these in 2017/18.</p>	<p>We will:</p> <ul style="list-style-type: none"> Ø Consider whether recommendations made in 2016/17 were appropriately incorporated into 2017/18 financial statements closure process. Ø Determine that the financial statements and the financial data in the disclosures are clerically accurate. Ø Agree and reconcile the financial statements amounts and the financial data in the disclosures to the general ledger, trial balance or lead sheets. Ø Complete a "Disclosure checklist for 2017/18 accounts" Ø Read other information in documents containing financial statements to identify material inconsistencies or material misstatements of fact between the financial statements and other information. Ø Review the accounting for the Council's developer contributions in order to agree a position which does not result in a further unadjusted audit difference in 2017/18.
<p>Accounting for Public Private Partnerships (PPP)</p> <p>The Council has entered into four Public Private Partnerships, two of which in respect of the Dalkeith Schools Community Campus and the Primary Schools PPP are already operational and recognised on the Council's balance sheet under property, plant and equipment.</p> <p>The third contract is for the provision and lifecycle maintenance of the Newbattle Centre and is a 25 year contract with hubCo. The contract is currently in the construction phase with an anticipated opening date close to the financial year end of 31 March 2018.</p> <p>The fourth, for the provision of a food waste treatment plant at Millerhill, jointly procured between the Council and the City of Edinburgh Council, is not due to be operational until future years.</p>	<p>Our work will be focussed around the contract in respect of the Newbattle Centre. We have agreed with management that while there is the possibility that the contract will not complete within 2017/18, the accounting treatment, and associated audit work, should be considered as part of 2017/18.</p> <p>Given the potential complexity of PPP accounting, we will involve an EY specialists in this area to ensure that the proposed accounting treatment by the Council is appropriate.</p> <p>This work will include analysis of the contracts, and review and consideration of the financial model.</p>
<ul style="list-style-type: none"> Ø We have identified further inherent risks around financial reporting, based on our findings in respect of the 2016/17 audit. In particular we will work with management around the accounting for developer contributions. Ø Accounting for new PPP contracts will involve use of EY specialists. 	

2. Financial statements and accounting



We also plan and perform certain general audit procedures on every audit which may not be directly related to financial statement account assertions. Examples of such procedures compliance with applicable laws and regulations, litigation and claims and related parties.

Other audit considerations

Changes to the Accounting Code of Practice in 2017/18

While there are no significant change to the 2017/18 Accounting Code of Practice, we will engage early with management to consider their assessment and incorporation of any changes to the 2017/18 Accounting Code which affects the Council's financial statements.

Data analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular covering journal entries and payroll. These tools:

- Ø Help identify specific exceptions and anomalies to direct more traditional substantive audit tests.
- Ø Give greater likelihood of identifying errors than random sampling techniques.

We have held initial planning discussions with your IT and systems accountants to agree the practicalities of data provision. We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Use of specialists

When auditing key judgements, such as the valuation of property, plant and equipment, or certain assets and liabilities, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Ø Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- Ø Assess the reasonableness of the assumptions and methods used.
- Ø Consider the appropriateness of the timing of when the specialist carried out the work.
- Ø Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Management may use their own specialists in the preparation of the financial statements.

Internal audit

We will review internal audit plans and the results of their work, including the discussion of audit findings at the Audit Committee and management's response to findings.

We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements or our wider responsibilities.

Other audit considerations – group financial statements

The Council has a number of non-consolidation interests in other entities. For the purposes of consolidation and incorporation within the Group Accounts the Council recognises subsidiaries including trusts, bequests, common good and trust funds as well as Pacific Shelf 826 Ltd. These entities are below the materiality threshold.

Management have assessed that it exerts significant influence but not control over Lothian Valuation Joint Board, therefore this interest is deemed to be an associate.

The Midlothian Integration Joint Board (IJB) is identified as a joint venture and consolidated in accordance with the requirements of the Code.

The only significant component by size is the Council, which accounts for 99% of consolidated gross expenditure. There have been no specific risks identified that may indicate a component is significant by risk, as the IJB does not affect the transactions as such, only the nominal funding agreement in and out of the IJB.

We have been appointed as auditor to the Midlothian integration Joint Board and will report separately on our audit of that entity.

We will also discuss with management their updated assessment in respect of other entities where the Council has a relationship, but it has been assessed that consolidation has not been required.

3. Wider scope audit risks

3. Wider Scope Audit Risks



Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

Wider scope audit

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value.

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The current proposed BVAR programme includes publication of a report for the Council in 2019. The specific scope and timing of the work to be carried out, as part of the 2018/19 audit, will be discussed with the Council. The BVAR programme could change if the risk profile of councils change, if this is the case we will update the Council.

In the meantime, the annual audit continues to focus on aspects of Best Value over the full five year audit appointment. We identified and set out an indicative high-level five year Best Value Plan within our annual audit report for 2016/17 and this is shown in the table below. We have highlighted in yellow where we have updated our plan based on our risk assessment. This is due to the significant ongoing risks around financial sustainability and financial management, which we identified in the prior year and which we set out on the next pages. Further revisions may be made to the plan as priorities change or emerging risks arise.

High-level five year Best Value plan

	2016/17	2017/18	2018/19	2019/20	2020/21
Planned BVAR			X		
Follow up of BVAR				tbc	
Audit coverage:					
Performance and outcomes		X →	X		
Improvement			X		
Leadership, Governance and Scrutiny		X			X
Equal Opportunities			X		
Partnership Working and Empowering Communities			X		
Financial and service planning	X				X
Financial governance and resource management	X →	X		X	

Strategic Audit Priorities

In undertaking our work in respect of the wider scope audit dimensions, we have specific regard to the Accounts Commission's strategic audit priorities, which reflect interest in:

- Ø The clarity of council priorities and quality of long-term planning to achieve these.
- Ø How effectively councils are evaluating and implementing options for significant changes in delivering services.
- Ø How councils are ensuring members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
- Ø How well councils are involving citizens in decisions about services and empowering local communities to identify and help deliver services they need.
- Ø The quality of councils' reporting of their performance to enhance accountability to citizens and communities.

3 Wider Scope Audit Risks



The Code sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you. These are referred to in our report as 'Wider Scope Audit Focus Areas'.

Audit dimension	Risk assessment	Rationale and response
Financial sustainability considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.	Audit Focus Area	<p>We concluded in our Annual Audit Report for 2016/17 that:</p> <p><i>The Council faces significant financial challenges over the next five years. Management has forecast a budget funding shortfall of £44.9 million by 2021/22 and uncommitted general fund balance is currently at its lowest level for a number of years. Work is underway to identify potential options to deliver the required level of savings.</i></p> <p>Management has been working to identify efficiency savings to be delivered through the Delivering Excellence framework, culminating in consideration of the updated 5-year strategy at the Council budget-setting meeting on 13 February 2018. Our work will focus on the detail of the financial plans and our assessment of the viability of options identified.</p>
Financial management considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.	Audit Focus Area	<p>In our prior year audit we noted that the Council had repeatedly failed to deliver on the annual budget, as a result of a combination of intended transformational efficiency savings not being achieved in-year and service demands exceeding budget.</p> <p>We did conclude that in-year reporting arrangements had been enhanced. Consequently, we would expect that outturn against the 2017/18 budget would be more in line than in prior years. As at February 2018, the reported position was an overspend of £0.8 million, being an improved position from the £1.4 million overspend forecast in November 2017. This still remains an area of audit focus.</p>
Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	No specific additional audit focus	<p>We have not identified a specific additional risk in respect of the Council's governance arrangements. Our work for the year will consider:</p> <ul style="list-style-type: none"> Ø Progress against prior year audit recommendations. Ø Internal audit arrangements during 2017/18. Ø Reporting arrangements to committees during the year. Ø Leadership and scrutiny arrangements, in line with our five year plan for Best Value coverage.
Value for money considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.	No specific additional audit focus	<p>We have not identified a specific additional risk in respect of the Council's governance arrangements. From our 2016/17 audit work, we concluded that the Council's performance management arrangements were satisfactory, and a broad range of performance information was made available to members for scrutiny.</p> <p>Our work for the year will link with that performed in respect of financial sustainability, with more focus on the transformational agenda and the option appraisal analysis undertaken by management to assess whether spend is being aligned with the Council's priorities and outcomes.</p>

3. Other work; timing and deliverables; fees

3. Other audit responsibilities



Under the terms of our appointment, our role and responsibilities include a number of other assurance activities. These include the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as provision of information to support Audit Scotland national reports and studies.

Other audit responsibilities

Following the Public Pound

Local Authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on Funding External Bodies and Following the Public Pound (the FtPP Code). The principles of the FtPP Code are embedded into the new approach to auditing Best Value. As part of our risk based planning approach we will consider the Council's arrangements to comply with the FtPP Code. We link this work directly to that undertaken to support the conclusions on the Governance and Transparency audit dimension.

Statutory Performance Information

Local authorities have a responsibility, under their Best Value duty, to report performance to the public. One of the Accounts Commission's Strategic Audit priorities is 'the quality of council public performance reporting to help citizens gauge improvement'. Consequently, over the term of our appointment, we will focus on the Council's performance reporting arrangements and integrate this with our wider planning activity.

National Fraud Initiative and fraud returns

All local authorities are required to participate in the 2016/17 National Fraud Initiative (NFI). They submitted data (as per the instructions) in October 2016 and received matches for investigation in January 2017. Audit Scotland expects bodies to investigate all recommended matches plus further matches based on findings and the risk of error or fraud. Match investigation work should be largely completed by 30 September 2017 and the results recorded on the NFI system.

Auditors are expected to monitor their audited bodies' participation and progress during 2016/17 and into 2017/18 and, where appropriate, include references to NFI in their annual audit reports for both years. Auditors must complete an NFI audit questionnaire for each body participating in the NFI by 28 February 2018. We have completed this questionnaire and concluded that, while the Council has undertaken appropriate investigation across matches, there are a number of matches which have not been closed down on the system. Accordingly we have assessed the Council's position as Amber at this time.

We have advised the NFI Key contact that the information provided by auditors will be used for Audit Scotland's NFI report to be published in June 2018, and encouraged closure of reports by 31 March 2018.

Audit Scotland – National Study Programme

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission. Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them, which may also include joint studies under the remit of the Auditor General for Scotland, at a committee level and act on them accordingly.

In 2018, Audit Scotland are conducting their second performance audit of Health and Social Care Integration, due for publication in November this year. The scope of the second audit, as well as following up on previous recommendations and considering governance arrangements, will focus on how integration is changing the way services are planned and designed around the needs of local communities. This includes highlighting any early evidence of impact on the public.

Over the next couple of weeks we will be issuing our data request from auditors to support this audit. We expect to be in contact with Council management, as well as with the Midlothian Integration Joint Board, in the performance of this work.

Other assurance activity

The terms of our appointment requires us to undertake a number of other areas of audit activity. These include certifying authorities Whole of Government Accounts returns as well as certifying any applicable grant claims and returns such as the non-domestic rates return and housing benefits subsidy claim.

3. Timing and deliverables



We deliver our audit in accordance with the timeline set by the Council, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

	Audit Activity	Deliverable	Expected Timing
JAN			
FEB			
MAR	<ul style="list-style-type: none"> Onsite fieldwork, documentation and walkthrough of key accounting processes Scoping of Best Value work for the year 	Annual Audit Plan	13 March 2018
APR	<ul style="list-style-type: none"> Review of frauds reported to the audit committee. 	Fraud Return Submission	27 April 2018
MAY	<ul style="list-style-type: none"> Education Maintenance Allowance (EMA) grant claim testing 	Certified EMA return	31 July 2018
JUN	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Whole of Government Accounts assurance statement to NAO	28 September 2018
JUL	<ul style="list-style-type: none"> Conclude on results of audit procedures 	Certify Annual Financial Statements	30 September 2018
AUG	<ul style="list-style-type: none"> Issue opinion on the Council's financial statements Performance of Best Value fieldwork 	Issue Annual Audit Report Submit Best Value Data Return to Audit Scotland	1 October 2018
SEP	<ul style="list-style-type: none"> Criminal Justice Social Work (CJSW) return testing 	Certified CJSW claim	30 September 2018
OCT	<ul style="list-style-type: none"> Completion of Non-domestic rates return testing 	Certified Non-Domestic Rates return	6 October 2018
NOV	<ul style="list-style-type: none"> Completion of housing benefits claim testing 	Certified Housing benefit subsidy claim	30 November 2018
DEC			

3. Fees



The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on '*Our Approach to setting audit fees*' (http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf).

Audit fees		
Component of fee:	2017/18	2016/17
<i>Auditor remuneration – expected fee</i>	<i>£138,040</i>	<i>£136,670</i>
Total agreed auditor remuneration	£143,540	£151,560
Audit Scotland fixed charges:		
Pooled costs	£12,270	£11,900
Performance audit and best value	£64,250	£65,680
Audit support costs	£8,770	£8,160
Total fee	£228,830	£237,300

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

Fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken. In the prior year, additional fees were agreed with management based on the work required over the completion of the audit, and key audit matters arising for discussion and agreement.

In the current year, we have proposed and agreed with management an estimated maximum additional fee of £5,500 in respect of the specialist consideration of the new PPP contract accounting, should this be required. Actual time and costs involved will be agreed with management, including in respect of timing should these slip into a later financial year.

Appendices

A – Code of Audit Practice: responsibilities

B – Required communications with the audit committee

C – Auditor independence

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies	
Corporate governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
Financial statements and related reports	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. <p>Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • such financial monitoring and reporting arrangements as may be specified • compliance with any statutory financial requirements and achievement of financial targets • balances and reserves, including strategies about levels and their future use • how they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their financial position.
Best Value	<p>Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.</p> <p>Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p>

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

Relationships, services and related threats and safeguards

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We are not aware of any relationships between Ernst & Young LLP and the Council that may reasonably be thought to bear on our independence as of the date of this letter.

As part of our considerations for any non-audit engagement, we review potential threats in respect of self-interest, self-review, acting as management and advocacy. Non-audit services provided to Council at this time include only work involved in the finalisation of the Zero Waste project. This was disclosed in prior year, and agreement obtained with Audit Scotland that it was permissible to finalise our work in association with the project, based on the appropriate safeguards being in place. We have not identified any significant threat to our independence through the performance of these services.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate any potential threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner and the audit engagement team have not been compromised.

Required communication	Our reporting to you
Terms of engagement / Our responsibilities	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	
Our responsibilities are as set out in our engagement letter.	
Planning and audit approach	Annual Audit Plan
Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	
Significant findings from the audit	Annual Audit Plan
<ul style="list-style-type: none"> Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process 	Annual Audit Report
Going concern	Annual Audit Report
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	
<ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements The adequacy of related disclosures in the financial statements 	
Misstatements	Annual Audit Report
<ul style="list-style-type: none"> Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Corrected misstatements that are significant Material misstatements corrected by management 	
Fraud	Annual Audit Report
<ul style="list-style-type: none"> Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity Any fraud that we have identified or information we have obtained that indicates that a fraud may exist A discussion of any other matters related to fraud 	
Consideration of laws and regulations	Annual Audit Report (to be issued on completion of audit work) or as occurring if material.
<ul style="list-style-type: none"> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	

Required communication	Reference
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	<p>No such matters have been identified.</p> <p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>
<p>Group audits</p> <ul style="list-style-type: none"> • An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	<p>Annual Audit Plan</p> <p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>
<p>Representations</p> <p>Written representations we are requesting from management and/or those charged with governance</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2018 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ey.com

**Audit Charter
Report by the Chief Internal Auditor****1 Purpose of Report**

This report provides the Audit Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Internal Auditor to prepare an annual opinion on the adequacy of the Council's overall control environment.

2 Background

- 2.1** The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 2.2** The Midlothian Council Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 (amended 2017), along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice.
- 2.3** In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Internal Auditor at Midlothian Council (Scottish Borders Council's Chief Officer Audit & Risk shared post) must periodically review the Internal Audit Charter and present it to 'senior management' (Corporate Management Team) and the 'board' (Audit Committee) for approval.
- 2.4** The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

- 2.5** Within the PSIAS a Public Sector requirement states the Internal Audit Charter must also:
- define the terms 'board' and 'senior management' for the purposes of Internal Audit activity;
 - cover the arrangements for appropriate resourcing;
 - define the role of Internal Audit in any fraud-related work; and
 - include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.

3 Report Implications

The authority for Internal Audit to operate in Midlothian Council is contained in the Council's Local Code of Corporate Governance, Standing Orders, and Financial Regulations. This Internal Audit Charter expands upon that framework.

The Terms of Reference i.e. Charter for the Internal Audit function was last presented to the Audit Committee for approval on 10 May 2016. The previous Charter has been updated to only include specific details to ensure conformance with requirements of PSIAS, as outlined above.

The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2018/19 that sets out the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions. It also sets out the Council's assurance framework within which Internal Audit operates.

3.1 Resource

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the Chief Internal Auditor to prepare an annual opinion on the adequacy of the Council's overall control environment.

There are resource implications for the Internal Audit function in light of the shared services arrangements with Scottish Borders Council (shared chief auditor) on a 12-month pilot basis from 1 December 2017, and the continued provision of Internal Audit assurance to the Midlothian Integration Joint Board.

3.2 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process.

At all times, Management's responsibilities (led by the Corporate Management Team) include:

- Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These are not fixed but evolve as the Council changes.
- Checking that these governance arrangements and internal controls are operating effectively.
(The above are known as the first and second lines of defence.)
- Engaging with Internal Audit (the third line of defence) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
- Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

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

This report does not relate directly to the key priorities within the Single Midlothian Plan, though indirectly Internal Audit assists Management to fulfil their responsibilities to achieve agreed objectives.

3.5 Impact on Performance and Outcomes

Applying the framework of the PSIAS will give the Audit Committee assurance that the Internal Audit Service is compliant with legislative requirements and current best practice.

3.6 Adopting a Preventative Approach

The PSIAS are applicable from 1 April 2013 (amended 2017) which means the Internal Audit Service has taken steps to be fully compliant.

3.7 Involving Communities and Other Stakeholders

There are no communities or other stakeholder issues with regard to this report. The Council's External Auditors, EY, have been consulted on the Internal Audit Charter.

3.8 Ensuring Equalities

There are no equalities issues with regard to this report.

3.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

3.10 IT Issues

There are no IT issues with regard to this report.

4 Summary

The Internal Audit Charter has been updated to reflect changes following a self-assessment. Approval of the Internal Audit Charter as shown in Appendix 1 to this report will ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

5 Recommendations

The Audit Committee is invited to:

- note the changes outlined in this report;
- approve the revised Internal Audit Charter shown at Appendix 1; and
- note that the Internal Audit Charter will be reviewed annually.

Date 21 February 2018

Report Contacts:

Jill Stacey, Chief Internal Auditor
Jill.Stacey@midlothian.gov.uk

Background Papers:

Public Sector Internal Audit Standards (2017)

MIDLOTHIAN COUNCIL – INTERNAL AUDIT CHARTER

INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* (Standards) detailed in the PSIAS.

Midlothian Council has adopted the definition of Internal Auditing as given in the PSIAS:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.¹

PURPOSE

Internal Audit's responsibility is to report to Midlothian Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit Committee (the 'board' for the purposes of Internal Audit activity).

Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.

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 performance information are accurate and reliable.

Midlothian Council's Internal Audit function provides assurance services to the Midlothian Health and Social Care Integration Joint Board (MIJB) and will apply the same standards as defined in this Charter to any work undertaken for MIJB reporting to 'senior management' (MIJB Chief Officer and MIJB Chief Financial Officer) and to the 'board' (MIJB Audit and Risk Committee).

¹ Public Sector Internal Audit Standards (PSIAS) (2017)

POSITION OF INTERNAL AUDIT WITHIN MIDLOTHIAN COUNCIL AND REPORTING LINES

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Audit Executive (CAE) should have “sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation.”²

The CAE within Midlothian Council (the shared Chief Internal Auditor) has full access to those charged with governance, specifically the Elected Members and the Corporate Management Team. The CAE has free and unfettered access to the Chair of each organisation’s ‘board’ to discuss any matters the members or auditors believe should be raised privately.

In terms of accountability and independence to ensure conformance with PSIAS, the CAE reports functionally to the Audit Committee. In this context functional reporting³ means the Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Annual Plan.
- Ratify the Internal Audit budget and resource plan to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.
- Receive communications from the CAE on the Internal Audit activity’s performance relative to its plan and other matters.
- Ratify all decisions regarding the appointment or removal of the CAE.
- Provide feedback to contribute to the performance appraisal of the CAE.
- Make appropriate enquiries of Management and the CAE to determine whether there are inappropriate scope or resource limitations.

The CAE is line managed by the Chief Executive but retains responsibility for all operational audit activity and reports in their own name and retains final right of edit over all Internal Audit reports.

The reporting line will be managed in a manner which: ensures the CAE is accorded open and direct communication with Management; ensures the CAE and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council and IJB.

RIGHTS OF ACCESS

Those in Internal Audit function, for the purpose of its audit work, have full, free and unrestricted access at any reasonable time to all the records and other documentation (electronic and manual), personnel, Elected Members / Board Members, premises, assets, and operations of the Council and the IJB. It also has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. All employees, including senior management, are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.

Internal Audit has permission to be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council. Internal Audit can require any employee of the Council to produce cash, stores, or any other Council property under the employee's control.

² Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

³ Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing

Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an assurance audit, investigation, or audit consultancy work. Internal Audit will make no disclosure of any information held unless this is authorised or there is a legal or professional requirement to do so.

SCOPE OF INTERNAL AUDIT ACTIVITY

Internal Audit services are provided to the Council and the IJB. For each Organisation Internal Audit shall review, appraise, make appropriate recommendations for improvement, and report upon:

- the Organisation's governance arrangements and processes;
- the design, implementation and effectiveness of the Organisation's ethics-related objectives, programmes and activities;
- the information technology governance of the Organisation in support of the Organisation's strategies and objectives;
- the systems and processes in place to ensure effective organisational performance management and accountability;
- the effectiveness and appropriateness of controls and other arrangements put in place to manage risk;
- the potential for the occurrence of fraud and how the Organisation manages fraud risk;
- the completeness, reliability, integrity and timeliness of information, both financial and operational;
- the systems and processes established to ensure compliance with policies, plans, procedures, laws, and regulations, whether established by the Organisation or externally, and that employees' actions are in compliance;
- the action(s) taken to address significant legislative or regulatory issues;
- the effectiveness of arrangements for safeguarding the Organisation's assets and interests;
- the economy, efficiency and effectiveness with which resources are deployed;
- the effectiveness and efficiency of operations and programmes; and
- the extent to which operations are being carried out as planned and strategic objectives and goals are met.

Internal Audit's work covers:

- all Organisation activities, systems, processes, controls, policies, and protocols;
- all Organisation records, personnel and properties; and
- all services and other activities for which the Organisation is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

AUDIT RESOURCES AND WORK PRIORITISATION

Work is directed according to the assessed level of risk, and the judgement of the Chief Audit Executive, with direction from the Organisation's 'board' (Midlothian Council Audit Committee; MIJB Audit and Risk Committee). The risk-based Internal Audit Annual Plan agreed by the 'board' will be the main determinant of the relative priority to be placed on each Internal Audit assignment. The risk-based plan will explain how Internal Audit's resource requirements have been assessed. The Chief Audit Executive will determine the actual deployment of available resources based on the risk assessment described above.

This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of each Organisation. The plan will have within it the provision of resources to address unplanned work. Contingency work will be directed towards responding to specific control issues highlighted by Managers during the year and covering other unforeseen variations in the level of resources

available to Internal Audit, such as staff vacancies. Internal Audit might undertake non-assurance, Consultancy work at the request of 'senior management' or the 'board'. Provided that the independence of the service is not compromised, the request does not impact on core assurance work, sufficient resource and skills are available, and there is the potential to improve management of risks, add value and improve the Organisation's operations, then these requests will be considered for acceptance by the Chief Audit Executive.

The Chief Audit Executive will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

In the event that the risk assessment identifies a need for a greater degree of Internal Audit work than there are resources available, the Chief Audit Executive will identify the shortfall in the Internal Audit Annual Plan and initially advise the Chief Executive. Where the Chief Audit Executive believes that the level of agreed resources will impact adversely on the provision of the annual Internal Audit opinion, the consequences will be brought to the attention of the Audit Committee. It shall be for the Audit Committee and the Chief Executive to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires the Chief Executive to identify additional resources.

NON-AUDIT ACTIVITIES

The Internal Audit service will preserve its independence and objectivity by ensuring that all staff are free from any conflicts of interest and undertaking of non-audit duties does not impair independence and objectivity e.g. will refrain from auditing within a year specific operations for which they were previously responsible; will make it clear what duties are being fulfilled on Consultancy engagements.

APPROVAL

The Internal Audit Charter was reported to and approved by the Midlothian Audit Committee at its meeting on *13 March 2018* and shall be subject to regular review by the Chief Executive, the Chief Audit Executive and the Audit Committee.

Internal Audit Strategy and Annual Plan 2018/19
Report by Chief Internal Auditor**1. Purpose of the Report**

The purpose of this report is to gain approval to the proposed Internal Audit Strategy and Annual Plan 2018/19 to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and Midlothian Health and Social Care Integration Joint Board.

2. Background

The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the organisation.

3. Internal Audit Strategy

The key standards within the PSIAS which relate to Managing the Internal Audit Activity are summarised below:

“The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

The internal audit activity is effectively managed when:

- The results of the internal audit activity’s work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.”

The Internal Audit Strategy at Appendix 1 outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance to the relevant organisation’s senior management and board/audit committee.

4. Internal Audit Annual Plan 2018/19

The Midlothian Council Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017). The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:

- Standard 2010 – Planning which states that “the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”
- Standard 2020 – Communication and Approval which states that “the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.”

The CIPFA Publication ‘Audit Committees: Practical Guidance for Local Authorities and Police – 2013 Edition’ states that “The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to provide an annual internal audit opinion that can be used to inform the Annual Governance Statement. Specific activities will include:

- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance.”

The CIPFA Publication also states that “The committee will wish to seek assurance from the HIA that appropriate risk assessment has been carried out as part of the preparation of the internal audit plans when they are presented.”

The Internal Audit Annual Plan 2018/19 developed by the Shared Chief Internal Auditor is presented at Appendix 2. The proposed reviews have been grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. There is a brief commentary for each activity.

In recognition that the Shared Chief Internal Auditor role has only been in place since 1 December 2017, this plan predates the Internal Audit Annual Assurance Report which will be based on completed audit work during 2017/18, and it is envisaged that 2018/19 will continue to be year of change for the Council, the Internal Audit Annual Plan 2018/19 should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities. Any amendments relating to the Council will be brought to the Audit Committee for approval.

4. Report Implications

4.1 Resource

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). There is currently a staff resource of 5.72 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 0.5 FTE Other Audit Resources), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), all of whom are CCAB/CIIA professionally qualified experienced auditors, plus Fraud and Audit Officer (2.0 FTE) all of whom are qualified experienced fraud investigators. After deduction for personal and public holidays, unplanned absence, learning and development, management and administration this equates to a total of 1,007 days available for Internal Audit and Corporate Fraud activity.

There is a commitment to provide resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) and a number of audits are required to be undertaken annually to comply with service level agreements. A separate plan with proposed audits and time allocated will be presented to MIJB Audit and Risk Committee for approval.

4.2 Risk

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. As in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted.

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 will be risk-based and, where appropriate, will test the specific Service's management of 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 Internal Audit plan assists the Council in improving its performance and outcomes.

4.6 Adopting a Preventative Approach

Specific audits within the 2018/19 plan will include assessments on when a preventative approach can be adopted.

4.7 Involving Communities and Other Stakeholders

The Internal Audit Annual Plan 2018/19 has been discussed with Directors and Heads of Service at Directorate Management Team meetings, and with the Corporate Management Team. The plan has also been passed to Midlothian Council's External Auditors, EY, for comment, prior to submission to the Audit Committee for their approval.

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 Internal Audit Strategy (Appendix 1) and Annual Plan 2018/19 (Appendix 2).

Date: 14 February 2018
Report Authors: Jill Stacey, Chief Internal Auditor
E-Mail: Jill.Stacey@midlothian.gov.uk

1. AIM OF STRATEGY

- 1.1. The aim of this strategy is to guide MLC Internal Audit function in delivering a high quality internal audit service to Midlothian Council (MLC) and Midlothian Health & Social Care Integration Joint Board (MIJB), which is capable of:
- providing an audit opinion on the adequacy of each organisation's risk management, internal control and governance arrangements to the relevant organisation's senior management and board/audit committee;
 - carrying out all other objectives contained in Internal Audit's Charter; and
 - adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to the strategic priorities of each organisation and providing the required assurance.

2. STRATEGY OBJECTIVES

- 2.1. The objectives of this strategy are to:
- Outline the assurance framework which comprises assurances from within the organisation and from external providers of assurance to improve the organisational understanding of the expectations of Internal Audit;
 - State how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual audit opinion statement;
 - Describe the approach to the development of the risk based Internal Audit annual plan;
 - Set out the relative allocation of Internal Audit resources; and
 - Outline how the Internal Audit programme of work will be delivered to add value;
 - Describe the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation's audit committee/board.

3. ASSURANCE FRAMEWORK

- 3.1. 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. Internal Audit, as the third line of defence, is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and management of risks, therefore assisting the organisation in achieving its objectives.
- 3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of systems in place to mitigate those risks.
- 3.3. The assurance framework comprises assurances from within the organisation (from Management, and independent and objective assurance from Internal Audit) and from external providers of assurance. Examples of the latter include the Accounts Commission, External Audit (EY - 5 year appointment 2016/17 to 2020/21 inclusive - for MLC and MIJB), Education Scotland, Care Inspectorate, Scottish Housing Regulator, and other regulators.
- 3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within the relevant organisation's Annual Report and Accounts.
- 3.5. Where audit assurance is required on services that are delivered jointly by public sector joint working arrangements which include the organisation as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management.

4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE

- 4.1. Each organisation is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by the organisation to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: setting the strategic direction, vision, culture and values of the organisation; effective operation of corporate systems; processes and internal controls; engaging with and, where appropriate, lead communities; monitoring whether strategic objectives have been achieved and services delivered cost effectively; and ensuring that appropriate arrangements are in place for the management of risk.
- 4.2. The organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Head of Finance and Integrated Service Support (MLC) and Chief Financial Officer (MIJB), is responsible for the proper administration of the organisation's financial affairs. Under his/her direction, the organisation's system of internal financial control is based on a framework of Financial Regulations (rules and regulations for financial management or administration arrangements linked to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines), regular Management Information, administrative procedures (including segregation of duties), Management Supervision, and a system of Delegation and Accountability.
- 4.3. The continued use of and investment in computer systems to support service delivery, change and transformation through electronic service delivery is a key part of the vision for each organisation. Arrangements in place are underpinned by the overarching framework of the ICT security policy designed to ensure that computer systems are secure, reliable and conform to nationally agreed standards, and by the ICT Strategy linked to Corporate Priorities designed to support effective and modern service delivery and to meet service objectives.

5. APPROACH TO PERIODIC PLANNING

- 5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2018/19 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce an Internal Audit annual opinion.
- 5.2. As part of the Internal Audit planning process it was necessary to consider each organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation's goals, as follows:
 - Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage;
 - Corporate and Service Risk Registers were checked to confirm coverage on key risks; and
 - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management and with External Auditors of each organisation to capture potential areas of risk and uncertainty more fully.

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

- 6.1. The Internal Audit staff resources, which came into effect during 2017/18, comprise Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 0.5 FTE Other Audit Resources), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), all of whom are CCAB/CIIA professionally qualified experienced auditors, plus Fraud and Audit Officer (2.0 FTE) all of whom are qualified experienced fraud investigators. The Available Days has been amended to reflect the Internal Audit resources after consideration of personal and public holidays, unplanned absence, learning and development, management and administration.

- 6.2. It is estimated that around 66% of Available Days will be spent on *assurance, legislative and other compliance, and other* activities combined. The Assurance work includes sufficient work across a range and breadth of audit areas which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of the required annual audit opinion on the adequacy of the organisation's control environment.
- 6.3. An estimate of around 6% of Available Days will be utilised on *consultancy* activities which support Management in delivering innovation, change and transformation. Management seek this value added activity during this unprecedented period of change for Local Government though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.
- 6.4. It is estimated that around 7% of Available Days will be spent on the provision of Internal Audit services to *Midlothian Health and Social Care Integration Joint Board*. This reflects MLC's contribution of support resources as governance arrangements have changed in response to statutory partnership working for the provision of health and social care integration.
- 6.5. It is estimated that around 21% of Available Days will be spent on the provision of Corporate Counter Fraud services to support Management discharge their responsibilities for managing the risk of fraud, theft and corruption.

7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

- 7.1. To facilitate operational delivery an Internal Audit Programme of Work will be developed which provides an indication of when work will be scheduled during the year, taking account of discussions with Senior Management and the availability of Internal Audit resources.
- 7.2. For each *Assurance* audit a Terms of Reference detailing the scope, objectives and timing will be prepared and agreed with the relevant Head of Service and Manager prior to commencement of the Internal Audit fieldwork. Within the assurance work:
 - The organisation's Local Code of Corporate Governance (MLC/MIJB) will be used by Internal Audit as an integrated toolkit to test the extent of compliance;
 - End to end reviews of financial management and administration processes will be undertaken by Internal Audit to test the extent of compliance (as integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably), and substantive testing of transactions and balances will be carried out to ensure completeness and accuracy of data in core financial systems.
 - The Plans (Financial and Asset Management) to deliver the organisation's strategies, plans and priorities will be reviewed against best practice standards.
 - Internal Audit will consider fraud risk and prevention and detection controls, and other appropriate cross-cutting risks and controls (such as performance management, community engagement, equalities, and health and safety), highlight examples of effective internal controls, and share good practice across service areas.
 - The ICT arrangements in place to protect each organisation from attack in relation to data security, integrity and availability will be tested and ICT Plans will be reviewed to confirm they support delivery of the organisation's strategies and priorities.
 - National reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies will be considered and applied by Internal Audit to influence and offer ways to enhance governance and internal controls.
- 7.3. The *Legislative and Other Compliance* work will include testing in accordance with the terms of the funders' service level agreements or legislative requirements, as part of the wider assurance framework.
- 7.4. Within *Consultancy* activities Internal Audit will add value to the Council as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes by influencing and offering ways to enhance the governance and internal control environment. Internal Audit in its 'critical friend' role will provide internal challenge as part of the Delivering Excellence programme and an independent and objective assessment of evidence to support self-evaluation and improvement that underpins provision of Best Value.

7.5. *Other work* will include:

- Carrying out *Follow-Up* to monitor Management's progress with implementation of Audit recommendations to: ensure that improvement actions have been timeously and effectively implemented; check that these have had the desired effect to manage identified risks; and demonstrate continuous improvement in internal control and governance. To facilitate the Internal Audit follow-up activity, Audit recommendations will continue to be input to Pentana, the corporate performance management system, to assist relevant Management in tracking and recording their implementation in a consistent way;
- Performing potentially high risk *Contingency* audits, investigations and review of issues highlighted during the year that may be the result of a weakness in internal controls or that may be requested by Management or Audit Committee; and
- Delivering the *Help Desk Facility* where Internal Audit guidance and advice is given to Management on internal controls, and enquiries received through the whistle-blowing facilities offered by the Council are managed.

7.6. *Counter Fraud* work will include compliance testing of fraud, theft or corruption prevention and detection controls in place, data matches to identify potential fraud (including data sharing with Audit Scotland for the National Fraud Initiative as part of the wider assurance framework on counter fraud and crime controls), and ensuring the counter fraud policy and strategy are fit for purpose for the Council in tackling fraud.

8. MONITORING THE WORK OF INTERNAL AUDIT

- 8.1. Internal Audit finalised work and progress updates on implementation by Management of relevant Audit recommendations will be reported periodically during the year to the relevant organisation's Management and Audit Committee/Board.
- 8.2. Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against Public Sector Internal Audit Standards (PSIAS) will be considered by the Chief Internal Auditor on a regular basis and formally reported every six months to the Council's Corporate Management Team and the Audit Committee, through a Mid-Term Performance Report and within the Annual Report.
- 8.3. The Internal Audit Annual Report for each organisation will provide the required opinion statement on the levels of assurance based on audit findings over the year.
- 8.4. The PSIAS requires an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years by appropriately qualified and independent reviewers. Reporting on outcomes includes a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP). The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have implemented a "peer review" framework, in which MLC participates, as a cost effective means of complying with the EQA requirement.

Internal Audit Activity

Ref	Category	Audit	Number of Days	Commentary
1.	Assurance	Review of Corporate Governance	10	A sample of the key elements in the Code of Corporate Governance are tested to determine whether these are operating as described. The results from this testing are included within the Annual Governance Statement.
2.	Assurance	Annual Assessment of Internal Control and Governance	10	The Chief Internal Auditor is required to prepare an annual report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and control.
3.	Assurance	Performance Management	20	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services.
4.	Assurance	Workforce Strategy and Plans	30	Review of approach to workforce development in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.
5.	Assurance	Delivering Excellence Programme	40	Review of governance and accountability arrangements for Delivering Excellence programme including a review of processes for benefit (financial and other) identification, tracking and realisation.

Ref	Category	Audit	Number of Days	Commentary
6.	Assurance	Financial Policy Framework	15	Assess the Financial Policy Framework established, including Financial Regulations and associated policies, procedures and guidelines, and evaluate arrangements in place to review and update
7.	Assurance	Revenue Financial Budget Monitoring	15	Assess the review, scrutiny and challenge on revenue financial budget monitoring reports by elected members.
8.	Assurance	Payroll	25	Testing of controls at Service level on Starters and Leavers to ensure completeness and accuracy.
9.	Assurance	Sales to Cash	25	Review of income management controls to set fees and charges for services, raise invoices promptly, and collect debts efficiently to ensure debtors' balances are complete, accurate and recoverable.
10.	Assurance	Procurement to Payment	25	Review of ordering of goods and services, commitment systems and processes at Service level including authorisation to test compliance.
11.	Assurance	Electronic payments systems	20	Review of security and authorisation controls, including segregation of duties.
12.	Assurance	Contract Tenders	30	Review the Procurement Strategy and tender procedures that underpin effective contracts.
13.	Assurance	ICT Security Controls	20	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.
14.	Assurance	ICT Operational Processes	30	A review of the change / incident / problem management operational controls to ensure they are designed appropriately and that all parties are adhering to them. Assess response to Audit Scotland report May 2017 "Principles for a digital future: Lessons learned from public sector ICT projects"

Ref	Category	Audit	Number of Days	Commentary
15.	Assurance	Community Engagement	30	Evaluate systems and procedures in place to assist the Council to engage with and communicate to the community in setting, delivering and reporting on its vision, priorities and plans. Assess Community Empowerment Act implications and extent to which the Council is complying with key elements.
16.	Assurance	Information Governance	40	Review of the Information Governance framework including roles and responsibilities, policy development and implementation. Assess compliance with General Data Protection Regulations which come into force May 2018.
17.	Assurance	Following the Public Pound	20	Assess authorisation and monitoring processes and procedures against Following the Public Pound code of practice in support of securing Best Value.
18.	Assurance	Capital Investment	30	Assess compliance with established good practice by Accounts Commission - strategic asset management plans; governance of capital investment; capital planning; review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme/projects.
19.	Assurance	Learning Estate Strategy	25	Assess the governance in place to ensure key milestones / outcomes are being achieved.
20.	Assurance	Commercial Rents	25	Assess internal financial controls and governance arrangements linked to Corporate priorities including estate management.
21.	Assurance	Business Gateway	15	Assess achievement of targets and transparency of reporting to elected members.
22.	Assurance	Developer Contributions	10	Follow-up on implementation of improvement actions to enhance internal controls.

Ref	Category	Activity	Number of Days	Commentary
23.	Legislative and Other Compliance	Tyne Esk Leader Grant Fund	20	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.
24.	Legislative and Other Compliance	Construction Industry Scheme	10	Annual requirement to undertake a review in this area to test that the scheme rules are being complied with as required by HMRC.
25.	Consultancy	Consultancy	60	Support Management in delivering innovation and transformational change and add value by influencing and offering ways to enhance the governance and internal control environment. In its 'critical friend' role provide: internal challenge as part of transformation projects; and an independent and objective assessment of the evidence to support self-evaluation and improvement underpinning Best Value.
26.	Other	PSIAS Self-Assessment and CIPFA Audit Committee Self-Assessment	15	Undertake annual self-assessment against the Public Sector Internal Audit Standards (PSIAS) and report findings to the Audit Committee. Provide assistance to Chair in undertaking an assessment of the Audit Committee against the CIPFA best practice guidance.
27.	Other	Recommendation Follow Up Reviews	35	Undertake 2 reviews: the first assesses performance against closing Audit Actions by the agreed due date; and the second includes a sample check on the adequacy of new internal controls for Audit Actions flagged as closed.
28.	Other	Contingency	30	Support / undertake any investigations and other reactive work to ensure high risk issues and concerns identified by Management or Audit Committee during the year are appropriately addressed.
29.	Other	Help Desk Enquiry system	34	Internal Audit has a help desk facility where guidance and advice is given to Management on internal controls. The help desk is also used to manage any enquiries received through the whistle-blowing facilities offered by the Council.

Ref	Category	Activity	Number of Days	Commentary
30.	Other	Administration of Audit Scotland Reports	4	Internal Audit co-ordinates submission of Audit Scotland Reports to the Audit Committee.
31.	Other	Support for the Risk Management and Integrity Groups	15	Internal Audit attends and provides support to the Risk Management Group and the Integrity Group.
32.	Other	Audit Planning for 2019/20	15	Renew risk assessment, develop and consult on the Internal Audit Annual Plan 2019/20.
33.	Non-MLC	Audit reviews and support for the Integration Joint Board	70	To be determined and agreed by the Midlothian Health and Social Care Integration Joint Board for review of the adequacy of the arrangements for risk management, governance and control by the IJB of the delegated resources.
Internal Audit Total			797	

Corporate Fraud Activity

Ref	Category	Activity	Number of Days	Commentary
1.	Compliance	Licensing	20	Compliance testing of Licensing
2.	Compliance	Contract Management	35	Compliance testing of governance and internal controls in place over Contract monitoring arrangements with third parties.
3.	Compliance	Council Tax Reduction Scheme, Discounts and Exemptions	50	Compliance testing of Council Tax Reduction Scheme, Discounts and Exemptions to determine whether these reductions are claimed legitimately.
4.	Data Match	Subletting of Council Owned Properties	30	Local data match of Council Tax system to house rents system to identify potential subletting of Council houses.
5.	Data Match	National Fraud Initiative	55	To co-ordinate the NFI exercise, review and investigate matches and produce reports for the Audit Committee on results of these matches.
6.	Other	Corporate Fraud Policy and Strategy	10	Review and update, as required, of counter fraud policy statement and approach to managing the risk of fraud.
7.	Other	Fraud Awareness Training	10	A budget is set aside to allow fraud awareness training to be provided to Management and Staff by the Corporate Fraud team.
Corporate Fraud Total			210	