

MINUTES of MEETING of the MIDLOTHIAN COUNCIL AUDIT COMMITTEE held in the Committee Room, Midlothian House, Buccleuch Street, Dalkeith Tuesday 18 September 2012 at 11.00 am.

Present:- Councillors Baxter, Beattie Bryant ,Milligan, and Mr R Rae (Independent Member).

1 Procedure

Prior to the commencement of business and with reference to paragraph 1 of the Minutes dated 12 June 2012, the Chief Executive explained that the Council at its meeting on 25 September 2012, would consider a report on the appointment of an independent Chair of the Committee and that until such an appointment could be made, it would be necessary to appoint an interim Chair, from within the membership of the Committee .

Decision

To appoint Councillor Baxter as Interim Chair of the Committee.

2 Order of Business

The Committee noted that the report from the Council's Auditors in respect of ISA 260 (Agenda item no. 8) had been tabled. The Committee agreed to give consideration to the report in accordance with the published order of business.

3 Declarations of Interest

Councillor Baxter indicated, in respect of Gourlaw/Newbigging/Shewington opencast Community Fund (Agenda item no.16) that whilst he had no direct interest in the issue *per se* he had previously been involved in his former role as Chair of Bonnyrigg and Lasswade Community Council. He enquired whether this involvement prevented him from participating in debate on this issue. The Chief Executive advised that there was no apparent conflict of interest and Councillor Baxter was therefore free to participate in the debate.

Councillor Milligan indicated, also in respect of Gourlaw/Newbigging/Shewington opencast Community Fund , that as Life Member of Bonnyrigg Rose Junior Football Club, he had a direct interest in the issue and accordingly he would not participate in the debate on this matter.

Councillor Beattie advised that her spouse was a member of the Public Audit Commission and sought clarification whether this membership precluded her

from participating in the Committee's deliberations. The Chief Executive advised that there was no apparent conflict of interest and Councillor Beattie was therefore free to participate in the Committee's debates and deliberations.

4 Minutes

The Minutes of Meeting of 12 June 2012 were submitted and approved.

5 Annual Treasury Management Report 2011/12

There was submitted report, dated 4 September 2012, by the Head of Finance and Human Resources, advising the Committee of the Treasury Management activity undertaken in 2011/12 and the year end position. The report highlighted

- Total new long term borrowing taken in the year amounted to £26.8 million, sourced 100% from PWLB and thereby taking advantage of historically low PWLB rates;
- There had been an increase in the use of temporary market borrowing from other UK Public Authorities in order to take advantage of market money rates which were frequently available throughout the year at less than base rate;
- The average rate of interest paid on external debt was maintained at 3.46% from 2010/11 to 2011/12, with a general trend downward throughout the year from a high of 3.75% in April 2011 to a low of 3.08% in March 2012;
- The average rate of return on investments was 1.49% in 2011/12, up from 1.01% in 2010/11, and exceeding the benchmark of 0.82% for the ninth year in succession;
- No debt rescheduling was undertaken during 2011/12; and
- The loans fund rate decreased from 3.46% in 2010/11 (lowest mainland Authority in Scotland) to 3.29% in 2011/12, which was again expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland.

The report concluded that Treasury Management activity during the year had been effective in minimising the cost of borrowing and maximising investment income within the parameters set by the strategy for the year.

Decision

To approve the Treasury Management Annual Report for 2011/12.

(Action: Head of Finance and Human Resources)

6 Interim Audit Report 2011/12

There was submitted report dated July 2012, from Grant Thornton UK providing an update on their response to key risks from the results of interim audit work carried out to date. The report explained that as part of the interim audit they had reviewed the effectiveness of Midlothian Council's core financial systems and followed up the progress in implementing recommendations agreed in prior year audit reports. The interim audit had found that the systems of internal financial control reviewed to be operating at a good standard. The Auditors were able to place reliance over controls tested for operating expenses and that controls were designed effectively within other systems that had been identified as higher risk, including council tax, housing rent and arrangements for cash and bank. The auditors had identified areas for improvement in respect of internal control arrangements for starters and leavers to the Payroll system; the development of a register of interests for Council employees; maintaining the independence of Internal Audit; and improvements to the information technology control environment. The report therefore included Action Plans to address these issues which had been agreed with the Head of Finance and Human Resources.

Decision

- (a) That the relocation of the back up server from Fairfield House be advanced from July 2017; that this matter be considered by the Business Continuity Group; and to receive a progress report in this respect by no later than 31 December 2012;
- (b) That progress reports on each of the matters which were the subject of the Action Plan be submitted to the next meeting; and
- (c) To otherwise note the report.

(Action: Director, Corporate Resources; Head of Finance and Human Resources).

7 Report on the 2011 - 12 Annual Accounts Audit

There was tabled report by Grant Thornton UK in respect of the audit on the 2011-12 accounts (year ended 31 March 2012). The report advised that the auditors expected to give an unqualified opinion on the accounts; expected to confirm that each of the Council's Statutory Trading organisations had met their break even financial target over a rolling three year period; the audit had identified two adjustments which had been processed by the Finance unit and two unadjusted misstatements ; and in respect of the effectiveness of internal controls had identified two additional control findings.

Decision

- (a) To note the need to identify further short term savings in the current year;
- (b) To note the increased share of revenue taken up by pension contributions;
- (c) To note that the Council remained within the prudential bowing limit for the year; and
- (d) To otherwise note the report.

(Action: Head of Finance and Human Resources).

8 Annual Assurance Statement on Internal Control as at 31 March 2012 and Annual Governance Statement 2011/12

There was submitted report, dated 30 April 2012, by the Risk and Audit Manager presenting the findings for 2011-12 in relation to (1) the Annual Assurance Statement on the system of Internal Control and (2) the Annual Corporate Governance Statement which would be included in the Council's financial accounts. The report provided detailed background information on both aspects of the subject matter; levels of reported fraud; Data Protection compliance and the main findings from audit assignments. The report included a draft Annual Governance Statement for 2011-12 which would be included in the published financial statements.

Decision

- (a) To endorse the Risk and Audit Manager's Annual Assurance Statement on the System of Internal Control; and
- (b) To note that the issues regarding Accounts Receivable Collection Performance and Data Protection would be included in the Council's Annual Governance Statement.

(Action: Risk and Audit Manager).

9 Internal Audit Plan 2012/13: Progress Report

There was submitted report, dated 29 August 2012, by the Risk and Audit Manager, detailing the progress made with the Internal Audit Plan for 2012/13. The report highlighted those tasks/assignments which had been completed and those which were ongoing.

Decision

To note the report.

10 Internal Audit Report – Performance Indicators

There was submitted report, dated 22 August 2012, by the Risk and Audit Manager, on an audit of Performance Indicators. The objective of the audit was to review the process and controls to allow the collection and accurate reporting of performance indicators (PIs) which were reported quarterly through services to measure their performance. The audit was aimed at providing assurance that the data contained in Covalent (performance management system) was accurate and up to date. Housing & Community Safety – (a range of indicators in Housing and Environmental Health) and Education were included in the scope of the review along with a sample of high operational risks. The audit had concluded that there were weaknesses in the system of internal control which should be addressed within a reasonable timescale and that improvements were required in the way risks were managed. The report therefore included a management action plan to address those issues identified by the audit.

Decision

- (a) To approve the Management Action Plan and the associated Checklist to ensure Transparency, Accuracy, and Governance;
- (b) That Internal Audit unit undertake a verification exercise in respect of PIs to be posted by the Housing Unit on Covalent; and
- (c) To otherwise note the report.

(Action: (a) All; (b) Head of Housing and Community Safety/ Risk and Audit Manager).

11 Risk Management Control Programme 2012/13

There was submitted report, dated 29 August 2012, by the Risk and Audit Manager, detailing progress with the Risk Management Control Programme for 2012/13 and inviting Committee scrutiny. The report explained that the annual risk control programme centred on a set of Risk Management Performance Indicators (PIs) which were detailed in an appendix to the report. The report also detailed the status of each of the risks.

Decision

To note the report and that a further update would be submitted in March 2013, in accordance with Audit Committee Reporting Calendar.

(Action: Risk and Audit Manager).

12 Corporate Risk Register

There was submitted report, dated 29 August 2012, by the Risk and Audit Manager, presenting a progress report on the Corporate Risk Register and inviting Committee scrutiny. The report explained that the Corporate Management Team had received a report on this subject on 16 July 2012 and the report incorporated both the report submitted and the associated papers.

Decision

To note the report.

13 Challenges and Change in 2012 and the Audit of Best Value and Community Planning: Improvement Plan

There was submitted report, dated 23 August 2012, by the Chief Executive, presenting (a) an Accounts Commission report: An Overview of Local Government in Scotland: Challenges and Change in 2012, which provided an overview on issues arising from local authority audits; and (b) incorporated an Improvement plan in response to the findings of the Audit of Best Value and Community Planning.

In respect of the Accounts Commission publication, the report stressed that it provided both a review of recent audit work and an overview of the challenges facing local government in 2012 and beyond; the resource and demand pressures facing local government in 2012 and highlighted four responses for Councils to address these pressures, viz:-

- Leadership and governance
- Working in partnership
- Options for service delivery
- Performance information

In respect of the Audit of Best Value and Community Planning, the Audit had shown that the Council's overall performance was satisfactory and the Council had good prospects for future improvement. The report therefore incorporated an Improvement plan outlining the actions required to address the four key areas for improvement and any associated areas.

Decision

- (a) To note the publication of "An Overview of Local Government in Scotland 2012: Challenges and Changes in 2012" and
- (b) To note the Best Value Improvement Plan as the Council's response to the areas for improvement identified in the Best Value audit report.

(Action: Corporate Improvement Manager)

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Councillor Milligan left the meeting at this stage (12.13 pm).

14 Gourlaw /Newbigging /Shewington Opencast Community Fund – Administrative Arrangements

With reference to the addendum to the Minutes of meeting of 19 April 2011, there was submitted report dated 6 September 2012, by the Director, Corporate Resources advising the Committee on progress with the Management Action Plan arising from the Internal Audit report relating to the Gourlaw/Newbigging/ Shewington Opencast Community Fund ; the outcome of the Police investigation; and arrangements for disbursements for projects submitted for consideration by the Gourlaw Sub Committee.

The report stated that the majority of the recommendations arising from the Internal Audit had been either implemented or would be actioned as future applications for funding are assessed by officers for consideration by the Gourlaw Sub Committee. In this respect the Director had established a group of relevant officers to consider each application prior to presenting the details to the Gourlaw Sub Committee. In respect of the Police investigation, the report advised that the Procurator Fiscal had determined that the information provided did not disclose a crime and there were no proceedings in contemplation in relation to this matter. The decision of the Procurator Fiscal would now allow the Director to meet with Bonnyrigg Rose Junior Football Club to discuss those issues which remained outstanding from the management action plan. In respect of the arrangements for disbursements, the Director, intended to establish a regular cycle of meetings of the Sub-Committee as part of the Council's approved meeting schedule and the next meeting of the Sub-Committee would be provided with a financial update together with costed details of emerging projects.

Decision

- (a) To note the position with regard to the implementation of the Management Action Plan;
- (b) To note that the Director, Corporate Resources, along with Internal Audit, would meet with Bonnyrigg Rose Junior Football Club to progress those outstanding issues following the decision of the Procurator Fiscal;
- (c) To note the intention to implement and introduce a schedule of regular meetings of the Gourlaw Sub Committee and to provide additional support to the members thereof;
- (d) To note that the Chief Executive would appraise the external auditors of the current position.

(Action: (b) (c) Director, Corporate Resources; (d) Chief Executive)

The meeting terminated at 12.35 pm.