

Minute of Meeting

Audit Committee
Tuesday 10 May 2016
Item No. 4.1



Audit Committee

Date	Time	Venue
Tuesday 15 March 2016	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Peter Smail (Independent Chair)	Michael Thomas (Independent Member)
Councillor Baxter	Councillor Bryant
Councillor de Vink	Councillor Muirhead
Councillor Parry	

In attendance:

Kenneth Lawrie	Chief Executive
Graham Herbert	Internal Audit Manager
Claire Gardiner	External Auditor Grant Thornton
Paul Dossett	External Auditor Grant Thornton
John Blair	Director Resources
Mary Smith	Director Education, Communities and Economy
Eibhlin McHugh,	Joint Director of Health & Social Care
Gary Fairley	Head of Integrated Service Support
Ricky Moffat	Head of Commercial Operations
Ian Johnson	Head of Communities and Economy

1. Apologies

1.1 Apologies were received from Councillor Milligan.

2. Order of Business

The order of business was confirmed as outlined in the agenda that had been circulated.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

4.1 The minutes of the Audit Committee meeting of 8 December were submitted and approved as a correct record.

5. Reports

Report No.	Report Title	Presented by:
5.1	Draft Midlothian Council Annual External Audit Plan	External Auditors, Grant Thornton

Outline of report and summary of discussion

There was submitted the Midlothian Council Annual External Audit Plan for the financial year ending 31 March 2016. Claire Gardiner, External Auditor presented to the Committee the External Audit Plan which covers the audit approach to the financial statements and the wider responsibility under the Audit Scotland code which includes a review of governance and performance. The report outlines the key areas and challenges in the current year including the financial pressures and the identification of significant audit risks. Also included within the report is a timetable on the key phases of the audit for 2015/16.

Paul Dossett, External Auditor presented an update to the Committee on the Audit Plan which included the following:

- An Interim Audit has been conducted and the progress is going well.
- A whistle blowing allegation has been made and a draft report is with management for comments and this will be presented to the next Audit Committee meeting with recommendations where appropriate.
- An explanation on the procurement process by Audit Scotland for External Audit for next 5 years, starting 2016/17 and the timescale in which this will be concluded.

Thereafter the External Auditors responded to questions raised by the Committee members which included:

- Audit Scotland following the public £and how this will be scrutinised for best

value within local authorities.

- Clarification on the process on the appointment of External Auditors and the reasons why the appointment is carried out by Audit Scotland.
- It was highlighted there was one red alert within this report regarding Property, Plant and Equipment. It was explained that this affected all Councils.
- An explanation on net cost of services operating expenditure and accounting expenditure and the savings requirement of 3%.

Decision

- To note the increase in 1% audit fees for this year.
- To otherwise note the report.

Report No.	Report Title	Presented by:
5.2	Risk Management Report	Risk Manager

Outline of report and summary of discussion

The Risk Management update dated 8 March 2016 was submitted for quarter 3. The purpose of the report is to provide the Audit Committee with an update of the Strategic Risks, Issues and Opportunities facing Midlothian Council. The Head of Commercial Operations presented this report to the Committee highlighting the main sections of the report, thereafter giving detailed responses to the Committee's questions which included:

- General Data Protection Regulation risk.
- How the Council monitors and addresses the risks of flooding.

Decision

- To note the Strategic Risk Profile update report and consider the current response to the risks and opportunities highlighted.

Report No.	Report Title	Presented by:
5.3	Financial Monitoring 2015/16 and Financial Strategy 2016/17 to 2020/21	Director Resources

Outline of report and summary of discussion

There was submitted a report dated 8 March 2016 by the Director, Resources, bringing to the Committee's attention reports by the Head of Finance and Integrated Service Support, which had been considered by the Council on 8 February 2016 and 8 March 2016.

The Head of Finance and Integrated Service Support updated the Committee on the Council's decisions of 9 February and 8 March 2016 in respect of the following reports:

The Council Meeting 9 February 2016:

- (i) The Financial Strategy 2016/17, the Council's decision was to freeze Council Tax 2016/17.

The Council's decision was to note the recommendations for the following three reports:

- (ii) Financial Monitoring 2015/16 – General Fund Revenue.
- (iii) General Services Capital Plan 2015/16 Quarter 3 Monitoring.
- (iv) Housing Revenue Account - Revenue Budget and Capital Plan 2015/16.

The Special Council meeting on 8 March 2016:

- (i) The main purpose of this meeting was for the Council to set a balance budget for 2016/17. Council agreed the recommendations with some changes: (i) in respect of the Members Environmental Projects to reinstate £180,000 per annum back into the General Services Capital Plan; (ii) not accept the increase in free school meals. Approve the utilisation of £2.663 million of reserves in 2016/17 to balance the budget.

The Council's decisions was to approve the following two reports:

- (ii) General Services Capital Plan 2015/16 to 2020/2.
- (iii) Treasury Management and Investment Strategy 2016/17 and Prudential Indicators (March 2016).

Thereafter the Head of Finance and Integrated Service Support gave detailed responses to questions from the Committee which included:

- National Living Wage and the Council Pay Grade in relation to this.
- Confirmation of the Council's Reserves.
- Transformation Savings and any update on the expenditure on the transformation activity.

Decision

- To note the recommendations.

Report No.	Report Title	Presented by:
5.4	Internal Audit Plan 2016/17	Internal Audit Manager

Outline of report and summary of discussion

There was submitted a report by Internal Audit Manager dated 24 February 2016. The Internal Audit Manager explained the purpose of the report was to present the draft Internal Audit plan for 2016/17; an explanation on how the plan was developed and the priorities for the internal audit activity during the year. The Audit Committee was invited to review and comment on the draft plan. The manager highlighted that

it was proposed to hold a session in May 2016 for members as detailed in the recommendations. It was also highlighted that there is provision in the plan for up to 4 audits in the year for emerging risks and that the Plan is flexible and could be adjusted should any new risks arise.

Decision

The Audit Committee agreed the following recommendations:

- To note that 100 days has been set aside for Health and Social Care within the plan but that the proposed audits and time allocated may change following input from the Integrated Joint Board Audit and Risk Committee.
- To note that following a recommendation by Grant Thornton a session with members of the Audit Committee will be arranged to identify priorities for the coming year.
- To otherwise note the report.

Report No.	Report Title	Presented by:
5.5	Internal Audit Report – Review of Controls Operating Over Developer Contributions	Senior Internal Auditor

Outline of report and summary of discussion

The report submitted was presented to the Committee by the Senior Internal Auditor providing details on the controls in place over Developer Contributions and whether these were adequate. Also highlighted to the Committee were the strengths identified; the areas where improvement was required and the recommendations proposed by Internal Audit.

The Senior Internal Auditor provided clarity on the issue regarding the recording and monitoring of Developer Contributions and the responsibility of collection of amounts owed by the relevant due date.

Thereafter the Head of Communities and Economy gave a background on why this Audit was requested and gave assurances that the Council has not lost any Developer Contributions. The Head of Communities and Economy also explained that there is now a Section 75 Officer in post who is responsible for ensuring payments are received and appropriately accounted for and that a robust system is now in place.

The Head of Communities and Economy, Head of Finance and Integrated Service Support and the Internal Auditors responded to questions raised by the Committee.

Decision

- To review and follow up on the monitoring recommendations as part of Internal Audit's follow up review of issues raised and include these in the Report submitted to the Audit Committee in June 2016.
- To otherwise note the Report

Note: Councillor Muirhead left the meeting at 12.17 pm

Report No.	Report Title	Presented by:
5.6	Internal Audit Report – Pre-School Provision Partnership Providers	Internal Auditor

Outline of report and summary of discussion

The report submitted was presented to the Committee by the Internal Auditor providing details on the adequacy of the processes and controls for the Council's arrangements with Pre-School Provision Partnership Providers for three and four year olds. The audit included a review of guidance and procedures for staff, contracts, payment made to the nurseries, and performance monitoring. Detailed responses were provided to the questions raised by the Committee which included:

- Clarity on the 600 hours of free pre-school education and the provision for 2 year olds and an explanation on the timescales and work involved in implementing this.
- Additional resources received from the Scottish Government and how the finances are managed in relation to this.
- To note that Internal Audit would follow up on a sample of the recommendations raised.

Decision

- To review the contents of the audit report
- To endorse the Recommendations.

Report No.	Report Title	Presented by:
5.7	Integrated Joint Board Audit Plan and Service Level Agreement	Internal Audit Manager

Outline of report and summary of discussion

A report was submitted by the Internal Audit Manager dated March 2016. The Audit Manager presented the Report to the Committee highlighting the following:

- Under Legislation Local Authorities and Health Boards are required to set up an Integrated Joint Board and to delegate Health and Social Care functions to it.
- At a meeting of the Integrated Joint Board on 20 August 2015 it was agreed that the Internal Audit Manager of Midlothian Council would be the Chief Internal Auditor for this Board.
- The Scottish Government's guidance for Integrated Joint Board recommends that the arrangements for the internal audit service is documented as a service level agreement and that Operational Internal Audits by Midlothian Council and NHS Lothian should be shared with the Integrated Joint Board.
- The Internal Audit Plan for the Integrated Joint Board should also be shared

with Midlothian Council and NHS Lothian.

Thereafter the Internal Audit Manager responded to questions raised by the Committee.

Decision

- To recommend to Midlothian Council approval of the Service Level Agreement between the Internal Audit Services of Midlothian Council, NHS Lothian and the Integrated Joint Board.
- To recommend to Midlothian Council that operational Audits which may have relevance for the Integrated Joint Board are shared with the Integrated Joint Board Audit and Risk Committee.
- To otherwise note the 2015/16 Internal Audit plan approved by the Integration Joint Board.

6. Private Reports

In view of the nature of the business to be transacted, the Committee 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 information as defined in paragraph 8 and 10 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

Report No.	Report Title	Presented by:
6.1	Internal Audit Report – Review of Controls Operating over Tendering of Contracts	Internal Auditor

Decision

- To note the report
- To endorse the Management Action Plan

The meeting terminated at 12:33