

**MINUTES of MEETING of the MIDLOTHIAN COUNCIL AUDIT COMMITTEE** held in the Council Chambers, Midlothian House, Buccleuch Street, Dalkeith on Tuesday, 29 September 2015 at 11.00 am.

**Present:** - Mr. P Smail (Independent Chair) and Councillors, Bryant, Muirhead and de Vink.

**Apology for Absence:** - Councillors Baxter and Milligan.

**1 Declarations of Interest**

There were no declarations of interest.

**2 Minutes**

The Minutes of Meeting of 16 June 2015 were approved.

**3 Annual Report to Members and the Controller of Audit for the Financial Year ended 31 March 2015**

There was submitted the Annual Report to Members and the Controller of Audit for the Financial Year ended 31 March 2015, prepared by the External Auditors, Grant Thornton. The report advised, inter alia, that the external auditors intended to issue an unqualified opinion on the financial statements for the financial year ended 31 March 2015. In addition, the report provided detailed information on Financial Management; Financial sustainability; Governance and Transparency; and Best Value and Value for money. The auditors were heard in amplification of the report.

**Decision**

- (a) To note and approve the Annual report for their interest and to note that this would now be referred to the Council on November 2015;
- (b) To note the increase in the Council's cash reserves over the year to 31 March 2015;
- (c) To note that the revaluation of the Council's housing stock, had resulted in a reduction in value of £18m;
- (d) To note the continued financial challenges faced by the Council for the foreseeable future; and
- (e) To record their appreciation of the work undertaken by the Finance Team in assisting the Auditors in the preparation of the report.

#### **4 Financial Statements for the year ended 31 March 2015**

With reference to paragraph 4 of the Minutes of 16 June 2015, there was submitted (a) the Midlothian Council Audited Financial Statements for 2014/15 and (b) a draft letter of representation to the External Auditors, in respect of the Statements, prepared by the Head of Finance and Integrated Service Support.

##### **Decision**

- (i) To approve the Financial statements; and
- (ii) To approve the draft letter of representation.

#### **5 Risk Management, Update for 1 April 2015 – 30 June 2015**

There was submitted report, dated 16 September 2015, by the Risk Manager, providing the Committee with the 2015/16 quarter 1 update, covering the period 1 April to 30 June 2015. The report highlighted the critical and high corporate risks facing the Council, including the need to produce balanced budgets during periods of financial restraint and a predicted cumulative budget shortfall of £23.344m by 2020/21; Corporate Change and Transition; the Integration of Health and Social Care; and Risk Management Development.

##### **Decision**

- (a) To note the ongoing systematic review of all Council services; and
- (b) To otherwise note the report.

#### **6 Financial Monitoring 2015/2016**

There was submitted report dated 22 September 2015 by the Director, Resources, bringing to the Committee's attention reports by the Head of Finance and Integrated Service Support, which had been considered by the Council on 22 September 2015, in relation to:-

Financial Monitoring 2014/15 – General Fund Revenue;  
Housing Revenue Account - Revenue Budget and Capital Plan 2014/15;  
General Services Capital Plan; and  
Financial Strategy 2016/17 to 2020/21.

The Council had noted and approved each of the reports.

##### **Decision**

- (a) To note that the Financial strategy was predicated on anticipated levels of grant support, which had yet to be confirmed;
- (b) To note the impact of pay awards and/or Central Government pay policy on the Council's revenue position;
- (c) To note that "spend to save" projects continued to be considered where these could be shown to secure revenue savings;

- (d) To note that a settlement from the Council's insurers in respect of the loss of Hopefield Primary School premises following a fire, was anticipated by the end of 2015; and
- (e) To otherwise note the reports.

## **7 Annual Governance Statement**

With reference to paragraph of the Minutes of 5 May 2015, there was submitted report, dated 16 September 2015, by the Chief Executive, advising the Committee of a small number of additions to the Annual Governance Statement recommended by the Council's External Auditors, Grant Thornton. The report therefore incorporated a final draft of the Governance Statement which contained the recommended changes.

### **Decision**

To approve, subject to any final changes, the draft Annual Governance Statement as shown in the Appendix hereto.

## **8 2013/14 Assessment of the Council's Public Performance Reporting**

There was submitted report by the Chief Executive, updating the Committee on Audit Scotland's assessment of the Council's Public Performance Reporting (PPR) for 2013/14. The report advised that Audit Scotland placed Midlothian in the top quartile of all Councils in respect of public performance reporting. There remained five areas for improvement, viz:-

- Employees
- Procurement
- Effective use of customer satisfaction information
- Dialogue with the public
- Accessibility

The report therefore incorporated an improvement plan to address the areas for improvement.

### **Decision**

To note the report and approve the associated improvement plan.

(Action: Business Transformation Manager)

## **9 Audit Scotland Report: Borrowing and Treasury Management in Councils**

There was submitted report, dated 8 September 2015, by the Head of Finance and Integrated Service Support, providing the Committee with a summary of an Audit Scotland report: 'Borrowing and treasury management in Councils' and the Council's response in relation to the report's key messages. The report highlighted that the Council complied with all the relevant Treasury

Management and Prudential Codes of Practice and regulations. However, it was important to recognise that Treasury Management decisions involved a significant level of financial risk and the proposals in Audit Scotland's report were designed to strengthen the scrutiny and governance of the Treasury Management function within the Council.

**Decision**

- (a) To note the Audit Scotland report and its recommendations; and
- (b) To note that the reporting of Treasury Management activities would be reviewed in the light of Audit Scotland's recommendations.

(Action: Head of Finance and Integrated Service Support)

**10 Construction Industry Scheme**

There was submitted report, dated 24 August 2015, by the Internal Audit Manager, advising that the Internal audit Unit had reviewed the controls operating over the Construction Industry Scheme following an inspection by HM Revenue and Customs (HMRC). As a result of the inspection, a suspended penalty was applied to the Council.

The review had identified some minor issues which had been addressed and had resulted in recommendations to improve the Council's performance in administering the Construction Industry Scheme, all of which were detailed in the report.

**Decision**

- (a) To approve the recommendations for improvement as outlined in the report; and
- (b) To otherwise note the report.

(Action: Heads of Property and Facilities Management and Commercial Operations/ Business Applications manager/Internal Audit Manager)

**11 Exclusion of Members of the Public**

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 14 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

Internal Audit Report – Review of Controls Operating over Payroll

To note that a number of weaknesses had been identified and to approve a management action plan to address these issues.

The meeting terminated at 12.10 pm.



## **Appendix (relative to paragraph 7)**

### **Annual Governance Statement 2014-15 (AGS)**

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. This is to allow public funds and the assets at its disposal to be safeguarded and used efficiently and effectively in pursuit of best value.

Elected Members and senior management are responsible for the governance of the business affairs of Midlothian Council. This includes: setting the strategic direction, vision, culture and values of the Council; establishing appropriate and cost effective systems, processes and internal controls to allow the strategic objectives to be delivered.

In order to achieve this, the Council has developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework. The Code was reviewed and updated in 2013. The Council also has a number of officials in statutory posts who monitor governance and the supporting processes during the year. These are the Head of the Paid Service, the Monitoring Officer, the Chief Finance Officer and the Chief Social Work Officer.

Midlothian Council's financial management arrangements conform to the requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government.

The governance elements include:

allocating responsibility for maintenance of proper financial records and accounts and for maintaining effective systems of internal control; appointing a Monitoring Officer with responsibility to ensure that the Council, its officers, and its Elected Members, maintain the highest standards of conduct; establishing a scheme of delegated powers; establishing and enforcing a code of conduct for officers; having effective scrutiny and challenge arrangements in place over officer and Council decisions; open and effective recording of Council decisions; risk management processes; whistle blowing and fraud prevention procedures and processes; providing induction and training for Elected Members and Council officers; and encouraging individuals from all sections of the community to engage with the Council.

Each year, using an assurance template, evidence is gathered relating to the governance framework and the level of compliance with the Code of Corporate Governance. This includes all 8 Heads of Service completing a self assessment. Internal Audit checks a sample of the control elements in the Code of Corporate Governance so that each is tested on a three year cycle to determine their effectiveness. Any areas for improvement that are identified through these checks are recorded in the governance improvements section of the AGS below. Furthermore, the assurance elements are, where necessary, discussed with senior management.

The statement has also been informed by the work undertaken by Internal Audit who **following the requirements of the Local Authority Accounts (Scotland) Regulations 2014 conducted an annual review of the effectiveness of the Council's system of internal control. The Internal Audit Manager concluded that based on the work undertaken in 2014/15 by the Internal Audit Section that overall, internal controls had been implemented and were being monitored by management in line with**

## **Financial Directives, Council Policies and the other key essentials of a robust Internal Control Environment.**

The results from these reviews were presented to the May 2015 Audit Committee of the Council along with Annual Governance Statement for approval.

A number of governance improvements were highlighted in the 2013-14 self assessment and progress has been made in 2014-15 on the following:

- having a positive impact on the key priorities of economic recovery and business growth; positive destinations for young people; and early years – getting it right for every Midlothian child;

This action is ongoing with performance monitored through the quarterly performance reports submitted to Cabinet and the Performance and Scrutiny Committee. There has been significant improvement in the Council's positive destinations performance indicator in 2014/15.

- embedding the new management structure and ensuring that appropriate controls and segregations are maintained;

The new management structure was approved by Midlothian Council on 13 May 2014 and implemented by 1 July 2014. Procedures are in place to ensure appropriate controls and segregations are maintained.

- the delivery of the approved financial strategy and mechanisms to ensure that the necessary financial savings are achieved and more efficient processes are introduced at reduced cost;

This action is ongoing and updates are provided through regular reports to Council. Delivering financial sustainability will continue to be a challenge over the coming years.

- continued development of risk management processes by aligning risk assessments with service planning and mitigation of risks associated with delivering the Council's outcomes;

A revised approach to risk management was approved in February 2014. This new approach is being implemented and will continue to be monitored.

- procurement reform arising from the Procurement Reform Bill and new EU Directives;

This action is to be incorporated into the Procurement Improvement Plan and progress will continue to be monitored.

continued compliance with the Public Services Network code of connection requirements;

The 2015/16 PSN Code of Connection has been submitted to the Cabinet Office on 2 April 2015 for approval. Following a positive independent IT Health Check and review of PSN required controls, it is likely that the Council will maintain ongoing PSN compliance.

- responding to the impact of further Welfare Reform changes;

This action is underway but not fully completed.

- the Health and Social Care Integration agenda with the continued establishment of joint services;

**The Midlothian Integration Scheme was approved by the Scottish Government on 27 June 2015 and has now been legally constituted with the first Board meeting of**

**the Integrated Joint Board being held on 20 August 2015. Work is underway to develop a Strategic Plan for Health and Social Care in Midlothian and to determine the financial resources required to support the plan going forward with agreed budgets to be allocated to the Integrated Joint Board by April 2016. Following approval of the Strategic Plan in December 2015 by the Integrated Joint Board it will issue directions to the NHS Lothian and Midlothian Council regarding the delivery of services in 2016-17. The Integrated Joint Board is in the process of developing Financial Regulations and establishing an Audit Committee and reports will continue to be presented to Midlothian Council and the Midlothian Audit Committee on the financial assurance process being undertaken by Management and the reviews of the financial assurance process by the Internal Audit Section of Midlothian Council.**

- Safer Communities Board provides the local scrutiny and accountability for Police and Fire & Rescue services in Midlothian as well as the wider strategic role from the Police and Fire Reform (Scotland) Act 2012.

Training workshops have been held during the year with Safer Communities Board and partnership representatives from across the Community Safety and Community Planning partnership who attended on the separate topics of Scrutiny and Challenge, another on reducing reoffending issues and the proposal that the remit of the Community Safety Partnership be adapted to incorporate the new Midlothian Reducing Reoffending Partnership, and a workshop discussion covered Midlothian Policing issues, including a proposed new structure for Policing in Midlothian.

There will be a continuation of training opportunities already provided to the members of the Safer Communities Board, including those participants in the agenda for safeguarding in Midlothian.

Those actions which are underway but which have not yet been fully concluded (ie the Business Transformation Programme; Welfare Reform; Health and Social Care Integration; and Risk Management) will continue to be progressed in 2015/16.

The following areas of improvement have also been identified and are to be progressed in 2015 -16:

- updating the Code of Corporate Governance to allow full compliance with the new International Framework of Good Governance in the Public Sector;
- updating the Council's approach to fraud and corruption to allow full compliance against the new CIPFA code of practice on Managing the Risk of Fraud and Corruption;
- to adopt the recommendations made by Internal Audit on the areas where weaknesses in control have been identified during the year (including Transformation, and Petty Cash); and
- to review any implications of the operation of the Data Protection Act within the Council and to monitor on-going compliance.

**The Council has been dealing since September 2013 with a major incident involving gas penetration of carbon dioxide into recently built Council housing stock at Newbyres Crescent, Gorebridge. The Council has worked with various partner bodies in both the public and private sectors throughout this period.**

**The following actions have been taken or are ongoing to protect the Council's position. In order to protect public health, the tenants of all properties in the**



**development have been decanted and provided with suitable alternative accommodation.**

**Following advice from geotechnical engineers, the Council has agreed to demolish and rebuild the properties incorporating appropriate gas protection measures. This action is ongoing.**

**The Council has instructed a joint report from technical consultants, Fairhursts, and legal advisers, Shepherd and Wedderburn, into potential legal liability emanating from the contractual arrangements and common law duties. The Council is now acting on the basis of their recommendations.**

On the basis of the Council's assurance system, and the elements of governance at its disposal, we are satisfied that overall, Midlothian Council's systems of internal control, risk management and governance arrangements are of a satisfactory standard. We are aware of areas where improvements are required and steps will be taken in the forthcoming year to address these areas, allowing the Council to advance its corporate governance arrangements and seek continuous improvement.

Signed:

Leader of the Council / Chief Executive