

# Minute of Meeting

Audit Committee  
Tuesday 11 December 2018  
Item No: 4.1



## Audit Committee

Date	Time	Venue
Tuesday 25 September 2018	2.00 pm	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

### Present:

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

### In attendance:

Dr Grace Vickers	Chief Executive
Allister Short	Joint Director, Health and Social Care
Gary Fairley	Head of Finance and Integrated Service Support
Alan Turpie	Legal Manager
Chris Lawson	Risk Manager
Stephen Reid	Ernst and Young, External Auditors
Sarah Croft	Ernst and Young, External Auditors
Jill Stacey	Chief Internal Auditor
Gary Thomson	Senior Accountant Projects & Treasury
Myra Forsyth	Quality and Scrutiny Manager
Mike Broadway	Democratic Services Officer

## 1. Welcome and Apologies

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Apologies were received from Councillor Parry.

## 2. Order of Business

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

## 3. Declarations of interest

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No declarations of interest were received.

## 4. Minutes of Previous Meetings

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4.1 The Minutes of (i) Special Meeting of 18 June 2018; (ii) Meeting of 19 June 2018 and; (iii) Special Meeting of 28 August 2018 were submitted and approved as correct records.

4.2 An Actions Log was submitted.

Thereafter, the Committee, having received brief updates on the various action points detailed therein, agreed:-

- (a) to close the action relating to Local Government Workers Pay and Grading – Item 5.1 on the agenda;
- (b) to note the update from the Chief Internal Auditor on the Internal Audit Report on Treasury Management and agree to close the related action; and
- (c) to otherwise note the remaining outstanding action.

**(Action: Clerk)**

## 5. Public Reports

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Report No.	Report Title	Submitted by:
5.1	Local Government Workers Pay and Grading – Report by Director, Resources	Director, Resources
<b>Outline of report</b>		
With reference to paragraph 5.10 of the Minutes of 19 June 2018, a report dated 15 June 2018 was presented by the Head of Finance and Integrated Service Support. The purpose of the report was to provide the Committee with details of the benefits arising from the changes in terms to the Local Government Works pay and grading which were implemented by the Council from 1 October 2016.		

### Summary of discussion

In considering the report the Committee discussed the overall increase in the employee head count as spend on agency workers was reduced, more employees were being recruited in key growth areas – Education/Social Care - and the commitment to further reduce regular additional hours remained. The shift away from a reliance on additional hours to provide a living wage was particularly welcomed. It was acknowledged that whilst progress was clearly being made the pace of change in reconfiguring services needed to accelerate in order to deliver the savings required, and that a critical part of this would be to ensure that the appropriate information was readily available to the bottom-up reviews.

### Decision

The Committee:-

- (a) noted the potential benefits realised from the introduction of the revised terms and conditions and changes to the Council's HR Policy framework as set out in the report;
- (b) noted the monitoring of the Investment in Our Workforce Project by the Implementation Board;
- (c) recommended that the Performance, Review and Scrutiny Committee also had a role to play in the monitoring process; and
- (d) noted the ongoing development and use of payroll metrics by service management.

### Action

Director, Resources

Report No.	Report Title	Submitted by:
5.2	Annual Treasury Management Report 2017-18 – Report by Head of Finance and Integrated Service Support	Head of Finance and Integrated Service Support

### Outline of report

With reference to paragraph 8.8 of the Minutes of Midlothian Council of 26 June 2018, a report dated 13 September 2018 was presented by the Head of Finance and Integrated Service Support. The purpose of the report was to bring to the Audit Committee's attention the Annual Treasury Management Report for 2017-18 and revisions to the Treasury Management Strategy (TMS). It was noted that had been previously explained by the Chief Internal Auditor the intention was in future that such reports would be brought to the Audit Committee prior to consideration by the Council.

### Summary of discussion

The Committee, having heard from the Head of Finance and Integrated Service Support who responded to Members' questions/comments, discussed the main points arising from treasury activity in 2017/18. Whilst acknowledging that the Treasury Management activity during the year had been effective in minimising the cost of borrowing and maximising investment income within the parameters set by the TMS,

concerns remained regarding the risk exposure which was associated with the approach taken by the Council to Treasury Management. With regards to any potential implications arising from fair value accounting it was noted that details would be fed back to Members directly

**Decision**

After further discussion, the Committee noted the content of the reports.

**Action**

Head of Finance and Integrated Service Support

Report No.	Report Title	Submitted by:
5.3	Final Internal Audit Report – Social Housing Programme Phase 2 – Report by Chief Internal Auditor	Chief Internal Auditor

**Outline of report and summary of discussion**

A report dated 12 September 2018 was presented by the Chief Internal Auditor. The purpose of the audit was to review the adequacy of the capital investment control framework established by management to allow for the successful delivery of the Social Housing Programme.

Details of the examples of good practice found were outlined within the report, together with those areas where improvements were required. Although the delivery of the Social Housing Programme was off target, in the main due to factors outwith the control of the Council, the controls in place to monitor and report on this were satisfactory. Internal Audit considered that the level of assurance that they were able to give was Substantial Assurance - largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.

**Decision**

The Committee:-

- (a) welcomed the new reporting format; and
- (b) endorsed the audit recommendations which had been identified and agreed with management.

**Action**

Chief Internal Auditor

Report No.	Report Title	Submitted by:
5.4	Follow-up Review of Audit Recommendations – Report by Chief Internal Auditor	Chief Internal Auditor
<b>Outline of report</b>		
<p>A report dated 30 August 2018 was presented by the Chief Internal Auditor. The purpose of the report was to advise of the outcome of a follow-up audit reviewing a sample of recommendations that have been signed off as complete in 2017/18 to determine whether they had been implemented satisfactorily and thus give assurance over the ongoing improvement of internal control. It was noted that the review highlighted that of the 59 recommendations tested, 52 (88%) were found to have been completed satisfactorily, and 7 (12%) were identified as requiring further work (Appendix 1 of the report) and a further 7 recommendations had been agreed with management as a result of the review of further improvements that required to be made with revised completion dates (Appendix 2 of the report).</p>		
<b>Summary of discussion</b>		
<p>Having heard from the Chief Internal Auditor, the Committee discussed issues relating to staff arrears, and some care home providers still not using the Council's secure email system (Egress) to send monthly performance reports and accident/incident reports; it being noted that further updates would be provided on both matters.</p>		
<b>Decision</b>		
<p>The Committee:-</p> <ul style="list-style-type: none"> <li>(a) welcomed the report; and</li> <li>(b) endorsed the audit recommendations which had been identified and agreed with management.</li> </ul>		
<b>Action</b>		
Chief Internal Auditor/Joint Director, Health and Social Care		

Report No.	Report Title	Submitted by:
5.5	Counter Fraud Annual Report 2017/18 – Report by Chief Internal Auditor	Chief Internal Auditor
<b>Outline of report</b>		
<p>A report dated 16 August 2018 was presented by the Chief Internal Auditor. The purpose of the report was to provide an updated to the Committee on the Council's counter fraud responsibilities and the activities of the Corporate Fraud team over the past year as part of the arrangements for tackling fraud in the Council.</p>		
<b>Summary of Discussion</b>		
<p>Having heard from the Chief Internal Auditor, the Committee considered issues relating to sub-letting/unoccupied Council Housing and the overpayment of housing benefits. Whilst acknowledging the Council's counter fraud responsibilities, the benefits of such activities in financial terms were discussed, it being accepted that the deterrent effect was the key to such activities.</p>		

**Decision**

The Committee noted the counter fraud work undertaken by the corporate fraud team during the year to 31 March 2018, in support of the Council's fraud and corruption policy and strategy.

Report No.	Report Title	Submitted by:
5.6	Risk Management Update for 1 April 2018 – 30 June 2018 – Report by Risk Management	Risk Manager

**Outline of report and summary of discussion**

The Risk Manager presented a report dated 5 September 2018 providing the 2018/19 quarter 1 strategic risk management update, covering the period 1 April 2018 to 30 June 2018. It being noted that the Audit Committee had previously requested regular reports on the Council's Strategic Risks. The Strategic Risk Profile sought to provide a strategic look at the current issues and future risks and opportunities facing the Council.

**Decision**

Following questions to the Risk Manager, the Committee noted the quarter 1 2018/19 report and the current response to the issues, risks and opportunities highlighted therein.

Report No.	Report Title	Submitted by:
5.7	External Annual Audit Report 2017/18 Draft – Report by External Auditors	External Auditors

**Outline of report**

With reference to paragraph 5.5 of the Minutes of 13 March 2018, Stephen Reid on behalf of External Auditors, Ernst & Young presented the draft Annual Audit Report to Members and the Controller of Audit for the Financial Year ended 31 March 2018.

The report summarised the key findings and conclusions from the work undertaken by the external auditors, providing detailed information on: Financial management; Financial sustainability; Governance and Transparency; and Value for Money. The report advised, inter alia, that the external auditors intended to issue an unqualified opinion on the Council and group financial statements.

**Summary of discussion**

Having heard from the External Auditors who responded to Members questions and comments, the Committee discussed a number of issues arising therefrom, viz:- the need to operate within robust and realistic budgets; the need to pick up the pace of the transformation process and to realise savings at the earliest possible opportunity; a requirement to deliver on the approved 2018/19 recovery plan and to support approval of a robust 2019/20 budget; to ensure that the support/information required to support the Council and service transformation remained fit for purpose and was provided as timeously as possible; and the need to review the Council's PPP/PFI commitments.

### Decision

The Committee:

- (a) Noted and approved the draft Annual Audit Report;
- (b) Agreed to recommend that the Annual Audit Report be referred to the Council meeting on 2 October 2018 as an additional item of urgent business;
- (c) Noted that a number of additional points of clarification would be incorporated into a finalised version, that would be provided by the External Auditors for this purpose;
- (d) Agreed to record the Committee's appreciation of the work undertaken by the Finance Team in assisting the External Auditors in the preparation of the report; and
- (e) Agreed to record the Committee's thanks to External Auditors, Ernst & Young LLP for the Report.

### Action

Chief Executive

Report No.	Report Title	Submitted by:
5.8	Financial Statements for the year ended 31 March 2018 – Report by Head of Finance and Integrated Service Support	Head of Finance and Integrated Service Support

### Outline of report and summary of discussion

A report dated 16 September 2018 was presented by the Head of Finance and Integrated Service Support. It was noted that the purpose of the report was to present the Council's draft audited Financial Statements for 2017/18 to the Committee and to provide a brief overview of the changes made during the audit process.

The Chief Executive advised that it was proposed to change the final paragraph on page 26 of the Annual Governance Statement to read as follows;-

“The Council has an effective governance structure through committee meetings and a framework of Standing Orders. A number of aspects of the internal control framework require improvement. We are aware of areas where improvements are required and steps will be taken as a matter of urgency to address these matters, therefore allowing the Council to advance its corporate governance arrangements and seek continuous improvement. Where the Council has experienced financial loss, appropriate action will be taken to seek to recover any loss.”

The Leader of the Council expressed his wholehearted support for the proposed change to the wording.

<b>Decision</b>
The Committee approved the 2017/18 accounts as adjusted for signature having regard to the appointed External Auditor's report for 2017/18.
<b>Action</b>
Head of Finance and Integrated Service Support

## **6. Private Reports**

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No private business was discussed.

The meeting terminated at 4.29 pm.