

Minute of Meeting

Audit Committee
Tuesday 3 December 2019
Item No: 4.1



Audit Committee

Date	Time	Venue
Tuesday 24 September 2019	10.00am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Mike Ramsay (Independent Chair)
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Councillor Smail
Councillor Alexander (Substitute)
Councillor Cassidy (Substitute)
Peter de Vink (Independent Member)

In attendance:

Grace Vickers	Chief Executive
Allister Short	Joint Director Health and Social Care
Kevin Anderson	Acting Director Resources
Joan Tranent	Head of Children's Services
David Gladwin	Financial Services Manager
Alan Turpie	Legal Services Manager/Monitoring Officer
Stephen Reid	External Auditor, Ernst and Young
Grace Scanlin	External Auditor, Ernst and Young
Jill Stacey	Chief Internal Auditor
Chris Lawson	Waste, Risk and Resilience Manager
Myra Forsyth	Quality and Scrutiny Manager
Gary Thomson	Senior Accountant Projects & Treasury
Mike Broadway	Democratic Services Officer

1. Welcome and Apologies

The Chair, Mike Ramsay welcomed everyone to the meeting, following which there was a round of introductions.

It was noted that Councillors Cassidy and Alexander were substituting for Councillors Baird and Parry, from whom apologies had been received.

2. Order of Business

The order of business was confirmed as that outlined in the agenda.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

4.1 The minute of the meeting of 24 June 2019 was submitted and approved as a correct record having been proposed by Councillor Muirhead, seconded by Councillor Hardie.

4.2 The Action log was submitted and the following agreed:

- 1) 'Delivering Excellence – Governance Arrangements' – As these actions related to the programme of work agreed as part of last years' Internal Audit Annual Plan it was agreed that it was appropriate to close them off and pick up any outstanding issues as part of this years' Plan - close.
- 2) 'Risk Register – Lothian Buses Pension Fund – Included on the Agenda – Item No: 5.3 – close.
- 3) 'Final Internal Audit Report Follow up Review of Developer Contributions – Training Session on Planning has now been scheduled for Tuesday 3 December 2019 at 1.30 pm - close.
- 4) 'Treasury Management Training Session' – This Training Session has been scheduled for Tuesday 5 November 2019 at 10.00 am.
- 5) 'Annual Accounts 2018/19' – Included on the Agenda – Item No. 5.2 – close.
- 6) 'Audit Committee Performance Self-Assessment' – Noted that this had been presented to Council on 20 August 2019 - close.
- 7) 'Report on "Where does a Councillor go if they lose faith in Senior Officers?" – This report will be included in the Agenda for the Audit Committee meeting on 3 December 2019.

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Midlothian Council Annual Audit Report to Members and the Controller of Audit for the Financial Year ended 31 March 2019	Stephen Reid, EY, External Auditors
Outline of report and summary of discussion		
<p>Stephen Reid on behalf of External Auditors, Ernst & Young LLP presented the draft Annual Audit Report to Members and the Controller of Audit for the Financial Year ended 31 March 2019.</p> <p>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 2019. In addition, the report provided detailed information on: Financial management; Financial sustainability; Governance and Transparency; and Value for Money.</p>		
Summary of discussion		
<p>Having heard from the External Auditors who responded to Members questions and comments, the Committee discussed a number of issues arising therefrom, viz:- the level of reserves; the current position regarding the Council's legal action relating to the Newbyres housing development; the Medium Term Financial Strategy; and the challenges around Financial Sustainability.</p> <p>The Council Leader, Councillor Milligan, broadly welcomed the terms of the report and advised it was prudent to allow the new management structure to take place and await the budget settlement announcement. He further commented he was disappointed that with regard to some aspects the Council was still rated red as he felt it did not recognise all the hard work undertaken by staff but understood this was because of economic uncertainty and that every other Council in Scotland was in the same position. Mr Reid in response explained that the rating reflected the need for the Council sustain and build on the undoubted progress which had been made.</p> <p>After further discussion, the Chair thanked Mr Reid for his presentation and the work undertaken by EY on behalf of the Council.</p>		
Decision		
<p>The Audit Committee agreed –</p> <ul style="list-style-type: none"> (a) To note and approve the Annual Audit Report; (b) To note that the wording of the section relating to Newbyres would be updated in light of the discussions at today's meeting; (c) 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; (d) To record the Committee's thanks to Ernst & Young LLP; and (e) To refer the Annual Audit Report on to the full Council for its interest. 		
Action		
EY/Acting Director, Resources/ Democratic Services		

Report No.	Report Title	Presented by:
5.2	Financial Statements for the year ended 31 March 2019	David Gladwin, Financial Services Manager
Outline of report and summary of discussion		
<p>The purpose of this report dated 11 September 2019 was to present the Council's draft audited Financial Statements for 2018/19 to the Audit Committee and to provide a brief overview of the changes made during the audit process. The Council submitted its unaudited Annual Accounts to the External Auditor by the required date of 30th June 2019 and they were examined in detail at a special Audit Committee on Monday 24th June 2019.</p> <p>Having heard from the Financial Services Manager, who responded to Member's questions and comments, the Committee discussed the increase in the value of the Pension Liability as a consequence of recent legal judgements and enhancements made to both the Management Commentary and the Annual Governance Statement during the Audit.</p>		
Decision		
The Audit Committee approved the 2018/19 Accounts for signature having regard to the appointed Auditor's report for 2018/19.		
Action		
Head of Finance and Integrated Service Support		

Report No.	Report Title	Presented by:
5.3	Lothian Buses Pension Fund	Alan Turpie, Legal Services Manager
Outline of presentation and summary of discussion		
<p>With reference to paragraph 5.1 of the Minutes of 12 March 2019, there was submitted report, dated 10 September 2019, the purpose of which was to advise Members of the Audit Committee of the effect of the assimilation of the Lothian Buses Pension Fund into the general Lothian Pension Fund.</p> <p>The Legal Services Manager in presenting the report highlighted the main sections contained within the report and the concerns raised on the effect of entering into the Deed of Guarantor on the Council. The concerns raised with the Lothian Pension Fund and the responses received from the Fund were outlined in Appendix 1 to this report.</p> <p>In discussing the risks to the Council associated with the Deed of Guarantor, it was felt that this was an area that would require to be carefully monitored.</p>		
Decision		
The Audit Committee noted the report and agreed that an appropriately worded entry be added to the risk register to allow the position to be monitored.		
Action		
Legal Services Manager/ Waste, Risk and Resilience Manager		

Report No.	Report Title	Presented by:
5.4	Risk Management Update for 1 April 2019 – 30 June 2019	Chris Lawson, Waste, Risk and Resilience Manager
Outline of presentation and summary of discussion		
<p>The Risk Manager presented a report dated 12 September 2019 providing the Audit Committee with the 2019/20 quarter 1 strategic risk management update, covering the period 1 April 2019 to 30 June 2019. 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.</p> <p>The Risk Manager highlighted the main sections contained within the report and thereafter responded to questions and comments raised by Members of the Committee.</p>		
Decision		
The Audit Committee, having considered the current response to the issues, risks and opportunities, noted the quarter 1 2019/20 Strategic Risk Profile report.		
Action		
Risk Manager		

Report No.	Report Title	Presented by:
5.5	Audit Scotland Fraud and Irregularity update 2018/19	Jill Stacey, Chief Internal Auditor
Outline of presentation and summary of discussion		
<p>The Chief Internal Auditor introduced an Audit Scotland report entitled 'Fraud and Irregularity Update 2018/19', which aimed to share information about cases where internal control weaknesses in public bodies have led to fraud and irregularities, to help prevent similar circumstances happening again.</p> <p>The key messages contained in the report were that</p> <ul style="list-style-type: none"> External auditors have reported a variety of fraud and irregular activities across a range of Scottish public bodies during 2018/19. During 2018/19, external auditors reported 17 cases of frauds and irregularities valued at almost £674,000. The value of reported fraud and irregularity is small compared to Scottish public sector expenditure. Common control weaknesses have contributed to the fraudulent and irregular activity reported during 2018/19. 		
Decision		
<p>After discussion, the Audit Committee expressed support for the recommendations arising from the report, which were that:</p> <ul style="list-style-type: none"> Public bodies should consider whether the weaknesses in internal control that facilitated the cases identified in this report may also exist in their own organisations and take the required corrective action; and 		

<ul style="list-style-type: none"> Auditors should confirm whether internal controls at their audit clients are sufficiently strong to prevent the types of frauds and errors highlighted in this report.
Action
Internal Audit

Report No.	Report Title	Submitted by:
5.6	Proposed Change to the Scheduled Meeting Dates from December 2019 – December 2020	Mike Ramsay, Independent Chair
Outline of presentation and summary of discussion		
<p>There was a report submitted dated 31 July 2019 by the Independent Chair inviting the Committee to consider amendments to the scheduled meetings of the Audit Committee from December 2019 – December 2020 and to recommend to Council to approve these amendments. The details of the recommended amendments were:</p> <ul style="list-style-type: none"> To rearrange the scheduled meeting on 25 August 2020 to Monday 22 June 2020 at 11 am to consider the unaudited Accounts 2019/20. To change the meeting times for the Audit Committee meetings scheduled from December 2019 – December 2020 from 10 am to 11 am to accommodate the Informal Sessions prior to each meeting. 		
Decision		
The Audit Committee agreed to recommend to Council to approve the amendments to the scheduled meeting dates for December 2019 – December 2020 as outlined within the report.		
Action		
Democratic Services		

Report No.	Report Title	Submitted by:
5.7	Internal Audit Follow-Up of Completed Recommendations	Jill Stacey, Chief Internal Auditor
Outline of presentation and summary of discussion		
<p>There was a report submitted by the Chief Internal Auditor dated 12 September 2019 providing an update on the status of the implementation by Management of the audit recommendations made and agreed in Internal Audit Reports in previous years to improve internal controls and governance. It was noted that the review highlighted that of the 60 recommendations tested, 51 (85%) were found to have been completed satisfactorily, and 9 (15%) were identified as requiring further work. A further follow-up audit of the 9 recommendations shown as incomplete indicated that all are now completed with robust evidence to show that these were actually implemented and that the resulting controls were operating effectively.</p>		

Decision
<p>The Audit Committee, having heard from the Chief Internal Auditor:</p> <ul style="list-style-type: none"> • Acknowledged the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks. • Where satisfied having considered the progress made that no further action was required, at this time.
Action
Internal Audit

Report No.	Report Title	Submitted by:
5.8	Internal Audit Work to August 2019	Jill Stacey, Chief Internal Auditor

Outline of presentation and summary of discussion
<p>There was a report submitted by the Chief Internal Auditor dated 12 September 2019 providing details of the recent work carried out by Internal Audit and the findings and recommended actions agreed by Management to improve internal controls and governance arrangements.</p> <p>The Chief Internal Auditor outlined the main sections contained within the report and responded to questions and comments raised by Members of the Committee.</p>
Decision
<p>The Audit Committee:</p> <ul style="list-style-type: none"> • Noted the final assurance reports issued in the period from 1 April to 30 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20 • Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.
Action
Internal Audit

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

The next meeting will be held on 3 December 2019 at 11 am

The meeting terminated at 11.47 am