

Minute of Meeting

Audit Committee
Tuesday 22 June 2021
Item No: 4.1



Audit Committee

Date	Time	Venue
Tuesday 4 May 2021	11.00 am	Virtual Meeting by MS Teams

Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Milligan
Councillor Muirhead
Councillor Small
Councillor Parry
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
Derek Oliver	Chief Officer Place
Jill Stacey	Chief Internal Auditor
Stephen Reid	External Auditor, E.Y.
Grace Scanlin	External Auditor, E.Y.
Alan Turpie	Legal Services Manager
Saty Kaur	Executive Business Manager, Place Directorate
Myra Forsyth	Continuous Improvement Manager
Janet Ritchie	Democratic Services Officer

1. Welcome and Apology

The Chair, Mike Ramsay welcomed everyone to the meeting.

2. Order of Business

The Chief Executive referred to her request in December 2020 that EY undertake wider scope work on Treasury Management and advised that this report was not yet available and therefore sought clarification on whether the Committee considered it necessary to hold an additional meeting to consider this matter prior to the next scheduled meeting at the end of June 2021. The Chair confirmed that he did not consider it necessary for an additional meeting and therefore proposed that this report was presented to the June 2021 meeting.

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

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

- 4.1 Comments were received on Treasury Management from both Mr de Vink and Councillor Smaill and the Chair advised that it would be more appropriate to scrutinise the Treasury Management report when it was presented to the Audit Committee in June.

The Committee, on a proposal by Councillor Milligan, seconded by Councillor Smaill approved the minute as a correct record.

Councillor Milligan then raised that in February 2021 the committee scrutinised Treasury Management at a formal briefing and at that time a note had been taken but this was not appended to the minute. Mr Anderson confirmed that a note had been taken and apologised this had not been circulated previously and confirmed this would be appended to this minute.

- 4.2 The Action log was submitted and the following noted:

- 1) 'Internal Audit Annual Assurance Report: 2019/20 Risk Management Policy and Strategy: The Chair highlighted that as the Risk Manager was leaving the Council would there be any impact on this report being presented to the June 2021 Meeting. After brief updates from Officers it was confirmed that there would be no impact and this would be covered by Derek Oliver and this would be presented to the June 2021 Meeting.
- 2) 'Annual Governance Statement 2019/20 – Financial Improvement Updates': Presented on today's Agenda.

- 3) Financial Reports – Council Meeting – 25 August 2020: Mr Fairley confirmed that there had been no further information since the papers sent out in February 2021 and the next scheduled reports were for June 2021 Council and these would be sent out to members in due course.

Mr Fairley also advised he was available to answer any questions the members may have once these reports were received.

- 4) Internal Audit Recommendations: Ongoing – to be presented in June 2021.
- 5) Local Code of Corporate Governance: This action is now complete.

Councillor Parry apologised due to technical issues she was unable to raise earlier a point with regards to the Risk Management and asked for clarity on the reasons for the turnover of senior staff and should this be recorded as a risk.

The Chief Executive in responding by way of reassurance to the Committee advised that the Workforce plans were regularly updated, in particular following any pandemic they would be significantly updated and confirmed that these would be coming forward as part of the Service Plans to the June 2021 Council. The Chief Executive was delighted to confirm that some of the staff leaving the Council were moving on to promoted positions. She also advised that a number of apprentices had now been made permanent and that a number of initiatives were underway including the Kickstart programme and Derek Oliver could provide further information if required on any of these initiatives.

Councillor Smail raised 3 specific items which he felt were relevant for the Audit Committee members to receive copies when complete:

- Report on reconciliation of Social Housing work in progress and completions – Kevin Anderson
- Property Maintenance – BTSG report.
- Treasury Management relaxation – this will be included in the Treasury Management Report on the June 2021 Agenda

It was agreed to add these to the Action Log and in response to a question raised by Councillor Smail with regards to the Council House Building Programme update which will be presented to Council on 11 May 2021, it was agreed this would be circulated to the independent members.

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Internal Audit Work to March 2021	Chief Internal Auditor
Outline of report and summary of discussion		
<p>There was submitted a report, dated 20 April 2021, by the Chief Internal Auditor providing 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.</p> <p>Internal Audit carried out work associated with the delivery of the Internal Audit Annual Plan 2020/21 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 the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.</p> <p>The Chief Internal Auditor in presenting the report highlighted the key findings and recommendations contained within appendix 1 of the report. Officers then responded to various questions and comments raised by Members in particular with regards to Procurement and DSM and it was acknowledged the questions around procurement would be addressed in the agenda item 5.3. Fiona Robertson in responding to questions raised with regards to DSM provided an update on the strategic groups in place for the redesign of the DSM scheme and provided some clarity on school purchases and PEF funding.</p>		
Decision		
<p>The Audit Committee noted:</p> <ul style="list-style-type: none">(a) The Executive Summaries of the final Internal Audit assurance reports issued;(b) The Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and(c) 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 Annual Assurance Report 2020/21	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report, dated 15 April 2021, by the Chief Internal Auditor was to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2021 which included the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.</p> <p>To meet the requirements of the PSIAS, the Internal Audit Annual Assurance Report 2020/21 (Appendix 1) included the Chief Internal Auditor's annual opinion, providing details of the Internal Audit activity and performance during the year to fulfil its role, and summarised the outcomes of assessments of the Internal Audit service against the PSIAS.</p> <p>The Chief Internal Auditor outlined the main sections contained within the report in particular highlighting the sections contained within Appendix 1 of the report. Specifically in section 2 the opinion that the systems of internal control, risk management and governance are generally adequate. There is more work to be done with the implementation of Internal Audit recommendations made in previous years associated with the strategic governance arrangements that underpin procurement and contract management, financial management, and workforce development to address the identified risks.</p>		
Decision		
The Audit Committee noted the Internal Audit Annual Assurance Report 2020/21 (Appendix 1), and assurances contained therein.		
Action		
Chief Internal Auditor		

Report No.	Report Title	Presented by:
5.3	Annual Governance Statement – Improvement Update	Chief Officer Corporate Solutions
Outline of presentation and summary of discussion		
<p>With reference to the Audit Committee meeting of 22 June 2020, when considering the draft of the Annual Governance Statement (AGS) for 2019/20, agreed that the Chief Officer Corporate Solutions would provide regular updates on the financial improvement actions. An update in respect of the financial improvement actions was provided to Audit Committee on 8 December 2020. This further update has been expanded to include all of the thirteen items set out in the 2019/20 AGS with a draft noted by the Corporate Management Team on 21 April 2021.</p> <p>The Chief Officer Corporate Solutions in presenting the report to the Committee outlined the main sections contained within the report highlighting the update on the thirteen improvement actions.</p>		

Thereafter Officers responded to various questions and comments raised by the Committee.

Fiona Robertson provided clarity on the Empowerment agenda and the Education Strategic Group and how decisions were made on the funding available to Education and the role Head Teachers took in this. In response to further comments received from Councillors regarding procurement Fiona Robertson confirmed she would feed this back to the Education Strategic Group.

Councillor Parry asked for some clarity on participatory budgeting and although she did acknowledge that there was work undertaken in the Council which would meet the definitions of this there is no strategic focus on it.

In response to various comments with regards to Hillend, Valleyfield Project and the Capital programme, Officers provided clarity on the governance and plans in place for these and advised that a report would be presented to Council next week (11 May 2021) with regards to the Roads Capital programme and a report would be presented to Council in June 2021 with regards to Hillend. The Chief Internal Auditor also advised that if the Audit Committee had any particular areas of concern these could be taken into account and covered within the Internal Audit work on Capital Investment.

In response to a question raised by the Chair with regards to further updates on the Annual Governance Statement 2019/20 and the outstanding actions, Mr Fairley advised that the next update would be on the 2020/21 Annual Governance Statement in June 2021 with a further update provided in December 2021. The Chief Internal Auditor also confirmed that any outstanding actions from 2019/20 would be included in the Annual Governance Statement 2020/21.

Decision

The Audit Committee noted this update on the improvement actions as set out in the 2019/20 Annual Governance Statement, the completion of which enhances compliance with the Council's Local Code of Corporate Governance.

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 22 June 2021 at 11.00 am

The meeting terminated at 12.52 pm

Appended to the Minute: Treasury Management Briefing Note of 17 February 2021

Briefing Note



Elected Member Briefing – Treasury Management

Date	Time	Venue
Wednesday 17 February 2021	1.00pm	Via Microsoft Teams

Present:

Councillor Alexander	Councillor Cassidy
Councillor Curran	Councillor Hackett
Councillor Imrie	Councillor Lay-Douglas
Councillor McCall	Councillor Milligan
Councillor Muirhead	Councillor Parry
Councillor Russell	Councillor Smaill
Councillor Wallace	

Also Present:

Mike Ramsay (Independent Chair, Audit Committee)	Peter de Vink, (Independent Member, Audit Committee)
David Chefneux (Link Group)	Grace Scanlin (External Auditor, EY)

In attendance:

Dr Grace Vickers, Chief Executive	Kevin Anderson, Executive Director Place
Gary Fairley, Chief Officer Corporate Solutions	David Gladwin, Financial Services Manager
Gill Stacey, Chief Internal Auditor	Gary Thomson, Senior Accountant, Projects & Treasury
Brenda Glass, Assistant Accountant Treasury	Mike Broadway, Democratic Services Officer
Rosemary Walsh, Support Assistance	

1 Introduction and Apologies

Apologies for Absence were intimated on behalf of Councillor Hardie.

Kevin Anderson, Executive Director Place, in welcoming everyone, briefly explained the purpose of today's session, and that he would chair the initial briefing before handing over to Mike Ramsay, Independent Chair of the Audit Committee to Chair scrutiny of the draft Treasury Management and Investment Strategy 2021/22.

2 Briefing

(a) Background

By way of background, reference was made to (i) the report "Treasury Management Mid-Year Review 2020/21" which had been submitted to the meeting of the Audit Committee on 8 December and Council on 15 December 2020. A copy of which, together with a Minute extract taken from the Midlothian Council meeting had been circulated - item 4.1 refers; and (ii) the Group Leaders meeting held on 8 February 2021 when it was agreed that in the absence of an Audit Committee meeting before Council on 23 February 2021 that the proposed Treasury Management and Investment Strategy 2021/22 also be considered at the briefing session.

(b) Briefing Session

Thereafter, David Chefneux, Link Group provided a presentation on Treasury Management, during, and following, which he responded to questions and comments.

(c) Scrutiny of the draft Treasury Management and Investment Strategy 2021/22

There then followed a discussion scrutinising the draft Treasury Management and Investment Strategy 2021/22 (TMIS), which was due to be considered by Council on 23 February 2021. Amongst the particular matters considered were –

- The proposed adjustment to the authorised limit for borrowing and whether this was actually necessary. Gary Fairley explained that the authorised limit was one of the indicators required by the Prudential Code and that the authorised limit for borrowing reflected the extensive capital investment plans approved by the Council and which required to be financed through increased borrowing, Mr Fairley reassured Members that for reasons referred to by David Chefneux in his presentation around interest rates and carry cost as a result of the current economic climate, it was considered highly unlikely that officers would increase long term external borrowing in advance of need. He highlighted the requirements of the TMIS which requires a business case to support any borrowing in advance of need. Accordingly the expectation is that long term borrowing will be matched with actual capital expenditure incurred. Elected Members and independent Audit Committee members felt that it would be helpful if the position outlined by Mr Fairley was better articulated in the report.
- The criteria used in carrying out due diligence on potential deposits with counterparties and whether these were sufficiently robust enough in light of some Elected Members and independent Audit Committee members concerns

arising from the deposit placed with the London Borough of Croydon, was discussed at some length. It was acknowledged that the matter of that particular deposit had been remitted back to the Audit Committee to facilitate an examination of the execution of Midlothian Council's Treasury Management policy informed by additional work being undertaken by the Council's external auditors (Ernst and Young LLP) as part of their wider scope analysis, and the likelihood was that these issues would be explored further at that time, although care would be required not to unduly constrain future ability to pursue the effectiveness of the operation of the Council's TMIS.

After further discussion it was agreed to recommend that the report to Council be amended to note that Officers will ensure that any long term external borrowing be drawn down to match the existing maturity and projected capital expenditure profiles as closely as possible and on the basis of that change to recommend to Council that the draft Treasury Management and Investment Strategy 2021/22, as amended be approved.

The meeting terminated at 3.04 pm.