

Minute of Meeting



Audit Committee

Date	Time	Venue
Tuesday 8 December 2020	2.00 pm	Virtual Meeting by MS Teams

Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Hardie
Councillor Milligan
Councillor Parry
Councillor Smaill
Mr Peter de Vink, Independent Member

In attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children, Young People and Partnerships
Gary Fairley	Chief Officer Corporate Solutions
Jill Stacey	Chief Internal Auditor
Stephen Reid	External Auditor, E.Y.
Chris Lawson	Service Manager, Waste, Risk and Resilience
Alan Turpie	Monitoring Officer
Myra Forsyth	Continuous Improvement Manager
Gordon Aitken	Democratic Services Officer

1. Welcome and Apology

The Chair, Mike Ramsay welcomed everyone to the meeting. An apology for absence was intimated on behalf of Councillor Muirhead.

2. Order of Business

It was noted the order of business was as per the agenda circulated.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

- 4.1 The Minute of the meeting of 12 October 2020 was submitted and approved as a correct record having been proposed by Councillor Cassidy, seconded by Councillor Hardie.

With reference to the foregoing Minutes, it was noted that Councillor Smail had raised the issue of digital signatures with regard to contract valuations and whilst appreciating that this matter would be covered within a report by the Chief Officer: Corporate Solutions later on within today's Agenda, requested that this point be recorded within the Minutes of the meeting held on 12 October 2020.

- 4.2 The Action log was submitted and having received updates on various action points detailed therein, the Committee agreed in line with Action Point 7 that future Council reports with a financial element relevant to Audit Committee matters would continue to be circulated to Independent Members of the Committee.

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Internal Audit Work to October 2020	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of the report was to provide members 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 2020/21 was approved by the Audit Committee on 10 March 2020. Internal Audit had 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.</p> <p>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</p>		

the adequacy of the control environment and governance arrangements within each audit area, was shown in an Appendix to the report.

The Chief Internal Auditor was heard in amplification of the report after which there was a general discussion on the content of this report.

Decision

The Audit Committee agreed –

(a) To note the Executive Summaries of the final Internal Audit assurance reports issued;

(b) To note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work

(c) To acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

Action

Chief Internal Auditor

Report No.	Report Title	Presented by:
5.2	Internal Audit Mid-Term Performance Report 2020/21	Chief Internal Auditor

Outline of report and summary of discussion

The purpose of the report was to inform the Committee of the progress Internal Audit had made, in the first 6 months of the year to 30 September 2020, towards completing the Internal Audit Annual Plan 2020/21. It also summarised the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

The Internal Audit Annual Plan 2020/21 that was approved by the Audit Committee on 10 March 2020 set out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

The report provided details of the half yearly progress by Internal Audit with its programme of work and highlighted changes that required approval to reflect the changing risks arising from Covid-19.

The Chief Internal Auditor was heard in amplification of the report after which there was a general discussion on the content of this report.

Decision

The Committee agreed:

(a) To note the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2020/21 by the mid-year point;

(b) To acknowledge the audit planning work undertaken to reassess potential changes in light of the Council response to the Covid-19 pandemic to reflect the changing risks arising from Covid-19; and

(c) To approve the revisions to the Internal Audit Annual Plan 2020/21.

Action
Chief Internal Auditor

Report No.	Report Title	Presented by:
5.3	Risk Management Update, Quarter 2 2020/21	Service Manager – Waste, Risk and Resilience

Outline of report and summary of discussion

The purpose of the report was to provide Committee with an update on the risk responses Midlothian Council has had to implement during quarter 2 2020/21 to respond to the current risk climate. The Service Manager – Waste, Risk and Resilience was heard in amplification of the report after which there was a general discussion on this during which it was noted:

- That a more detailed assessment of the likely impact of Brexit would be included within a report to be submitted to Council in the new year and that this information also be provided independently to members of the Audit Committee
- That a Briefing Session for elected Members to be held in the new year on the likely impact of Brexit also be extended to members of the Audit Committee

Decision

The Committee agreed:-

(a) To note that further details on the likely impact of Brexit would be provided to Committee in the new year;

(b) That members of the Audit Committee be invited to any Briefing Session to be held on the likely impact of Brexit; and

(c) To note the current risk landscape and organisational responses to the most significant risks prevailing at this time as contained within the report.

Action

Executive Director: Place

Report No.	Report Title	Presented by:
5.4	Annual Audit Plan – Update on External Audit Fees	Chief Officer Corporate Solutions

Outline of report and summary of discussion

The purpose of the report was to update Committee of the final position regarding audit fees for the year 2019/20. The report noted that the expected fee for each body, set by Audit Scotland, assumed that it had sound governance arrangements in place and operating effectively throughout the year, prepared comprehensive and accurate draft financial statements and met the agreed timetable for the audit.

It also noted that the expected fee assumed there was no major change in respect of the scope of work in the year and that fees could 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 required additional work to be undertaken.

The report advised that EY had outlined areas of additional audit focus this year which were likely to have an impact on the expected fee, including around the Council's review of loans fund accounting, PPP accounting, accounting for IFRS 16 and their follow up of findings within the Best Value Assurance Report. The audit plan noted that any fee variation would also depend on the progress made by the Council in addressing the matters raised in the 2018/19 Annual Audit Report and Best value Assurance report and that where further additional work is required, fees will be agreed with management and reported to the Audit Committee in the 2019/20 Annual Audit Report.

As outlined by EY in their Annual Audit Report, given the circumstances and to be pragmatic and flexible this year EY delayed the planned Best Value Follow up to the next financial year, subject to the planning arrangements being agreed for the 2020/21 audit. Accordingly the indicative additional fees of £12,600 associated with this work, which would have brought the total fee to £244,590, had also been deferred. The Chief Officer: Corporate Solutions was heard in amplification of the report after which there was a general discussion on this matter.

Decision

The Committee agreed:-

- (a) To note the update on the position in respect of external audit fees for the year; and
- (b) To thank EY for their Annual Audit Report.

Action

Chief Officer: Corporate Solutions

Report No.	Report Title	Presented by:
5.5	Annual Governance Statement – Financial Improvement Update	Chief Officer Corporate Solutions
Outline of report and summary of discussion		
<p>The purpose of this report was to provide a first update on financial related improvement actions as set out in the 2019/20 Annual Governance Statement which in turn enhanced compliance with the Council's Local Code of Corporate Governance. The Chief Officer Corporate Solutions was heard in amplification of the report during which he highlighted that significant progress had been made in terms of the improvement actions agreed and in addition noted that other improvement actions were agreed during the year in order to enhance compliance with the Local Code of Corporate Governance.</p> <p>The report advised that compliant arrangements had now been put in place for 35 of the contracts which had expired. This included migrating the provision of services/commodities to national framework arrangements, through Scotland</p>		

Excel, Scottish Government or other organisations who had already secured arrangements through extensive procurement exercises

The report also highlighted that whilst progress on the engagement with Scotland Excel had been hampered by the pandemic the Council was now seeking to conclude an arrangement aimed at securing the capacity and skills to take forward a range of key actions and also learning from the approach developed with Fife Council. The priority areas for this included:-

- To provide a route map to fully develop contract and supplier monitoring across all Council services to ensure that the Council can consistently demonstrate delivery of value for money.
- To undertake a strategic evaluation of the current arrangements, including capacity and skills, for Procurement and provide advice on the requirements needed to meet the Council's expectation in an effective and efficient manner going forward.
- Review the latest Scotland Excel PCIP assessment and re-evaluate the actions identified and develop a plan to secure improvement in preparation for the next PCIP assessment.
- Develop a Quality Assurance arrangement to ensure the necessary improvement actions are being implemented and to continuously improve this service area.

The report also noted that the Quarter 2 performance report confirmed that 29 of 39 internal/external audit actions in respect of Corporate Solutions were on target (20) or complete (9).

There followed a general discussion on this matter during which the following points were noted:

- That the 3 contracts referred to by Councillor Smaill which were no longer required had actually expired and therefore should have been removed from the list
- Concerns raised by Councillor Cassidy on the need to ensure a process that allowed a "bottom up" review of procedures to allow staff to have the opportunity to highlight potential areas of waste or improvement. In response to this point, the Chief Executive confirmed that the Council was currently working with nesta to explore such areas which would include receiving independent feedback from members of staff. The importance of the MAD Ideas Group as well as the Whistleblowing procedure were also highlighted as useful mechanisms for identifying potential savings/ staff feedback.
- That consideration would be given to extending existing arrangements for staff consultation to involve the cross party portfolio holders.

Decision

The Committee agreed:

(a) To note the update on the financial related improvement actions as set out in the 2019/20 Annual Governance Statement which in turn enhanced compliance with the Council's Local Code of Corporate Governance; and

(b)To note that further discussion would take place on potential methods of including elected members in staff consultation exercises.

Action

Executive Director: Place/ Chief Officer Corporate Solutions

Report No.	Report Title	Presented by:
5.6	Treasury Management Mid-Year Review Report 2020/21	Chief Officer Corporate Solutions

Outline of report and summary of discussion

The purpose of the report was to provide audit committee with the opportunity to consider the report before it was then presented to Council. The report informed members of the Treasury Management activity undertaken during the first half of 2020/21, the forecast activity for the second half of 2020/21 and an update to the Treasury and Prudential Indicators for 2020/21. The main points arising from treasury activity in the year to 30 September 2020 were:-

- Taking advantage of the historically low PWLB rates and the HRA discounted rate in the first half of the year, a new £15.000 million long term loan was sourced from PWLB on 28 April 2020 with a 46.5 year tenor at a fixed interest rate of 1.17%;
- Long term borrowing of £0.552 million matured, this being £0.319 million of Market Loans, £0.183 million of Salix loans and £0.020 million PWLB Annuities;
- Three short term investments beyond a duration of 1 year were placed:-
 - £13.000 million fixed term deposit for 2.5 years, placed with London Borough of Croydon on 3 April 2020, earning an interest rate return of 1.85% per annum;
 - £2.000 million fixed term deposit for 3 years, placed with Stoke on Trent City Council on 6 April 2020, earning an interest rate return of 1.60% per annum;
 - £15.000 million fixed term deposit for 2 years, placed with London Borough of Waltham Forest on 30 April 2020, earning an interest rate return of 1.25% per annum;
- One short-term investment of £30.000 million with Bank of Scotland matured on 26 June 2020. This short-term investment was originally placed on 26 June 2019 for a period of 1 year at a fixed interest rate of 1.25%;
- The Scottish Government provided upfront funding to local authorities to support a range of grant schemes, in particular schemes to support local businesses. This, in addition to advanced Revenue Support Grant payments and Early Years Capital Grant payments in the spring/summer, has resulted in a large increase in investment balances and the level of temporary borrowing reduced to nil;
- The average interest rate earned on external investments was 1.05%, exceeding the benchmark rate of 0.41%.

The Chief Officer: Corporate Solutions was heard in amplification of the report after which there was a general discussion on this matter during which both Councillor Smaill and Peter de Vink raised concerns over the £13.000 million fixed term deposit for 2.5 years, placed with London Borough of Croydon on 3 April 2020 referencing that the Chief Financial Officer of the Council has issued a S114(3) Notice. It was the view of both Councillor Smaill and Peter de Vink that a suspension of further investments with approved counterparties as detailed in the permitted investment schedule be put in place until a review of this decision had been carried out.

The Chief Officer: Corporate Solutions advised that whilst London Borough of Croydon had issued two section 114(3) notices, there was no evidence to suggest that the deposit placed with Croydon was at risk. The Chief Officer, Corporate Solutions reiterated that counterparty risk is very low for deposits placed with other local authorities as this is considered UK Government debt and there was no risk to value.

In summing up the Chair stated that the Treasury Management report be amended to comment further on the Croydon situation and to remove the request for the changes to the authorised limit for borrowing before it goes to Council as the recommendations of the Committee

Decision

The Audit Committee agreed:

(a) To note the report and the treasury activity undertaken in the period to 30 September 2020, as outlined in Section 5, subject to additional information in respect of the fixed term deposit with Croydon being included before the report was presented to Council

(b) To note the forecast activity during the second-half of the year as outlined in Section 6; and

(c) That the changes to the authorised limit for borrowing as detailed within Section 7 of this report be removed before being presented to Council.

Action

Chief Officer: Corporate Solutions

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

The next meeting will be held on Tuesday 26 January 2021 at 11am

The meeting terminated at 1.15pm.