

**MINUTES of MEETING of the MIDLOTHIAN COUNCIL AUDIT COMMITTEE** held in the Council Chambers, Midlothian House, Buccleuch Street, Dalkeith on Tuesday, 16 June 2015 at 11.00 am.

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

**Apology for Absence:** - Councillor Thompson.

## 1 Order of Business

On the recommendation of the Chair, the Committee agreed to advance consideration of agenda items Nos. 9, 11,12,13,14 and 15 and which were dealt with as shown in paragraphs 3, 4, 5, 6,7,8 and 9 hereof.

## 2 Declarations of Interest

There were no declarations of interest.

## 3 Health and Social Care Integration

There was submitted report, dated 2 June 2015, by the Internal Audit Manager, providing the Committee with an update of progress following an interim review by Midlothian Council's Internal Audit section in respect of Health and Social Care Integration. The report explained that NHS Lothian Internal Audit was also undertaking a separate review and would present their report to their own Audit Committee. It was anticipated that this report would be made available to Midlothian Council's Audit Committee in due course.

The Midlothian review was limited to securing assurance that :-

- the governance model in place to manage the implementation of the Integrated Joint Board was appropriate;
- the proposed allocated budget from Midlothian Council to the Integrated Joint Board was aligned to those services budgets which were to be delegated;
- risk registers were in place which identified the risks that could impact on delivery of the project plan;
- project plans were in place for the establishment the Integrated Joint Board and that these were broken down into milestones and timelines which were subject to regular review and monitoring; and
- the predetermined metrics that officers would use in future to assess whether integration had met its objectives had been identified and that a process for obtaining baseline data was in place.

The Midlothian review had concluded that the development of the Integrated Board was progressing well with the approval of the Integrated Scheme and that work was continuing on the establishment of the strategic plan. A small number of recommendations had been made to the Joint Integration Board in relation to progress reporting in respect of the Strategic Plan and Risk Registers.

### **Decision**

- (a) To note and endorse the recommendations made in the Report in respect of progress reporting on the Strategic plan and risk registers ;
- (b) To Note that a further report would be submitted following the further development of financial assurance and performance reporting;
- (c) To note that the Midlothian Council Internal Audit would liaise with the NHS Lothian Internal Audit Section to determine if their report could be shared with the Midlothian Audit Committee; and
- (d) To note that as the project progressed, the respective Audit Teams would increase their level of collaboration.

(Action: Internal Audit Manager).

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

There was submitted a draft of a report, dated 4 June 2015, by the Head of Finance and Integrated Service report on the Financial Statements for the year ended 31 March 2015, which was scheduled to be submitted to the Council on 23 June 2015. The report provided a brief overview of the main developments in the Council's Financial Statements for 2014/15. The report advised that at 31 March 2015, the General Fund Balance was £21.315 million of which £8.472 million was earmarked for specific purposes leaving a general reserve of £12.843 million; and the Housing Revenue Account Balance was £21.376 million which was an increase of £3.002 million on the position at 31 March 2014.

### **Decision**

To note the draft report.

## **5 Financial Monitoring 2014/15 – General Fund Revenue**

There was submitted a draft of a report, dated 1 June 2015, by the Head of Finance and Integrated Service Support which was scheduled to be submitted to the Council on 23 June 2015, providing information on performance against revenue budget in 2014/15 and details of the material variances. The draft report advised that detailed budget performance figures showed a net underspend of £4.734 million which was 2.47% of the revised budget for the year.

**Decision**

- (a) To note that the issue of high sickness absence levels at Newbyres Village, was being addressed with a view to reducing the overspend at this facility;
- (b) To note the potential effect on reserves in the event of severe and prolonged winter weather;
- (c) To note that projected energy costs were based on consumption and that officers were aware of potential increases in energy costs;
- (d) To note that the Business Transformation Programme was scheduled to be reviewed by the Internal audit Unit during quarter 2 of 2015/16; and
- (e) To otherwise note the draft report.

**6 General Services Capital Plan 2014/15 Final Outturn**

There was submitted a draft of a report, dated 4 June 2015, by the Head of Finance and Integrated Service Support which was scheduled to be submitted to the Council on 23 June 2015, detailing the final outturn on the General Services Capital Plan for 2014/15. The report advised that actual expenditure in the year was £11.401 million, a net underspend of £0.163 million.

**Decision**

To note the draft report.

**7 Housing Revenue Account - Revenue and Capital Final Outturn 2014/15 and Capital Plan 2015/16-2017/18**

There was submitted a draft of a report, by the Head of Finance and Integrated Service Support which was scheduled to be submitted to the Council on 23 June 2015, detailing the final outturn position for 2014/15 for both the Housing Revenue Account (HRA) Capital Plan and the Revenue Account and a revised capital plan for 2015/16 to 2017/18 reflecting the carry forwards from 2014/15. The final outturn for Revenue was an underspend of £0.346 million. The HRA Reserve balance at 31 March 2015 was £21.377 million which would be required to finance existing investment commitments in future years in line with the long term HRA Capital Strategy. The Capital Plan projected outturn for 2014/15 was an underspend of £0.052m.

**Decision**

- (a) To note the effect on the Social Housing Programme resulting from the replacement of housing at Newbyres Gorebridge; and

- (b) To otherwise note the report.

## **8 Annual Treasury Management Report 2014/15**

There was submitted a draft of a report, dated 3 June 2015, by the Head of Finance and Integrated Service Support which was scheduled to be submitted to the Council on 23 June 2015, advising the Committee of the Treasury Management activity undertaken in 2014/15 and the year end position. The report highlighted that :-

- Total new long term borrowing taken in the year amounted to £10 million, sourced 100% from PWLB and thereby taking advantage of historically low PWLB rates;
- The average rate of interest paid on external debt was 3.59% in 2014/15, down from 3.68% in 2013/14;
- The average rate of return on investments was 0.85% in 2014/15, which outperformed the Capita Local Authority benchmarks for the year;
- The internal loans fund rate decreased from 3.46% in 2013/14 to 3.23% in 2014/15, which was expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland;
- Had the internal loans fund rate equated to the Scottish average of 4.52%, this would have generated loan charges in 2014/15 of £18.3m. as opposed to the actual 2014/15 loan charges for General Services and HRA of £15.0m, representing a saving compared to the Scotland average of £3.3m in 2014/15; and
- No debt rescheduling had been undertaken during 2014/15.

### **Decision**

To note the report.

## **9 Minutes**

The Minutes of Meeting of 5 May 2015 were approved.

Arising from consideration of the foregoing minutes the Committee noted:-

- (a) That applications to serve as a lay member on the Committee had closed and the applications were now being processed; and
- (b) That the training programme for Members of the Committee was in the process of being finalised.

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### **Audit Scotland Report: School Education**

There was submitted report, dated 4 June 2015, by the Director, Education, Communities and Economy, providing the Committee with a summary of an Audit Scotland report on School Education and the Council's position in relation to the report's findings. The report explained that the audit had focused on primary and secondary school education in Scotland and had examined the following areas:-

- how much councils spent on school education and what they spent it on;
- how effectively councils were driving forward improvements in pupil achievement;
- how efficiently councils were using their resources to maximise pupil achievement.

The Audit Scotland report had therefore contained nine recommendations on how to improve performance and achieve better outcomes and these were detailed in the Director's report along with the action being taken by the Council to address each of these.

#### **Decision**

To note the report.

### **11 Audit Scotland Report: Procurement in Councils**

There was submitted report, dated 5 June 2015, by the Procurement Manager, advising the Committee of the findings of an Audit Scotland report, '*Procurement in Councils*' and reflecting the extent to which the Council was working to accord with the recommendations of that report. The Procurement Manager's report explained that Audit Scotland had concluded that whilst there was good practice in procurement being demonstrated in local authorities across Scotland, there was room for improvement in the manner in which procurement is being utilised as a tool to deliver savings and benefits. It therefore identified a number of areas where improvement could be made and allocated these to Scottish Government, Scotland Excel, Councils, Council Management teams and procurement staff for attention, as appropriate. The Procurement Manager's report therefore detailed the measures implemented by the Council to accord with Audit Scotland's recommendations.

#### **Decision**

- (a) To note that 27% of contracts awarded by the Council were to Midlothian Companies;
- (b) To note that a revised and updated Procurement Strategy was scheduled to be submitted to the Council on 23 June 2015; and

(c) To otherwise note the report.

## **12 Risk Management, Update for 1 January 2015 – 31 March 2015**

There was submitted report, dated 9 June 2015, by Risk, Safety and Civil Contingencies Manager, providing the Committee in respect of Risk Management, with the 2014/15 quarter 4 update, covering the period 1 January to 31 March 2015. The highest risks facing the Council were Balancing Budgets in future years, including the Impact of Budget Reductions and the Financial Strength of Council; Corporate Change and Transition; and Welfare Reform Act. The corporate risk profile at the end of quarter 4 showed one critical risk; two high risks; five medium risks; and two low rated risks. The report detailed the measures being taken to mitigate these risks.

### **Decision**

To note the report.

## **13 Annual Report from the Chairman for Year ended 31 March 2015**

There was submitted the annual report from the Chairman, on the work carried out by the Audit Committee during the financial year 2014/15. In preparing the report reference had been made to the requirements of the Audit Committee Combined Code (2008) and the 2013 Chartered Institute of Public Finance and Accountancy (CIPFA) document "Practical Guidance for Local Authorities- Audit Committees". The report provided details of the work undertaken and the issues addressed during the course of 2014/15.

### **Decision**

To approve the report and its submission to the Council.

(Action: Head of Finance and Integrated Service Support).

## **14 Internal Audit Report - Follow-up Review of Audit Recommendations**

There was submitted report, dated June 2015, by the Internal Audit Manager, in respect of a follow-up audit to review a sample of recommendations that had been signed off as complete in 2014/15 to determine whether they had been implemented satisfactorily and thus give greater assurance over the ongoing improvement of internal control. From the 40 recommendations tested, 36 (90%) were found to have been completed satisfactorily, none were found to be unsatisfactory and four had been partially completed. The report therefore contained recommendations to ensure early completion of those recommendations which had only been partially completed.

### **Decision**

To note the report and to approve the action recommended therein.

(Action: Internal Audit Manager).

The meeting terminated at 12.10 pm.