

Minute of Meeting

Audit Committee
Monday 30 October 2023
Item 4.2



Audit Committee

Date	Time	Venue
Tuesday 26 June 2023	11:00am	Council Chamber/Hybrid

Present:

Councillor Smaill (Chair)
Councillor Bowen
Councillor McCall

In Attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Morag Barrow	Joint Director Health and Social Care
Fiona Robertson	Executive Director Children, Young People & Partnerships
Derek Oliver	Chief Officer Place
David Gladwin	Acting Chief Financial Officer
Duncan Stainbank	Chief Internal Auditor
Elaine Greaves	Principal Internal Auditor
Willie Venters	Principal Solicitor
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies for Absence

The Chair welcomed Patricia Fraser from Audit Scotland and intimated apologies on behalf of Claire Gardiner, Audit Scotland, Councillor Milligan and Councillor McEwan.

2. Order of Business

The order of business was as detailed in the agenda and the chair indicated at the end of the meeting there will be a brief discussion on the Chair's report and the Chair for the next meeting of the Audit Committee on 26 September 2023.

3. Declarations of interest

No declarations of interest were intimated at this stage of the proceedings.

4. Minutes of Previous Meetings

4.1 The minute of the meeting of 7 March 2023 was submitted but it was noted that there were insufficient members present who had been in attendance at the previous meeting therefore it was agreed this would be submitted to the next meeting of the Audit Committee for approval.

4.2 The Action log was submitted and noted.

1. Responsible Treasury Management: ongoing

2. **Internal Audit Mid-Term Performance Report 2022/23:** The report will be submitted to BTSG then next Audit.

3. **Internal Audit Work to February 2023:** Clarification on ALEOs – Mr Stainbank provided an update on the ALEOs and advised that the procedures would be amended so they are clear what the definition of an ALEO is going forward.

In responding to a question from the Chair regarding Midlothian Energy and that they do not have a Councillors on their governing body, Mr Stainbank confirmed that the governance arrangements between the Council and the ALEO would be within the scope of the Internal Audit arrangements and confirmed there would be report on Midlothian Energy within the appropriate cycle of the internal audit plan.

Mr Anderson, in responding to a comment from the Chair with regards to a report on Midlothian Energy confirmed that the annual business plan would be presented to Council and then if required submitted to the Audit committee.

4. **Internal Audit Work to February 2023:** Ms Robertson advised that they do double check in terms of membership of the panel and at the last meeting no-one declared an interest. Ms Robertson also provided an update on the external recruitment process previously used which worked well and that they will be reviewing the membership of the panel going forward and confirmed there will be proposals to eliminate conflicts of interest.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Counter Fraud Annual Report 2022/23	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of the report was to make the Audit Committee aware of the Council's counter fraud responsibilities and the activities of the Integrity Group and Corporate Fraud team in liaison with other services over the past year as part of the arrangements to tackling fraud at the Council.</p> <p>The Chief Internal Auditor, Duncan Stainbank in presenting this report highlighted the main sections contained within the report and highlighted that as a result of counter fraud activity a total savings value of £360,070 has been identified during 2022/23 and that the total savings from the NFI 2020/21 exercise were estimated at £718,557 and these outcomes are detailed in the appendices attached to the report.</p> <p>Councillor McCall commented on the interesting report and highlighted the good outcome in 5.2 and the collaborative working between the housing team and audit team.</p> <p>In responding to a question raised by the Chair, Ms Grieves advised that it was unsure if these properties were involved in sub-letting but did confirm that in the past it has been a mixture of sub-letting and abandoned houses.</p> <p>Mr Stainbank also provided an update on the work regarding single occupancy and the processes in place to match this with electoral register to confirm who is living in the household and the recovery funds where possible.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none">a) Considered the counter fraud work undertaken during the year to 31 March 2023 in support of the Council's counter fraud policy and strategy; andb) Noted the outcomes of the counter fraud activity 2022/23.		

Report No.	Report Title	Submitted by:
5.2	Internal Audit Work to May 2023	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to provide members of the Audit Committee with 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>		

The Internal Audit Annual Plan 2022/23 was approved by the Audit Committee on 14 March 2022. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

The Chief Internal Auditor, Duncan Stainbank in presenting this report advised that internal audit issued the final assurance reports on Care at Home, Construction projects and the Mental Health Services 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 to the report.

The Joint Director Health and Social Care, Morag Barrow in responding to a question raised by Councillor McCall with regards to the overpayments paid to two providers advised that after going to a new model of provisioning care at home the two providers had committed to provide x amount of hours for the year but struggled to do that and because it was a different model it just took a bit longer to get the money back but confirmed that this had all been recovered now. Ms Barrow also advised that there was no mistake it was just that the length of time it took for the process to get the money back.

Mr Stainbank also advised that at the time of the report writing there was concerns about getting the money back but also confirmed the money is now all paid back.

In responding to a follow up question from the Chair regarding this happening again, Ms Barrow advised there has always been a process in place and there are weekly monitoring meetings and could see no reason which this would reoccur but if it did it would be picked up immediately.

The Chair highlighted within Construction there were a number of areas which were weak and sought clarity on this, in responding Mr Stainbank advised that framework is in place but some of the elements of the procedures and processes had changed and in 1 or 2 occasions procedures were not followed or items not filled in but advised that he has no concerns over the overall framework.

Mr Stainbank further confirmed that all the processes are in place to resolve those issues with the recommendations which are to be implemented by September this year and advised that they will be making changes to the reporting to make that link between the assurance statement given and the work that has been undertaken in the audit clearer.

Mr Stainbank, in responding to the request from the Chair for a further updated report confirmed that he would bring back an updated report on these recommendations in December 2023.

Decision

The Audit Committee:

- a) Considered the Executive Summaries of the final Internal Audit assurance reports issued associated with the delivery of the approved Internal Audit Annual Plan 2022/23.

b)	Noted the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; and
c)	Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.
d)	Agreed that an updated report would be provided to the Audit Committee at the December meeting.
Action	
Chief Internal Auditor	

Report No.	Report Title	Submitted by:
5.3	Internal Audit Annual Assurance Report 2022/23	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2023 which includes the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.</p> <p>The Public Sector Internal Audit Standards (PSIAS) require that the chief audit executive, the Council's Chief Internal Auditor, provides an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement. This is in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance.</p> <p>To meet the requirements of the PSIAS, the Internal Audit Annual Assurance Report 2022/23 (Appendix 1) includes the Chief Internal Auditor's annual opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.</p> <p>The Chief Internal Auditor, Duncan Stainbank presented this report highlighting the key areas of concern which included the level of resourcing for procurement and compliance with procurement processes and procedures across the Council.</p> <p>The Chair highlighted the work with Henderson Loggie as an outsourced provider and the constraints within the audit team and if these two are related due to the council not having a big enough audit team, in responding Mr Stainbank advised on the gap in resources between the previous arrangement in place with Scottish Borders and him coming into post and that Henderson Loggie had been arranged to assist with the completion of the 2022/23 Internal Audit Plan. In responding to a follow up question from the Chair, Mr Stainbank advised the funds were in the budget for 2022/23 and this was carried forward to this year to cover the costs this year.</p>		

Mr Stainbank in responding to a further question provided an update on the 3 audits which had been removed from the 2022/23 Audit plan and confirmed that school budget will be covered in this year's audit plan.

The Chair enquired as to there being any risks with destroying audit files and Mr Stainbank advised there had been a backlog but confirmed there should be no risk as the audit files are destroyed following the retention policy

Decision

The Audit Committee:

- (a) Considered the Internal Audit Annual Assurance Report 2022/23 (Appendix 1), and assurances contained therein; and
- (b) Provided any commentary thereon, including any further actions required by Management.

Report No.	Report Title	Submitted by:
5.4	Draft Annual Governance Statement 2022/23	Chief Executive
Outline of report and summary of discussion		
<p>The purpose of this report was to propose that the Audit Committee considers and approves the draft Annual Governance Statement that will be published in the Council's Statement of Accounts 2022/23.</p> <p>Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council's Local Code of Corporate Governance that was approved by Council on 23 March 2021 was used to assist with the annual assurance process 2022/23.</p> <p>The draft Annual Governance Statement 2022/23, which is appended to this report as Appendix 1 for consideration, is the output from the annual assurance process and review against the updated Local Code.</p> <p>The Chief Executive, Grace Vickers presented this report outlining the main sections contained within the Annual Governance Statement and highlighted the key areas for improvement and the systems in place to regularly review and improve governance arrangements and the system of internal control.</p> <p>Mr Gladwin confirmed that this statement will be included in the Council's Statements of Accounts 2022/23.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> a) Considered the details of the draft Annual Governance Statement 2022/23 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledge the actions identified by Management to improve internal controls and governance arrangements; and 		

- b) Approved that it be published in the Council's Statement of Accounts 2022/23, noting the requirement for the final Annual Governance Statement to be signed by the Chief Executive and Leader of the Council at the conclusion of the external audit process.

Action

Chief Executive/Leader of the Council

Report No.	Report Title	Submitted by:
5.5	Unaudited Annual Accounts 2022/23	Chief Finance Officer (Acting)
Outline of report and summary of discussion		
<p>The purpose of this report was to outline material changes in the value of net assets at 31st March 2023 and to facilitate Audit Committee consideration of the Council's unaudited annual accounts for 2022/23.</p> <p>At the time of writing this report, final adjusted Lothian Pension Fund valuation figures are not yet available and a final review of the remainder of the accounts is taking place.</p> <p>The Chief Finance Officer (Acting), David Gladwin provided an overview of the timeline for the Annual Accounts and highlighted the main sections as contained within the report.</p> <p>The Chair highlighted the valuation changes to houses and the number of council houses build dropped but work in progress and asked for assurance on the effectiveness of the social housing programme and getting value from money. In responding Mr Anderson confirmed the average unit cost has increased and provided an update advising that the annual report would be submitted to Council, and this could also be shared with the Audit Committee.</p> <p>Councillor McCall raised a question with regards to the increase in non-domestic rates income and Mr Gladwin provided a brief update on how the Scottish Government distributes the money and that it is not related to businesses in Midlothian. There followed further discussion regarding the revaluation and the pressures this brought to Midlothian and Mr Gladwin provided an explanation on the piece of work still ongoing with this and Mr Gladwin confirmed that he would send information to Elected Members on the figures for the non-domestic rates.</p> <p>Mr Oliver in a response to Councillor McCall's question provided an update on the number of new businesses for 2020/21 - 83; 2021/22 - 124 and for 22/23 -121 new businesses.</p> <p>Mr Gladwin confirmed that the financial statements will not go to Council until this the Audit Committee approve the draft audited financial statements later in the summer and confirmed that he would circulate a copy of the accounts which he signs and submits to Audit Scotland, and they will also be published on the Council's website.</p>		

The Chair thanked Mr Gladwin and his team for all the work that has gone into this document.

Decision

In accordance with The Local Authority Accounts (Scotland) Regulations 2014 set out in section 3.2 of this report and specifically sections 8 (9) and 8 (10), Audit Committee considered the unaudited annual accounts for 2022/23.

Report No.	Report Title	Submitted by:
5.6	Annual Treasury Management Report 2022/23	Chief Finance Officer (Acting)
Outline of report and summary of discussion		
<p>The purpose of the report was to inform members of the Audit Committee of the Treasury Management activity undertaken in 2022/23 and the year-end position.</p> <p>The Chief Finance Officer (Acting), David Gladwin advised that this would be presented to Council on 27 June 2023, and he would update them on any discussions from today's meeting, thereafter Mr Gladwin highlighted the main sections as contained within the report.</p> <p>In responding to questions raised by Councillor McCall regarding the significant risks to that central forecast and an explanation on the useable reserves of £90.583 m, Mr Gladwin provided an explanation on the risk on borrowing decisions and interest rates to support capital projects. Mr Gladwin further provided an explanation on the useable reserves of £90m which are held in the general fund, housing revenue account and the capital fund and the decision taken as part of the treasury strategy is to place those on short term deposit and will get some interest on them but also keep them readily available should they be required.</p> <p>The Chair enquired if there was any indication when the VAT money will be paid and Mr Gladwin advised we do not have the money in the bank, but it has been accounted for in 2022/23 and we do have the certainty that we will receive it, the first claim should be soon and the second one may take a bit longer.</p> <p>Councillor McCall raised a further question with regards to the overall Midlothian's loans fund rate of 2.41% and Mr Gladwin advised that this is a calculation of all the borrowing and investment costs over the year and Midlothian has been one of the lowest in Scotland for some time.</p>		
Decision		
<p>The Audit Committee is invited to consider this report before the final report is resented to Council. Committee should note that the proposed recommendation to Council is that it note the Annual Treasury Management Report 2022/23.</p>		

Report No.	Report Title	Submitted by:
5.7	Treasury Management and Investment Strategy 2023/24 – Credit Risk Update,	Chief Finance Officer (Acting)
Outline of report and summary of discussion		
<p>This paper has been prepared to provide an update to Audit Committee members on the current market position regarding credit risk on deposits, the Council's exposure to credit risk, and how this risk is mitigated through the Council's assessment of counterparty creditworthiness in the approved TMIS.</p> <p>Chief Finance Officer (Acting), Mr Gladwin advised that at the request of members at the Council meeting on 21 March 2023, he has prepared a report to update members on the current market position regarding credit risk following the collapse of Silicon Valley Bank and Credit Suisse and failure of Signature bank and provided a brief outline of the contents of the report.</p> <p>The Chair referred to the table on P99 and Mr Gladwin advised that Link are clear that all the entities in the table are assessed in accordance with their credit criteria and they are well within the safe approach to depositing money. Mr Gladwin then responded to a further question with regards to borrowing with local authorities and provided an explanation on the reasons why this has changed.</p> <p>Councillor Bowen raised a question with regards to depositing money and Mr Gladwin provided an explanation on how the decisions are made using external advisors, the treasury strategy and their own internal process and the decision is made by him as the Section 95 Officer within an approved strategy and methodology.</p>		
Decision		
The Audit Committee noted the content of this report.		

Report No.	Report Title	Submitted by:
5.8	Midlothian Council Annual Audit Plan	Executive Director Place
Outline of report and summary of discussion		
<p>This document summarises the work plan for our 2022/23 external audit of Midlothian Council. The main elements of our work include:</p> <ul style="list-style-type: none"> • evaluation of the key controls within the main accounting systems • an audit of the annual accounts, and provision of an Independent Auditor's Report • audit opinions on the financial statements and other statutory information published within the Annual Accounts including the Management Commentary, Annual Governance Statement and the Remuneration Report 		

- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return.
- reviewing the council's arrangements for preparing and publishing statutory performance information.

Senior Audit Manager, Patricia Fraser presented the Annual Audit plan outlining some of the key points contained within the report and highlighted which included materiality levels and a summary of the nature of the risk – detailed in Exhibit 1 and 2; the wider scope risks -detailed in Exhibit 3 and highlighted that the fee has increased in 2022/23 and noted the concerns around the increased cost and provided a brief summary of the reasons for this increase.

In responding to a question raised by the Chair, Ms Fraser confirmed that the additional work is around outcomes, leadership, and environmental activities and some of this work has already been carried out.

Decision

The Audit Committee noted the content of this report

Report No.	Report Title	Submitted by:
5.9	Risk Management Update – Strategic Risk Profile Q4 2022/23	Chief Officer Place
Outline of report and summary of discussion		
<p>The purpose of this report was to provide Audit Committee with:</p> <ol style="list-style-type: none"> An update on the risk responses Midlothian Council has implemented during Q4 2022/23 to respond to the current risk climate. Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate. The risk evaluation of current strategic risks and opportunities for the Council. <p>Chief Officer Place, Derek Oliver presented this report highlighting main sections contained within the report.</p> <p>The Chair raised cyber risk and Mr Oliver advised this was included in the risk profile and discussions had taken place.</p>		
Decision		
Audit Committee noted the current risk landscape and organisational response to the most significant risks in Quarter 4 (Q4) 2022/23 (1 January to 31 March 2023).		

6. Private Reports

None

7. Date of Next Meeting

Date of Next Meeting: Tuesday 26 Sept at 11am.

The Chair advised that as there was no independent Chair the arrangement was to share the Chair around the groups and that he was initially to take up the post of Chair until July 2023, thereafter Councillor Milligan would take up the Chair then ultimately Councillor McEwan. However, as the Chairman's report was not completed and in discussion with officers, the suggestion was that Councillor Smaill would continue in the position of chair for the next meeting.

This was unanimously agreed.

The meeting terminated at 12.14 pm.