

Minute of Meeting

Audit Committee
Tuesday 19 June 2018
Item No: 4.2



Special Meeting of Audit Committee

Date	Time	Venue
Tuesday 15 May 2018	3.00 pm	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Mike Ramsay (Chair)
Councillor Baird
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Councillor Small
Peter de Vink (Independent Member)

In attendance:

Kenneth Lawrie	Chief Executive
Mary Smith	Director of Education, Communities and Economy
Gary Fairley	Head of Finance and Integrated Service Support
David Lister	Ernst and Young, External Auditors
Sarah Croft	Ernst and Young, External Auditors
Jill Stacey	Chief Internal Auditor
Elaine Greaves	Principal Auditor
Kevin Scott	Fraud and Audit Officer
Alan Turpie	Legal Services Manager
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies

Apologies were received from Councillor Parry

2. Order of Business

The order of business was as set on the Agenda.

3. Declarations of interest

No declarations of interest were received.

4. Public Reports

Report No.	Report Title	Submitted by:
4.1	Investigation of Roads Contract Management	Chief Executive
Outline of report and summary of discussion		
<p>There was a report submitted by the Chief Executive which updated the Members of the Audit Committee on the current position and planned next steps relating to the investigation of Roads Contract Management.</p> <p>The Chief Executive presented the report to the Committee highlighting the main points as detailed in the report regarding the allegations of impropriety within the Council relating to Roads Contract Management.</p> <p>It is clearly of great importance that the Council should investigate such allegations robustly and thoroughly for the following reasons:</p> <ol style="list-style-type: none">1) To ensure that any poor practice or impropriety is exposed and to take appropriate action as a result, including, where appropriate, referral to Police Scotland;2) To protect the public purse and ensure the integrity of the Council's use of public funds; and3) To send a clear message to employees, contractors and potential contractors, and the public, that the Council has a zero tolerance approach to poor practice and impropriety and will act robustly to tackle and resolve it. <p>It was discovered that payments had been made to a Contractor not on the Procurement Framework and this amounted to £2.1 million over a period of 7 years. No allegations were made relating to work not being carried out or subject to inflated invoices. A senior manager within roads services resigned during the course of the investigation. During employee interviews a number of additional allegations were made and these were also investigated.</p>		

Evidence was found to support a number of the allegations which were passed to Police Scotland and no evidence was found to substantiate others. One other allegation relates to an area out with the scope of the investigation but will be picked up in Phase 2. HR Management are also reviewing the report in relation to any staff issues.

A number of weaknesses in relation to internal processes and procedures were identified and the Chief Internal Auditor has recommended actions to address these weaknesses as a matter of urgency which are detailed in the report.

The Chief Executive went on to explain the next steps and that the Council's External Auditors, EY have been commissioned to perform Phase 2 in accordance with the overview of scope as detailed within the report. EY will be assisted by the Council's Internal Audit and Corporate Fraud team with the scope to include areas identified during the phase 1 investigation. The purpose of this wider piece of work is to investigate whether the failings found within the roads service were in any way systemic within the organisation.

A Confidential Report of the findings from the Internal Audit and Corporate Fraud team's Phase 1 work has been issued to Police Scotland. Due to the ongoing Police Investigation, this report will remain Confidential.

Officers and Members are reminded of the importance of maintaining confidentiality to preserve the Council's position going forward to enable the next steps to be concluded in a proper and thorough fashion through Internal Audit, EY and Police Scotland.

The Chair then asked Members if they had any comments or questions regarding this matter.

Councillor Milligan stated that having read the report presented today he felt frustrated that they could speak with no surety without having sight of the full Phase 1 report and could not understand that although he had asked on several occasions for this report he had been refused due to the ongoing police enquiry. He felt that he could not comment without having knowledge or details of the report and having no factual details could not comment if all issues had been covered in Phase 1 or if the conclusion drawn from Phase 1 was correct. He did, however, acknowledge that the Police have strongly recommended that this report is not passed to anyone who does not have an exact need to know but he would argue the point that the Administration does have such a need to know.

He emphasised that another report is required detailing the failings in Phase 1 and separating them from the criminality. It is important to know how and what failed internally. He then went on to ask the question why the systems in place allowed this to happen and how this had not been picked up by the various officers and services and how we can stop this happening in the future.

The Chief Executive advised that he could understand members' frustration at not seeing the report but he was clear he could not go against the strong Police advice that had been given to him. He stressed that the members were in a difficult position to make a judgement about the suitability of the actions

highlighted in the report and that is why the recommendations are not asking for approval but for the Committee to note the work that has been done.

Thereafter the Chief Executive and the Internal Audit team responded to several questions and concerns raised by members which included:

- Suppliers on the payment system but not in the procurement framework.
- The strict tendering process with regard to this situation.
- The processes and procedures which should have been followed were not and that the appropriate services did not pick up that the compliance process and diligent checks were not carried out.
- Whistleblowing process and the employees in the Council with regards to this matter did not have the confidence in this process.
- Whether the Council has ever considered using Safecall – a whistleblowing facility used by some other councils.
- The recommendations within the report detail identified weaknesses within the control environment.
- The question on what are the internal failings and the importance of a report highlighting what these internal failings were.
- Segregation and vulnerabilities in the system.
- Employee authorisation limits for purchasing goods and services and signing off invoices.

Discussion took place on the processes, the weaknesses identified, the actions recommended and the objectives of Phase 1 and Phase 2.

Councillors highlighted the importance of a report outlining the internal systematic failures to allow them to understand the recommendations laid out within the report.

Decision

The Audit Committee agreed:

- The next meeting of the Audit Committee would be held on Tuesday 19 June 2018 at 9am.
- A further private report on Phase 1 of the investigation providing details on the reasons for the recommendations as set out in this report be prepared and presented to the Committee within 4 weeks.
- A report on employees' authorisation limits for purchasing goods and services and signing off invoices also be prepared.

- Thereafter a Special meeting of the Audit Committee to be arranged in order to consider this report (this meeting to be held in private in terms of Paragraph 14 of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973) and
- To otherwise note this report.

Action

Chief Executive, Chair Audit Committee, Democratic Services

5.

No private business was discussed.

The meeting terminated at 4 pm