

MINUTES of MEETING of the MIDLOTHIAN COUNCIL AUDIT COMMITTEE held in the Council Chambers, Midlothian House, Buccleuch Street, Dalkeith on Tuesday, 18 March 2014 at 11.00 am.

Present: - Mr P Smaill (Independent Chair), Councillors Baxter, Bryant, Milligan, Muirhead, Thompson and de Vink.

1 Order of Business

The Chair indicated that he had accepted an additional item of business in respect of recognition of the work undertaken by Mr Robert Rae, in his capacity as an independent member of the Committee and whose term of office had now expired and which was dealt with as item no. – of the Addendum hereto.

2 Declarations of Interest

No declarations of interest were intimated.

3 Minutes

The Minutes of Meeting of 10 December 2013 were submitted and approved.

4 External Auditor's Annual Report 2012/13

With reference to paragraph of the Minutes of the Council on 4 February 2014, there was submitted report dated October 2013, by the Council's External Auditors, (Grant Thornton UK), summarising the findings from their audit work for the year 2012/13. The report highlighted that the Council's general fund balance was £14.083m, the uncommitted element of which was £6.402m, exceeding the £4m minimum target; there was a net overspend of £1.3m in 2012/13; there was a budget gap of £13.5m by 2016/17 and the lack of a robust and agreed plan for bridging the shortfall and uncertainty over Welfare Reform presented a significant risk to the Council's financial sustainability; the Council had worked well with partners to agree a shared vision for Midlothian, supported by shared priorities for future improvement within the Single Outcome Agreement; the Council had responded quickly and effectively in respect of structural reform including the integration of Health and Social Care and the reform of Police and Fire and Rescue Services; the Council could demonstrate improvements in performance in a number of service areas but outcome indicators within the Single Outcome Agreement continued to present a challenge and significant progress was required to improve (i) positive destinations for school leavers; (ii) aspects of housing services; (iii) economic development; and (iv) educational attainment; the Auditors supported the Council's plans to revise the Planning and Performance Management Framework; and encouraged the Council to consider its approach to self evaluation and learning from others to ensure that

it continued to achieve Best Value. The report also highlighted no issues had been addressed in the audit of the Councils accounts and that the Auditor's opinion was unqualified.

Decision

- (a) To note that a number of the issues raised within the report had been addressed by the Financial Strategy adopted by the Council on 4 February 2014;
- (b) To note that management had responded positively to each of the issues raised in the report;
- (c) That officers seek to ensure that the Annual Report of the external auditor be submitted to the Committee, prior to being considered by the Council; and
- (d) To otherwise note the report.

(Action: (c) Head of Finance and Integrated Service Support/ Legal and Secretariat Manager).

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Councillor Milligan joined the meeting during discussion of the foregoing item of business (11.10 am).

5 External Audit Plan for 2013/14

There was submitted report, dated 11 March 2014, by the External Auditors, summarising their approach to the audit of the Council for the year ended 31 March 2014 to ensure compliance with the CIPFA Code of Practice on Local Authority Accounting and other legislative and audit practice requirements. The Auditor's approach to this exercise would be to report all findings to management so that the Council could choose to secure any improvement opportunities and to report only those findings that represented a control weakness to the Audit Committee and make formal recommendations.

Decision

- (a) To note the intention to examine issues in respect of Welfare Reform and Debt Management;
- (b) To note that the External Auditor, would not duplicate the work of Internal Audit;
- (c) To note that there was no increase in the Audit Fee; and
- (d) To approve the plan.

6 Treasury Management and Investment Strategy 2014/15 & Prudential Indicators

With reference to paragraph 25 of the Minutes of the Council of 4 February 2014, there was submitted report dated, 23 December 2013, by the Head of Finance and Integrated Service Support, seeking the of Council's agreement to the Treasury Management and Annual Investment Strategies for 2014/15 and the Prudential and Treasury indicators contained within the report. A detailed document covering the Treasury Management and Investment Strategy for financial year 2014/15 was incorporated into report and provided, inter alia, information on the Capital Financing Requirement (CFR); Borrowing Strategy; and Investment Strategy/Instruments. In respect of Prudential Indicators, the report detailed the Indicators contained within the Prudential Code for Capital Finance in Local Authorities, which required that Councils could demonstrate that their Capital Plans were affordable, prudent and sustainable, taking into account the financial provisions made in current and future Revenue Budgets; and that Treasury Management decisions were taken in accordance with good practice. The recommendation contained in the report had been adopted by the Council on 4 February 2014.

Decision

- (a) To note the use of external consultants on interest rate trends ;
- (b) To note that the Council on 4 February 2014, had adopted a Capital Strategy Plan which would ensure that Capital debt was kept at sustainable level; and.
- (c) To otherwise note the report.

7 Risk Management - Update for July 2013 - December 2013

There was submitted report, dated 5 March 2014, by the Head of Finance and Integrated Service Support advising the Committee of the status of the Risk Management Plan for the 2013/14, following review by Service Managers and Heads of Service at quarters two and three. The report advised that the risk profile was unchanged and that no risks had been categorised as critical. The register and plan were to be realigned to reflect the recent introduced changes in the Council's management structure.

Decision

- (a) To note that a possible loss of Housing Benefit subsidy had been avoided;
- (b) To note the need to monitor the effect on the Council's efficiency following the introduction of new Public Service Network (PSN) rules; and
- (c) To otherwise note the remainder of the report.

8 Internal Audit Plan 2014/15

There was submitted report, dated 18 February 2014, by the Internal Audit Manager, presenting the draft Internal Audit plan for 2014/15, for approval. The report further advised that, if approved, the Plan would be discussed with East Lothian Council's Internal Audit team to establish any joint audit opportunities.

Decision

- (a) To note that the plan allowed for emergency or urgent investigations to be undertaken; and
- (b) To approve the plan, as shown in the **Appendix** hereto.

(Action; Internal Audit Manager).

9 Public Sector Internal Audit Standards – External Assessment

There was submitted report, dated 30 January 2014, by the Internal Audit Manager, advising the Committee of measures to be taken to ensure that the Internal Audit function was independently assessed against the Public Sector Internal Audit Standards (PSIAS). The report explained that the Standards required that this exercise be undertaken at least every five years. The report advised that the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) had reviewed the PSIAS in detail and had concluded that compliance with the code could be achieved by either local authorities each procuring their own external team to undertake the review once every five years or by establishing a framework for external assessments and for member authorities to undertake the external assessments of other Scottish Local Authorities' Internal Audit Sections. The report therefore proposed to adopt the latter option. In the event that insufficient number of Authorities opted for this proposal it would remain open to the Council to secure the necessary service by procuring an external provider.

Decision

To note and endorse the proposal to participate in SLACIAG's validated self-assessment framework, should it be established, for the external assessment of the Internal Audit Service.

(Action: Internal Audit Manager).

10 National Fraud Initiative (NFI) – 2012/13 Outcomes

There was submitted report, dated 24 February 2014, by the Head of Housing and Community, providing the Committee with an update on the progress and outcomes of the National Fraud Initiative (NFI) for 2012/13. The report provided a summary of the matches received along with details of the outcomes of initial checks

Decision

- (a) To note the report.; and
- (b) To note that an update would be submitted to the Committee on 17 June 2014 by which time, the majority of investigations would have concluded and the national report on NFI activity would be published by Audit Scotland.

(Action: Head of Housing and Community).

11 Anti Money- Laundering Policy

There was submitted report, dated 24 January 2014, by the Internal Audit Manager, inviting the Committee to comment on a proposed Anti -Money Laundering Policy before its submission to Cabinet. The report therefore incorporated a copy of the proposed policy.

Decision

To approve the Anti Money- Laundering Policy as submitted and to refer the matter to the Cabinet for determination.

(Action: Internal Audit Manager/ Legal and Secretariat Manager).

12 Fuel Management

With reference to paragraph 5 of the Minutes of 10 December 2013, there was submitted report, dated 3 March 2014, by the Director, Resources advising the Committee of the additional security measures established in connection with the usage of fuel cards. The report explained that the additional controls established were that each card was now issued to a named driver, supported by PIN protection; upon provision of the card, drivers were advised that they are solely responsible for the card and may be subject to disciplinary action for any misuse; each driver was required to sign a declaration confirming they understood this requirement; and Monitoring reports are emailed to service managers following each four weekly financial period end. These measures had come fully into effect on July 2013.

The report also advised that there were now only five vehicles that were fuelled with unleaded petrol and two vehicles that were fuelled with Liquid Petroleum Gas. The report stressed that the majority of unleaded fuel was consumed by Land Services, Property Maintenance and Roads Maintenance for plant and equipment.

Decision

- (a) To note the measures taken; and

- (b) That the Director, investigate the practicality of reducing both the numbers of fuel card holders and the amount of plant and equipment that required unleaded fuel.

(Action: Director, Resources).

13 Internal Audit Report - Accounts Receivable

There was submitted report, dated 20 February 2014, by the Internal Audit Manager, on a follow up review of Accounts receivable. The report explained that ,in 2012 Internal Audit undertook a consultative exercise to review the processes and controls within the Council's accounts receivable system. The exercise resulted in fourteen recommendations being made, which were adopted by the Corporate Management Team in May 2012. The objective of this review was to therefore determine the extent to which these recommendations had been adopted and to review the adequacy of any locally agreed actions.

The review had concluded that that not all the recommendations adopted by the Corporate Management Team had been fully implemented and that outstanding debt as at the end of October 2013 and the debt outstanding over 12 months had increased to £3.270M and £1.83M representing a 10% and 9% increase respectively from 2011.

The report had concluded that there was a need for senior management to review the resourcing and accountability of accounts receivable as well as the current operational controls. A number of possible ways in which performance could be improved had been suggested, including "upfront" payments, which should always be the preferred option; services should be terminated for customers who did not pay to prevent future debts occurring, whilst accepting that this may not be possible in some areas due to statutory requirements.

Internal Audit had planned to review the position in quarter three of 2014/15.

Decision

- (a) That officers ensure that the Management Action Plan previously adopted by the Corporate management Team be brought into full effect as soon as possible; and
- (b) To note that a follow –up review would be undertaken by Internal Audit during the course of 2014/15.

(Action: Director, Resources/ Internal Audit Manager).

14 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 items, as contained in the Addendum hereto, as there might be disclosed information as defined in paragraphs 4, 6 and 14 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

- (a) High Value Electronic Payments - To approve the report and adopt the Management action plan contained therein;
- (b) Use of Term Contractors: Update. – To note the progress made and the ongoing measures to ensure compliance with the Management Action Plan; and
- (c) Esk Bridge Landslide, Penicuik: (i) To seek to recover the sums due by homeowners ; and (ii) To approve the guidance for incidents occurring on privately owned land or property, as recommended by the report.

The meeting terminated at 12.40 pm.