

# Minute of Meeting

Audit Committee  
Tuesday 25 September 2018  
Item No: 4.2



## Audit Committee

Date	Time	Venue
Tuesday 19 June 2018	9.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

### Present:

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

### In attendance:

Kenneth Lawrie	Chief Executive
John Blair	Director, Resources
Kevin Anderson	Head of Customer and Housing Services
Gary Fairley	Head of Finance and Integrated Service Support
Alan Turpie	Legal Manager
Chris Lawson	Risk Manager
Stephen Reid	Ernst and Young, External Auditors
Jill Stacey	Chief Internal Auditor
Elaine Greaves	Principal Auditor
James Polanski	Internal Auditor
Mike Broadway	Democratic Services Officer

## 1. Welcome and Apologies

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Apologies were received from Councillors Baird and Parry.

## 2. Order of Business

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At the suggestion of the Chair the Committee agreed that the order of business was adjusted as follows:- all the Annual Assurance related items – agenda items 5.3, 5.6 and 5.8 – be taken together before 5.9 (Audit Committee – Special Meeting) at the end of the agenda ; and that the additional report 5.10 Local Government Workers Pay and Grading be taken before the report on the Transformation Programme (agenda item no 5.7) as they refer to each other.

## 3. Declarations of interest

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No declarations of interest were received.

## 4. Minutes of Previous Meetings

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The Minutes of (i) Meeting of 1 May 2018 and (ii) Special Meeting of 15 May 2018 were submitted and approved as correct records.

With regards to the Minutes of the Special Meeting of 15 May 2017, the Committee considered a suggestion from Independent Member, Peter de Vink regarding the addition of a further bullet point to the list on page 4 (page 10 of the agenda) concerning whether the Council had incurred any loss, and agreed that if appropriate this should be included.

### **Action: Democratic Services**

The Chair then gave a brief resume of the further Special Meeting that had been held on Monday, 18 June 2018. He confirmed that the further report sought by the Committee had been provided but that it had been met with frustration from Members on the information which it provided.

## 5. Public Reports

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Report No.	Report Title	Submitted by:
5.1	Treasury Management	Internal Audit
<b>Outline of report</b>		
<p>A report dated 30 May 2018 was presented by the Principal Internal Auditor. The objective of the audit was to test controls over policies and practices, strategies and reporting and compliance with the Treasury Management Code of Practice.</p> <p>There were 3 medium rating recommendations, which were detailed within the report, to reduce risk further and these recommendations had been agreed by Management. The overall audit rating was Good - the control framework was of a good standard with only minor elements of risk identified which were either accepted or being dealt with by management.</p>		

<b>Summary of discussion</b>
In considering the report the Committee remarked on the recommendations arising as a result of the Internal Audit report, expressing support for a review of the governance arrangements for the three main treasury management reports to ensure that they were adequately scrutinised prior to being considered by the Council. Members also sought confirmation that the requirements of the CIPFA Treasury Management in the Public Services Code of Practice were being fully met and clarification of the contractual position in relation to the appointment of the Council's Treasury Management Advisers.
<b>Decision</b>
After further discussion, the Audit Committee agreed to continue consideration of the report in order to allow the above issues to be addressed.
<b>Action</b>
Head of Finance and Integrated Service Support/Chief Internal Auditor/Democratic Services

Report No.	Report Title	Submitted by:
5.2	Trade Waste	Internal Audit
<b>Outline of report</b>		
<p>A report dated May 2018 was presented by the Internal Auditor. The objective of the audit was to review the systems and controls in place for the charging, collection, and disposal of Trade Waste and related performance reporting.</p> <p>There was 1 high, 11 medium and 2 low rated recommendations, which were detailed within the report, to reduce risk further and these recommendations had been agreed by Management. The overall audit rating was Average - the overall control framework was of an average standard. Some weaknesses had been identified in the controls and improvements were possible.</p>		
<b>Summary of discussion</b>		
In discussing the report the Committee remarked on the disappointingly high number of recommendations and also the timescales for some of the actions which appeared to be overly long. In response Internal Audit explained the reasons for this being the case.		
<b>Decision</b>		
The Audit Committee noted the content of the report.		
<b>Action</b>		
Internal Audit		

Report No.	Report Title	Submitted by:
5.4	Risk Management Update for 1 January 2018 - 31 March 2018	Risk Manger
<b>Outline of report and summary of discussion</b>		
There was a report dated 23 May 2018 submitted providing the Committee with the 2017/18 quarter 4 strategic risk management update, covering the period 1 January to 31 March 2018.		
<b>Decision</b>		
The Audit Committee, having heard from the Risk Manager who responded to Members' questions/comments, noted the quarter 4 2017/18 Strategic Risk Profile report and considered the current responses to the issues, risks and opportunities highlighted.		
<b>Action</b>		
Risk Manager		

Report No.	Report Title	Submitted by:
5.10	Local Government Workers Pay and Grading	Director Resources
<b>Outline of report and summary of discussion</b>		
The purpose of this report was to provide the Audit Committee with details of the benefits arising from the changes in terms Local Government Workers and conditions which were implemented by the Council from 1 October 2016.		
<b>Decision</b>		
In view of the late circulation of the report it was agreed to continue consideration of this item to the next Audit Committee meeting.		
<b>Action</b>		
Director, Resources/Democratic Services		

Report No.	Report Title	Submitted by:
5.7	Midlothian Council Transformation Programme – 2017/18 Closure Report (June 2018)	Chief Executive
<b>Outline of report</b>		
With reference to paragraph 8.5 of the Minutes of Midlothian Council held on 13 February 2018, there was submitted report, dated 4 June 2018, by the Chief Executive, the purpose of which was to present to the Audit Committee the Transformation Programme – 2017/18 Closure Report; a copy of which was appended to the report.		

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

**Summary of Discussion**

The Audit Committee, having heard from the Chief Executive who responded to Members' questions/comments, discussed the report, giving particular consideration to the targeted savings and the savings actually achieved and how these had been tracked and reported, there being concerns about the consistency of the figures given in different reports/publications. The Head of Finance and Integrated Service Support sought to reassure Members on this issue and explained that the current Q1 figures would be reported as part of the finance reports going to the August Council meeting. With regards the future tracking/reporting process this was explained by the Chief Executive. The Chief Internal Auditor added included in the Internal Audit Plan was plans for a review of the governance of the new change/transformation programme.

**Decision**

After further discussion, the Audit Committee noted the report.

Report No.	Report Title	Submitted by:
5.5	Audit Scotland Report - Report on a Significant Fraud – Dundee City Council (Audit Scotland, March 2018)	Head of Finance and Integrated Service Support

**Outline of report and summary of discussion**

The purpose of this report was to provide the Audit Committee with (i) a summary of Audit Scotland's 'Report on a Significant Fraud – Dundee City Council', including details of the wider lesson from this incident, for other councils to consider, and (ii) an update on the Council's position in relation to the report's main findings.

**Decision**

The Audit Committee, having heard from the Head of Finance and Integrated Service Support who responded to Members' questions/comments, noted the Audit Scotland report and the position of Midlothian Council in relation to the report's recommendations

Report No.	Report Title	Submitted by:
5.3	Internal Audit Annual Assurance Report 2017/18	Chief Internal Auditor

**Outline of report**

There was submitted report, dated 31 May 2018, by the Chief Internal Auditor presenting the Internal Audit Annual Assurance Report for the year to 31 March 2018, which included the Chief Internal Auditor's independent and objective

opinion regarding the adequacy and effectiveness of internal controls within the Council, provided details of the Internal Audit activity that supported the opinion and the performance during the year to fulfil its role, and summarised the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards, which had become effective for local authorities in April 2013 (updated April 2017).

The report further highlighted that the Internal Audit Annual Assurance Report 2017/18, a copy of which was appended to the report, provided assurances in relation to the Council's corporate governance framework that was a key component in underpinning delivery of the corporate priorities within the Single Midlothian Plan and had been used to inform the Annual Governance Statement 2017/18.

#### Summary of discussion

The Chief Internal Auditor in presenting the report advised that her opinion was that the systems of internal control and governance were generally adequate though there were indications in some areas of non-compliance and a lack of evidence of Management monitoring that they were operating satisfactorily; therefore improvements were required to the second line of defence consistently across the Council to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities.

In discussing the report, the Committee noted:-

- that the Chief Internal Auditor's concerns were not restricted to one particular service or division;
- that from an external audit perspective the distinction between the current and past control environments would be of particular interest to them as things moved forward;
- that concerns remained that in the current circumstances it was difficult to take assurance over internal controls until ongoing matters were concluded.

The Committee then debated the adequacies of qualifications contained within the report to address any findings that may come out of the currently ongoing confidential Investigation of Roads Contract Management, and although the Chief Internal Auditor confirmed that in her opinion they were, concerns remained about the ability of the Committee to come to a similar judgement in the absence of the full facts.

#### Decision

After further discussion, the Audit Committee:

- Noted the Internal Audit Annual Assurance Report 2017/18.
- Agreed to reserve judgement on the assurances contained therein for the time being for the reasons raised during the foregoing discussions as outlined above.

#### Action

Chief Executive

Report No.	Report Title	Submitted by:
5.6	Annual Governance Statement	Chief Executive
<b>Outline of report</b>		
<p>This report provided an assessment of the Council's compliance with its Code of Corporate Governance and invited the Audit Committee to note and comment on the draft Annual Governance Statement which would be included in the Financial Statements.</p> <p>The Chief Executive in presenting the report highlighted the main sections from both the report and the draft Annual Governance Statement; a copy of which was appended to the report. He acknowledged that in light of earlier discussions there was still work to be done before it was finalised.</p>		
<b>Summary of discussion</b>		
<p>Councillor Milligan made reference to the requirement for the Annual Governance Statement to be authorised by the Leader of the Council and the Chief Executive. He advised that he had major reservations about his being able to sign off such an assurance within the required timescale given the current position with the Investigation of Roads Contract Management. He emphasised that without movement on this matter there was every likelihood that the Statement would have to go forward without his authorisation.</p> <p>The Committee, in considering the potential implications, emphasised the need to ensure that this matter was resolved in order to ensure compliance with the required regulatory requirements, and discussed the timescales for this.</p>		
<b>Decision</b>		
<p>After further discussion , the Audit Committee:</p> <ul style="list-style-type: none"> <li>• Noted the draft Annual Governance Statement.</li> <li>• Noted the need for the finalised Statement to be authorised by both the Leader of the Council and the Chief Executive</li> <li>• Agreed to strongly support efforts to ensure that the Leader of the Council was provided with a copy of the Phase 1 report in order that he could give proper consideration to the assurance position as set out in the Annual Governance Statement.</li> </ul>		
<b>Action</b>		
Chief Executive		

Report No.	Report Title	Submitted by:
5.8	Audit Committee Annual Report 2017/18	Independent Chair
<b>Outline of report and summary of discussion</b>		
<p>There was submitted a report, dated 31 May 2018, by the Independent Chair of the Audit Committee presenting the Audit Committee Annual Report 2017/18 and the annual self-assessments of the Committee against best practice. In preparing</p>		

the report reference was made to the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance note Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition.

**Decision**

The Committee, having heard from the Independent Chair, who responded to Members questions, noted the Report.

Report No.	Report Title	Submitted by:
5.9	Audit Committee – Special Meeting	Head of Finance and Integrated Service Support
<b>Outline of report and summary of discussion</b>		
A report dated 8 June 2018 was presented by the Head of Finance and Integrated Service Support. The report invited the Audit Committee to agree to a Special Meeting of the Committee to consider the unaudited Annual Accounts, which required to be submitted to the Auditor by 30 June 2018, and which required to be reviewed by the Committee whose remit includes audit or governance by the legislative deadline of 31 August 2018 as set out in the Local Authority Accounts (Scotland) Regulations 2014.		
<b>Decision</b>		
After discussion, the Audit Committee agreed to hold a Special Meeting of the Committee to consider the unaudited Annual Accounts by the legislative deadline of 31 August 2018 as set out in the Local Authority Accounts (Scotland) Regulations 2014.		
<b>Action</b>		
Director, Resources/Democratic Services/All to Note		

**6. Private Reports**

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No private business was discussed.

The meeting terminated at 10.40 am