

**MINUTES of MEETING of the MIDLOTHIAN COUNCIL AUDIT COMMITTEE** held in the Council Chambers, Midlothian House, Buccleuch Street, Dalkeith on Tuesday, 29 January 2013 at 11.00 am.

**Present:** - Mr P Smail (Independent Chair), Councillors Baxter, Beattie, Bryant, de Vink, Muirhead and Mr R Rae (Independent Member).

**In Attendance:-** Mr G Devlin (Grant Thornton, UK, LLP).

**Apologies for Absence:-** Councillor Milligan.

### **1 Audio Recording**

Before the commencement of business the Chair reminded members that proceedings were being audio recorded.

### **2 Order of Business**

The Clerk advised the meeting as follows:-

(a) That the Chair had agreed to take the following as an additional Agenda Item of urgent business:

- Item 5(a) – Midlothian Council Annual Audit Report.

(b) That a Follow Paper had been issued:-

- Item 12 – Report by Head of Finance and Human Resources - Internal Audit and Risk Management Resource.

### **3 Declarations of Interest**

No declarations of interest were intimated.

### **4 Minutes**

The Minutes of Meeting of 11 December 2012 were submitted and approved.

With reference to paragraph 14 of the Minutes (Independent Chair's Report), the Independent Chair reported that he and the Independent Member had held a very constructive meeting with Mr Gary Devlin (Grant Thornton UK, LLP) to discuss a number of audit issues.

## 5 Fuel Management

With reference to paragraph 8 of the Minutes of 11 December 2012, there was submitted report, dated 18 January 2013, by the Director, Corporate Resources, advising of progress made with the Fuel Management Improvement Plan.

In scrutinising the report the following was elicited:-

- The Director, Corporate Resources would take forward the suggestion that fuel cards be used in conjunction with photo identification at the point of purchase.
- Fuel cards would be dedicated by vehicle.
- The implementation of the unique identification by pin numbers was on target for implementation by 31 March 2013 and the Director, Corporate Resources would further report if this time line slipped.
- Whilst CCTV coverage of the yard at Penicuik had certain blind spots due to its constrained layout the CCTV had an unobstructed view of the fuel pumps. However, it was noted that the replacement depot on the Eastfield site would have appropriate CCTV coverage.
- That fuel usage (MPG) per vehicle would continue to be closely monitored.

### Decision

- (a) To note the actions being taken by the Director, Corporate Resources; and
- (b) To receive a further report from the Director following the implementation of the additional security measures.

(Action: Director, Corporate Resources)

## 6 Midlothian Council Annual Audit Report 2011/12

There was submitted the Midlothian Council Annual Audit Report approved by Grant Thornton UK, LLP, Auditors to Midlothian Council, under the Local Government (Scotland) Act 1973 for the period 2011/12. Midlothian Council had considered the report at its meeting on 18 December 2012 and had agreed to approve the recommendations in the Audit Report and to refer the Report to the Audit Committee for its interest.

The report advised in summary as follows:-

Reporting Area	Summary
Financial Position	<ul style="list-style-type: none"> <li>• The Council had a General Fund balance of £14.2m at the year end. The General Fund increased in the year as a result of a surplus against budget in 2011-12.</li> <li>• The uncommitted portion of the General Fund was £6.9m which exceeded the Council's target for reserved balances by some £3m.</li> <li>• Slower than expected progress in delivering savings through the Business Transformation Programme, significant demand led pressures, together with the loss of savings that had been anticipated from shared services for Education, had created a significant short term budget gap in 2013-14.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Governance arrangements were generally an area of strength for the Council. The Council had well-developed arrangements in place for scrutiny and an effective internal audit function was in place.</li> <li>• The Council's Senior Management Team had been operating with limited capacity due to changes in senior staff appointments during the year. Developing leadership capacity remained a key risk area in the current financial climate.</li> <li>• The review of internal controls for key financial systems found that they operated effectively.</li> </ul>
Performance	<ul style="list-style-type: none"> <li>• The Council received a Best Value report from Audit Scotland in June 2012 which indicated that the Council had "good prospects for future improvement".</li> <li>• Performance against statutory performance indicators was generally improving, but fell behind the national average in a small number of key areas.</li> <li>• There was scope for the Council to improve how it reports financial and operational performance more generally and to develop more outcome based measures of performance.</li> </ul>

Mr Gary Devlin, from Grant Thornton UK, LLP spoke in amplification of the report and in particular referred to the challenges ahead which could be summed up as: -

- Articulation of a vision of key priorities for the area that informs policy decisions about the allocations of resources.
- Development of leadership capacity.

- Continuing focus on performance management arrangements that support robust self-evaluation and improvement.

In addition he referred to the Action Plan which had been produced as part of the report. There then followed a question and answer/discussion session with members when the following points were elicited: -

- (a) The Council's Finance Team in liaison with their External Audit colleagues would continue to enhance the readability of accounts and financial reports;
- (b) The Committee would benefit from a briefing meeting with the External Auditors. In this regard the Independent Chair agreed to liaise with the Head of Finance and Human Resources to take this matter forward;
- (c) The Chief Executive emphasised the magnitude of the challenges and the consequent implications that lay ahead for the Council; and
- (d) It was noted that future policy would increasingly be about choices and about doing less in some areas. Accordingly, public consultation and engagement would require to be used to manage expectations and help reach a consensus about priorities.

### **Decision**

The Committee endorsed the Annual Audit Report 2011/12.

(Action: (a) Head of Finance & human Resources; and (b) Director, Corporate Services, in consultation with the Independent Chair)

## **7 Financial Monitoring 2012/13 - General Fund Revenue**

There was submitted report, dated 16 January 2013, by the Director, Corporate Resources, appending report, dated 3 December 2012, by the Head of Finance and Human Resources, on Financial Monitoring 2012/13 – General Fund Revenue which had been considered at the Special Meeting of Midlothian Council on 8 January 2013 when it had agreed:-

- (a) To refer the report to the Audit Committee for detailed scrutiny;
- (b) To note that the Head of Finance and Human Resources would report to the Council in February 2013 on proposals to reinstate the Financial Reserves to a prudent level; and
- (c) To otherwise note the report.

Thereupon the Audit Committee scrutinised the report and addressed various questions to the Director, Corporate Resources, Head of Finance and Human Resources and the External Auditor when the following points were elicited: -

- The Education Budget underspend of £583,000 was mainly due to an overprovision on budget and an analysis of the underspend was detailed in the report.
- The early retirement of teachers would not impact on the delivery of the service as it was planned as part of the Council's Business Transformation Programme.
- The amortisation of the capitalisation of equal pay settlements of £9 million was reflected in the revenue budget. (The Head of Finance and Human Resources agreed to provide Committee with further information on this matter.)
- Agency staff were used in the Homecare Services on a Best Value basis and to ensure that the Council met its performance standards and duty of care.
- The Homelessness Bed and Breakfast Accommodation Budget had been based on an average nightly requirement of around 77 beds. However, to date the average occupancy had been 85 places. However, the occupancy figure had now reduced to 78 beds and therefore the projected overspend would reduce provided the current situation prevailed.
- The usage of Pay and Display car parks in Dalkeith Town Centre was lower than anticipated and in this regard the Director, Corporate Resources agreed to bring forward a report on the matter to a future meeting of the committee.
- The Snowsports Centre had a shortfall in target income which was due to a slippage in the capital works. These core works had now been completed and therefore the Director, Corporate Resources considered that the shortfall should reduce as the financial year progressed. The Business Transformation Steering Group was monitoring the situation and was scheduled to receive a report in the near future.
- The reduction in income of the Building Maintenance Service following its move to fixed salaries had resulted in the Director, Corporate Resources establishing a Task Group to undertake a fundamental review of the work of the Section. Weekly monitoring was now in place and performance was improving and this would be reflected in Quarter 3 monitoring. The Director, Corporate Resources intended to submit a report on the Building Maintenance Service with recommendations to the next meeting of the Audit Committee.

## **Decision**

To note the report on the Financial Monitoring 2012/13 – General Fund Revenue.

(Action: Director, Corporate Resources)

## **8 Treasury Management and Investment Strategy 2013/14 and Prudential Indicators**

There was submitted report, dated 17 January 2013, by the Head of Finance and Human Resources, seeking agreement to the Treasury Management and Annual Investment Strategy for 2013/14 and the Prudential Indicators contained therein. Thereupon there followed a general discussion on the report and questions were asked by members to the Head of Finance and Human Resources.

Arising therefrom the Head of Finance and Human Resources agreed to clarify the Capital Expenditure table in the report and inform members accordingly.

### **Decision**

To note the report which would be considered by Midlothian Council on 5 February 2013.

(Action: Head of Finance and Human Resources)

### **Sederunt**

Mr Devlin left the meeting during the above item of business at 12.37 pm.

## **9 Internal Audit Report on Lasswade High School Replacement Project**

There was submitted Risk and Audit Services Internal Audit Report "Scottish Futures Trust - Lasswade High School Replacement Project and Community Campus". The objective of the audit was to review the adequacy of the control framework established by management to allow for the successful delivery of the new Lasswade High School Campus.

The audit identified strengths and effective controls in place over the course of the audit, and in particular, to date: -

- Control objectives were being met;
- Appropriate governance arrangements were in place to control the project;
- The Project Manager regularly updated the Project Team with reports giving an up to date view of progress and the risks facing the project;
- Stakeholder involvement through the life of the project had been robust;
- Costs, timeframes and quality of build had been monitored and reported on effectively;

- Contractors and consultants were satisfactorily controlled;
- Project variations and potential changes were promptly valued, reviewed and reported;
- Project changes were appropriately authorised;
- Contract conditions and employer's requirements were monitored and complied with;
- Construction guidance was followed;
- A detailed life cycled cost model had been prepared demonstrating a robust approach to on-going finances and the financial impact on both capital and revenue had been assessed and reported to Council; and
- The project had been resourced properly, carefully planned and managed which would leave Midlothian Council with a robust blueprint, and brand, for future projects, including the Newbattle High School.

In summary, given that a sound system of internal control had been identified and objectives were being met the level of assurance had been rated 'very high' and the audit had identified a number of areas of good practice which were being taken forward to future projects.

Arising therefrom Head of Finance and Human Resources agreed to provide the Members with the background report(s) considered by Midlothian Council in 2010.

### **Decision**

To welcome and note the Internal Audit Report on the Lasswade High School Replacement Project and Community Campus.

(Action: Head of Finance and Human Resources/Risk and Audit Manager)

## **10 Internal Audit Plan 2012/13: Progress Report**

There was submitted report, dated 18 January 2013, by the Risk and Audit Manager, presenting progress with the Internal Audit Plan for 2012/13 as at the end of January 2013. The report detailed the completed and reported audit assignments; planned work which had commenced but had not yet been completed; and those planned and unplanned tasks which had yet to commence. The Audit Plan indicated that within the available resource around 30-35 audit assignments would be possible in the financial year. However, the Risk and Audit Manager had concerns that there might be an overrun into April and early May and he would report on this at the March Audit Committee meeting.

The report also advised that the Section was now fully collaborating with the Internal Audit Section of East Lothian Council by sharing audit reports, ideas and heading in 2013/14 towards joint audit and greater collaboration which benefited each of the Sections.

### **Decision**

- (a) To note the report;
- (b) To receive a report at the March 2013 meeting on the position of the audits still to be completed; and
- (c) To congratulate the section on the work carried out to date.

Arising therefrom the Independent Chair requested that the Risk and Audit Manager make available to him the East Lothian audit reports for the next month.

(Action: Risk and Audit Manager)

## **11 Risk Management: High Risks**

There was submitted report, dated 18 January 2013, by the Risk and Audit Manager, detailing progress with the management of risks that were assessed as high and inviting the Audit Committee to scrutinise the processes and routines in managing these risks.

The Committee during consideration of the list of critical and high risks drew particular attention to the recent failure of the air conditioning units in the Midlothian House Computer Room and noted that any such major disruption would be critical and might jeopardise the Council's approach to business continuity. In this regard the Director, Corporate Resources advised that this risk was currently being addressed via the Council's Business Continuity Group and also that the Council's Insurers were meeting with the Risk and Audit Manager in regard to the Council's arrangements.

### **Decision**

To approve the risk management process that controls the High Risks.

(Action: Risk and Audit Manager)

## **12 Risk Management: Guidance for Elected Members**

There was submitted report, dated 18 January 2013, by the Risk and Audit Manager, appending a draft Guide on Risk Management for Elected Members and seeking its approval of the Audit Committee and the subsequent rollout to all elected members from February 2013.



**Decision**

- (a) To approve the Risk Management Guidance for Elected Members; and
- (b) To endorse the proposed approach to its rollout in February 2013.

(Action: Risk and Audit Manager)

**13 Exclusion of Members of the Public**

In view of the nature of the business to be transacted, the Council agreed that the public be excluded from the meeting during discussion of the undernoted item, as contained in the Addendum hereto, as there might be disclosed exempt information as defined in paragraph 11 part 1 of Schedule 7A to the Local Government (Scotland) Act 1973:-

Internal Audit and Risk Management Resource – To endorse the Restructuring Proposals within the Finance and Human Resources Section.

The meeting terminated at 12.55 pm.

