

# Minute of Meeting

Audit Committee  
Monday 29 January 2024  
Item No: 4.1



## Audit Committee

| Date                    | Time    | Venue                  |
|-------------------------|---------|------------------------|
| Tuesday 30 October 2023 | 2.00 pm | Council Chamber/Hybrid |

### Present:

|                                 |
|---------------------------------|
| Councillor Smaill (Chair)       |
| Councillor Bowen                |
| Councillor McCall               |
| Councillor McEwan               |
| Councillor Russell (substitute) |

### In Attendance:

|                  |  |
|------------------|--|
| Grace Vickers    | Chief Executive  |
| Alan Turpie      | Legal and Governance Manager/Monitoring Officer          |
| Kevin Anderson   | Executive Director Place                                 |
| Fiona Robertson  | Executive Director Children, Young People & Partnerships |
| Derek Oliver     | Chief Officer Place                                      |
| David Gladwin    | Chief Financial Officer                                  |
| Duncan Stainbank | Chief Internal Auditor                                   |
| Janet Ritchie    | Democratic Services Officer                              |
| Hannah Forbes    | Democratic Services Assistant                            |

## **1. Welcome and Apologies for Absence**

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The Chair welcomed Claire Gardiner and Patricia Fraser, Audit Scotland and intimated apologies on behalf of Councillor Milligan and welcomed Councillor Imrie who would be substituting for Councillor Milligan.

The Chair drew the committee's attention to the issues with today's meeting and that the accounts had been circulated late but also highlighted that the agenda pack had been published but then was not available due to a technical issue but considering that the deadline for the accounts was 31 October 2023 +and the fact that the bulk of the accounts had been published in June in the interest of the council and the public that all the matters are considered today including the prior minutes of the previous meeting and unless anyone has a different view on that basis the meeting would proceed.

## **2. Order of Business**

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The order of business was as detailed in the agenda previously circulated.

## **3. Declarations of interest**

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No declarations of interest were intimated at this stage of the proceedings.

## **4. Minutes of Previous Meetings**

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- 4.1 The minute of the meeting of 7 March 2023, carried over from the last meeting was submitted and approved as a correct record.
- 4.2 The minute of the meeting of 26 June 2023 was submitted and approved as a correct record.
- 4.2 The Action log was submitted and noted.
  - 1. Responsible Treasury Management: ongoing
  - 2. Internal Audit Mid-Term Performance Report 2022/23: Completed
  - 3. Internal Audit work to February 2023: Recommended for Closure
  - 4. Internal Audit Work to February 2023: Recommended for Closure
  - 5. Internal Audit Work to May 2023: Recommended for Closure.
  - 6. Unaudited Accounts 2022/23: Recommended for Closure.

## 5. Public Reports

| Report No.   | Report Title  | Submitted by:     |
|--|---|-------------------|
| 5.1  | Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2023 | External Auditors |
| <b>Outline of report and summary of discussion</b>   |   |                   |
| <p>This report summarises the findings from the 2022/23 annual audit of Midlothian Council (the Council). The scope of the audit was set out in an annual audit plan presented to the June 2023 meeting of the Audit Committee. Audit appointment from 2022/23.</p> <p>Claire Gardiner apologised for the delay in receiving the reports and thanked the committee for their patience. Ms Gardiner then explained the approach to the reporting and that normally at this stage the committee would receive a much longer annual audit report but to preserve the quality of the audit it has been split with a fuller audit report coming to the next meeting which will include the wider scope and best value and that the audit report presented to today's meeting would focus on the annual accounts and accounts process.</p> <p>Ms Gardiner proceeded to present the annual audit report to members highlighting the first report brings conclusion of the audit and highlights that there was an unmodified opinion which was attached as appendix A to this report and advised that there were no issues to highlight. Ms Gardiner also advised that there were two unadjusted errors highlighted in this letter and full details are contained within Appendix 2 to the audit report. Ms Gardiner also drew the committee's attention to Appendix B which was a letter of representation and highlighted the main sections within the letter and asked that before approving this letter, committee members are asked to consider their knowledge of any frauds, non-compliance with laws and regulations or post balance sheet events.</p> <p>In response to a question raised by Councillor Smail with regards to adjustments, Ms Gardiner provided clarity with regards to adjustments which were included in the annual accounts and would be covered in the next section and the adjustments which were not included were just above the triviality level so would not expect any adjustments to be made. Mr Gladwin also provided some clarity on the two unadjusted errors. Following this discussion Ms Gardiner confirmed that the officers of the Council were clear to sign off these accounts.</p> <p>Ms Gardiner presented the Audit of 2022/23 annual accounts highlighting in her introduction that they were independent throughout the audit and that they comply with the Financial Reporting Council's Ethical Standard. Ms Gardiner also highlighted that they intend to issue an unmodified audit opinion and provided a brief overview of the Exhibits covering Materiality values (Exhibit 1); Significant findings and key audit matters (Exhibit 2); Significant risks of material misstatement (Exhibit 3); Identified areas of audit focus (Exhibit 4) and key findings from review of key controls (Exhibit 5).</p> <p>The Chair thanks the external auditors for all their work.</p> |   |                   |

**Decision**

The Audit Committee approved the letter of representation was signed and returned with the signed annual accounts.

**Action**

Section 75 Officer/External Auditors

| Report No. | Report Title                                     | Submitted by:                                |
|------------|--|--|
| 5.2        | Annual Accounts for the year ended 31 March 2023 | Chief Financial Officer & Section 95 Officer |

**Outline of report and summary of discussion**

The purpose of this report was to present the Council's audited Financial Statements for 2022/23 to Audit Committee and to provide a brief overview of findings during the audit process.

Mr Gladwin, Chief Financial Officer & Section 95 Officer presented this report to the committee outlining the main changes to the accounts from those reviewed at the Audit committee in June 2023 and highlighting the work undertaken to finalise the accounts. Mr Gladwin commented that Audit Scotland had indicated that the working papers submitted to them to support the accounts were of a good standard and colleagues within finance and across the council provided good support to the Audit team. Mr Gladwin expressed his personal thanks to the finance team for their dedication and hard work.

Mr Gladwin in responding to a question raised by the Chair with regards to the impact of the new interest rate, advised on the commitment to pay interest below the level currently on the market and confirmed that we have a positive treasury position with long term loans at an attractive interest rate and if the council were to repay one of those loans early there would be a financial benefit from doing so and that was what was reflected in the fair value but the council would then have to replace that borrowing which would have a net financial hit on the council rather than a benefit.

The Chair asked the Chief Finance Officer to comment on the ratio of finance costs to net revenue stream which measures how affordable the council's capital plans are and the 0.38% figure. Mr Gladwin confirmed that the ratios in context of the capital plan prioritisation discussions are currently higher and will continue to go up as we add to the capital plan and provided an explanation on the two ratio rates presented in the table was due to the financial flexibility the council took advantage of in 2021/22 and 2022/23 and advised that these rates will go up.

The Chair further raised movement on the housing revenue account and the valuation of the council's stock and the impact this has on the council. In responding Mr Gladwin confirmed that this has no impact on the operation of the revenue account and provided an explanation on the movement which was due to revaluation of the housing stock in 2021/22 which resulted in an increase to the overall stock and in 2022/23 due to an increased discount rate this showed a reduction.

The Chair referred to the table which shows a spend on housing and asked if the council was building houses competitively to the private market. Mr Gladwin advised on the increase in stock and the value of the capital expenditure and that it reflects a large amount of work in progress and the two big factors which have affected this are inflation and build costs and the standard of these builds.

Mr Gladwin in responding to a question raised by the provost confirmed that the Croyden loan was paid in full, and all interest obligations were met. Mr Gladwin further confirmed that the council has not deposited money with any local authorities for a long time and post-meeting confirmed for the minute that there are currently no local authority deposits in place.

Mr Gladwin in responding to comments made by Councillor Imrie and the Chair with regards to the growth in Midlothian and the impact on the council and the services it provides and the grant received from the Scottish Government, advised that later this year we will be advised on the up to date Scottish government grant based on the updated methodology which reflects the statistics which have come out of the census and other regular statistics and expects Midlothian to receive a higher share of the national pot. He further advised to support this he will pulling together an analysis of the grant over the last two or three years looking at the statistical measures on each of the grants to try and get an understanding of key statistics that are affecting us as a council and will bring back a report to council. He further confirmed that the figures should have been updated to reflect the latest population and confirmed there has been subsequent information provided so apologised that this had not been updated but assured the committee that they are looking at the growth information and discussions are ongoing.

Councillor Bowen raised a question in relation to capital projects and any trigger mechanism in place if a capital project was going over budget and also enquired if it would be appropriate to have two Councillors on the Capital Plan Asset Management board which was at present entirely officers. Mr Gladwin in responding advised that there were several gateways and controls in place if expenditure exceeded the prescribed measures laid out and that automatic reporting was triggered which ensures this was identified at an early stage and then reported to council and also reviewed at the Capital Plan Asset Management board. Mr Gladwin in responding to a follow up question by the Chair confirmed the difference between capital expenditure which relates to a cash amount and the valuation of an asset which was done on a different basis and would not be a cash adjustment.

Mr Anderson provided clarity on the remit of Capital Plan Asset Management board which was an officer forum and advised that any projects which come through this forum that are not externally funded are reported to council either in the governance reporting or as a standalone item therefore Members are involved and in terms of the capital plan prioritisation Members are fully involved in the different sessions which have been taking place and the regular updates to the Business Transformation Steering Group.

Further discussion took place on the reporting of any overspends and the governance route for this being reported to Members. The Chair suggested that

this was taken away and brought back following further discussions within the individual groups.

**Decision**

The Audit Committee:

- Agreed that Members would discuss the governance arrangements in place for reporting any capital projects overspends within their individual groups and provided further feedback to officers.
- Approved the 2022/23 audited accounts for signature considering the appointed auditor’s report for 2022/23.

**Action**

Elected Members/Executive Director, Place and Chief Financial Officer/Section 95 Officer

| Report No. | Report Title  | Submitted by:       |
|------------|---|---------------------|
| 5.3        | Risk Management Update – Strategic Risk Profile Quarter 1 2023/24 | Chief Officer Place |

**Outline of report and summary of discussion**

The purpose of this report was to provide Audit Committee with:

- An update on the risk responses Midlothian Council has implemented during Q1 2023/24 to respond to the current risk climate
- Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate
- The risk evaluation of current strategic risks and opportunities for the Council

Mr Oliver, Chief Officer Place presented this retrospective report highlighting that this report provides the risk landscape and organisational response to the most significant risks faced by the Council in Q1 in 2023/24. He further advised that Section 3 of the cover report provides a summary of risk responses and evaluations.

The Chair proposed that specific risks were identified on the two major projects that this council has that other councils don’t have, Hillend and Lothian Energy acknowledging that there are reporting mechanisms in place for Hillend but there has been some delays in this project and also suggested that following on from the announcement that there may be a council tax freeze next year that this is expanded on within the report that we may not have the flexibility of increasing the council tax in 2024/25.

The provost also expressed her agreement to these suggestions being added to the risk report.

The provost further commented on the Strategic issues and raised why Brexit was a high and not critical risk. Mr Oliver advised that this was monitored and advised on the Economic Recovery Plan and also the ambitious plan for the next 5 years and the organisational impact to the Council.

Following on from a further question raised by the provost Mr Oliver advised that in terms of the pandemic this hit everyone and in terms of Midlothian Council's response the emergency plans kicked in and that the impact of this had been captured in various risks. He further advised that a pandemic plan was in place and provided an explanation on why this was now considered low impact on the council.

Councillor McEwan raised questions with regards to delays to Hillend and the exposure risk with loss of income and if the council had any compensatory claims to the companies who are holding up the delays. Mr Stainbank advised on proposed internal review which would start once there was a solution to the current delay problems as this would allow them to assess how the processes worked thereafter. Mr Anderson advised that he was limited on what he could report but scrutiny was given to the situation.

The Chair congratulated and thanked Mr Oliver for the work after the severe weather in clearing the drains at Fala and Fala Dam and the provision of sandbags.

#### Decion

Audit Committee noted the current risk landscape and organisational response to the most significant risks in Quarter 1 (Q1) 2023/24 (1 April to 30 June 2023).

| Report No.   | Report Title  | Submitted by:                |
|--|---|------------------------------|
| 5.4  | Audit Committee Annual / End of Term Report 2022/23 | Chair of the Audit Committee |
| <b>Outline of report and summary of discussion</b>   |   |                              |
| <p>The purpose of this report was to provide Members with the Audit Committee Annual / End of Term Report 2022/23, which sets out how the Audit Committee has performed against its remit and the effectiveness of the Audit Committee in meeting its purpose based on the annual self-assessments of the Committee against best practice and provides assurances to the Council.</p> <p>It was important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.</p> <p>The Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police 2022 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) includes the production of an annual report on the performance of the Audit Committee for submission to the Council. The Audit Committee Annual / End of Term Report 2022/23 was appended to this report as Appendix 1 for consideration. Midlothian Council adopts the 2022 revisions to this best practice.</p> |   |                              |

The Chair in presenting this report highlighted some of the key points of the report including the good attendance, the checklist and training provided to members and commented very positively on the session on internet IT security with Ian Wragg Wragg which was very informative.

**Decision**

The Audit Committee approved the Audit Committee Annual / End of Term Report 2022/23 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3) and agreed that the Audit Committee Annual / End of Term Report 2022/23 should be presented to the Council.

**Action**

Chair of the Audit Committee

| Report No. | Report Title                          | Submitted by:          |
|------------|---------------------------------------|------------------------|
| 5.5        | Internal Audit Work to September 2023 | Chief Internal Auditor |

**Outline of report and summary of discussion**

The purpose of this report was to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

The Internal Audit Annual Plan 2023/24 was approved by the Audit Committee on 7 March 2023. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was shown in Appendix 1.

The Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

The Chief Internal Auditor presented this report outlining the main sections in the report highlighting a summary of the key findings and recommendations as set out in the report.

In response to a question raised by the Chair with regards to payments made by cash in one of the libraries and no option to pay by card, the Chief Internal Auditor and the Executive Director Place confirmed that the aim was to be a cashless council but at the moment this was not always possible in some of the services the council provides but the council will continue to be digital by default and roll this out where effective.



Mr Stainbank in responding to a question raised by the Chair with regards to the implications of the loss of collection of council tax confirmed from that the audit work there would not be a figure for this but the expectation was that the longer it takes the more difficult it was to collect and that this was not on the audit plan at present but if required collectability could be considered.

**Decision**

The Audit Committee:

- a) Considered the Executive Summaries of the final Internal Audit assurance reports issued associated with the delivery of the approved Internal Audit Annual Plan 2022/23 and 2023/24;
- b) Noted the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; and
- c) Acknowledged the assurance provided on internal controls and governance.

| Report No. | Report Title  | Submitted by:             |
|------------|---|---------------------------|
| 5.6        | Council House Building Programme - Progress Update 2023 | Executive Director, Place |

**Outline of report and summary of discussion**

Following presentation to Council on 10 October 2023, this report updates the Audit Committee on the status of the overall housing programme, on approved sites and proposed new sites for the Council new build affordable housing programme and other initiatives.

The Executive Director Place, Kevin Anderson confirmed that this paper had been considered at council and outlined the main sections as contained within the report and the factors contributed to the delays in the housing programme.

In responding questions raised by the Chair with regards to the cost of passive housing to non-passive housing and option of purchasing existing properties to refurbish, Mr Anderson provided an explanation on the standards which are required and the reasons why they tend to purchase previous council properties and confirmed that are options with new builds under Section 75 requirements but highlighted that the private sector do not have to comply with the energy efficiencies for Scottish social housing.

Mr Anderson in responding to questions raised by Councillor McEwan confirmed that there were 6 passive houses in the Buccleuch street development and 4 flatted developments which were not passive house as they were existing properties. Mr Anderson also confirmed that they would provide a breakdown of detail with regards to properties and would provide this detail at the workshop session arranged. With regards to the question raised on asset register and appropriate values Mr Anderson advised that this was a pilot project and beyond individual cost this will be reviewed in a year's time for total cost and benefit to the individual, he also advised that the total cost value will have a variation, and this will be considered with insurers and valuers.

**Action:** Mr Anderson to report back in due course on the actual cost per unit of the 10 houses within the Buccleuch Street development.

Councillor Imrie raised a question with regards to the cost of passive house standards and if this was reflected in the rent. In response Mr Anderson advised that there was a premium applied for new developments for the first 10 years supplement to the rent but there was no additional levy in terms of it being a passive house.

Mr Anderson in responding to a question raised by Councillor Imrie regarding ongoing costs to the council, confirmed that there will be additional ongoing revenue costs that the council as the landlord will have. Mr Oliver also confirmed the ongoing costs to the building maintenance with regards to training requirements.

Councillor Bowen commented on using the word delivered which indicates they are complete, but this is not the case and asked if this could be made clearer. In responding Mr Anderson advised with regards to terminology this will be made clearer in future reporting and provided an explanation on the different variations on housing completions.

Mr Anderson in responding to a further question from the Chair with regards the Newbattle site and the cost implications in future for having to purchase land for passive housing, advised that there may be additional cost but there will also be benefits from these and with the expertise and timescales in delivering this should also reduce the unit cost.

#### Decision

Audit Committee:

- a) Noted the content of this report and the progress made on Phases 2 to 5;
- b) Noted the sites now underway to complete Phase 4 and Phase 5, projected handover programme and progress related to Open Market Purchases;
- c) Noted the potential Phase 5 sites currently under consideration to progress; and
- d) Noted the projected costs/budget expenditure in this report.

## 6. Private Reports

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None

## 7. Date of Next Meeting

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Date of Next Meeting: Tuesday 29 January 2024 at 11am.

The meeting terminated at 15.30 pm