

# Minute of Meeting

Audit Committee  
Tuesday 18 August 2020  
Item No: 4.1



## Audit Committee

Date	Time	Venue
Monday 22 June 2020	11.00am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

### Present:

Mike Ramsay (Independent Chair)
Councillor Muirhead
Councillor Smail
Councillor Cassidy
Mr de Vink (Independent Member)

### In attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Morag Barrow	Joint Director Health and Social Care
Gary Fairley	Chief Officer Corporate Solutions
Joan Tranent	Chief Officer, Children's Services, Partnerships and Communities
Alan Turpie	Legal Services Manager/Monitoring Officer
Jill Stacey	Chief Internal Auditor
Myra Forsyth	Quality and Scrutiny Manager
Elaine Greaves	Principal Internal Auditor
Grace Scanlin	External Auditor, EY
Janet R Ritchie	Democratic Services Officer

## **1. Welcome and Apologies**

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The Chair, Mike Ramsay welcomed everyone to the meeting and welcomed Councillor Cassidy on to the Committee.

Apologies were received from Councillor Milligan and Councillor Hardie.

## **2. Order of Business**

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The order of business was confirmed as that outlined in the Agenda.

## **3. Declarations of interest**

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No declarations of interest were received.

## **4. Minutes of Previous Meetings**

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- 4.1 The minute of the meeting of 10 March 2020 was submitted and approved as a correct record having been proposed by Councillor Muirhead, seconded by Councillor Cassidy.

### **Matters Arising:**

- It was noted that the slides from the previous meeting presented by E.Y. were still to be circulated. It was confirmed that this action would be completed.
- Item 5.6 Internal Audit Strategy and Annual Plan 2020/21: Jill Stacey, Chief Internal Auditor advised the committee that with regards to the Audit Plan they would be reassessing potential changes in light of Council response to the pandemic. After discussions were held with senior management and the significant changes would be made to the Audit Plan this would be presented to this committee in due course.

- 4.2 The Action log was submitted and the following agreed:

- 1) 'Internal Audit Recommendations' – It was noted that the expected end date for this action would be amended from June to September. Jill Stacey advised that it was still the intention to provide the two follow up reports therefore one would be presented in September and the other in December.
- 2) 'Internal Audit Work' – A detailed report would be provided to Elected Members by the Legal Services Manager on the 22 expired contracts – September 2020.

## 5. Public Reports

Report No.	Report Title	Presented by:
5.1	Internal Audit Work to March 2020	Jill Stacey, Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<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> <p>The Internal Audit Annual Plan 2019/20 was approved by the Audit Committee on 12 March 2019. Internal Audit had carried out the work in the period from 21 February to 31 March 2020 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.</p> <p>An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was shown in Appendix 1.</p> <p>The Chief Internal Auditor presented this report and thereafter responded to questions raised by members of the committee with regards to the internal audit assurance work which was in progress.</p>		
<b>Decision</b>		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> <li>a) Noted the final assurance reports issued in the period from 21 February to 31 March 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and</li> <li>b) Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.</li> </ul>		

Report No.	Report Title	Presented by:
5.2	Internal Audit Annual Assurance Report 2019/20	Jill Stacey, Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<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 2020 which included the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.</p>		

The Internal Audit Annual Assurance Report 2019/20, at Appendix 1, includes the Chief Internal Auditor's independent and objective opinion regarding the adequacy and effectiveness of internal control within Midlothian Council to fulfil the statutory role of Internal Audit, provided details of the Internal Audit activity that supports the opinion and of the performance during the year, and summarised the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards.

The Chief Internal Auditor presented this report briefly highlighting the main sections contained within the report and that the Local Code of Corporate Governance had been updated and this would be presented to a meeting of the Audit Committee prior to being presented to Council for approval.

The Chair confirmed as well as the action with regards to the Local Code of Corporate Governance that another action be added with regard to the review and scrutiny of the Risk Management Policy and Strategy.

#### Decision

The Audit Committee:

- a) Considered the Internal Audit Annual Assurance Report 2019/20 (Appendix 1), and noted the assurances contained therein.
- b) Noted that a report would be presented to a future meeting of the Audit Committee on the updated Local Code of Corporate Governance prior to being presented to Council for approval.
- c) Agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy.

#### Action

Democratic Services/Chief Internal Auditor/Waste, Risk and Resilience Manager

Report No.	Report Title	Presented by:
5.3	Annual Governance Statement 2019/20	Grace Vickers, Chief Executive

#### Outline of presentation and summary of discussion

The purpose of this report was to propose that the Audit Committee considered and approved the Annual Governance Statement that would be published in the Council's Statement of Accounts 2019/20. The Annual Governance Statement 2019/20 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provided details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and overall opinion.

The Chief Executive in presenting this report advised that this document was in draft form and may be subject to change and confirmed that the written assurance statements from the Directors and Chief Officer had now been received.

It was the Chief Executive's opinion that, although there were areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council had improved during the year.

The Chief Executive highlighted that there were still important improvements to be made which included the implementation of the Business Partner model which was approved by Council in June 2019. The Chief Executive further advised that the Audit Committee request regular updates from the Chief Officer Corporate Solution (Section 95 Officer) on the implementation of these financial improvement updates. In her opinion the unaudited accounts which would not be presented today would be made available to the Audit Committee in order for them to undertake its function in relation to the accounts prior to being sent to the External Auditors which was normal practice.

The Chief Officer Corporate Solutions (Section 95 Officer) advised that the draft accounts were still a work in progress due to the impact of Covid-19 across the Council and the time must be taken to ensure that the accounts were true and accurate and that they were on track for these to be completed by 30 June 2020. He further advised as soon as these were completed they would be circulated to the Audit Committee and confirmed that it was regulation for the Audit Committee to consider these accounts prior to the 30 August 2020.

The Chief Officer thereafter responded to questions and comments raised with regards to the unaudited accounts and the Lothian Buses Pension.

The Chair highlighted that the item being discussed was the Annual Governance Statement and that the Lothian Buses Pension liability would be addressed when the data was provided. He advised if the Committee addressed the Annual Governance Statement Item 5.7 would be brought forward to be discussed after this item.

There then followed further comments and questions with regards to the draft unaudited accounts and clarification was provided by the Chief Officer Corporate Solutions and the External Auditor. The External Auditor advised that if the unaudited accounts were delayed and they did not receive them by 30 June this would cause them some difficulties. She acknowledged that these would be draft and that they would be unscrutinised by the Audit Committee.

The Annual Governance statement was approved with an additional recommendation that the Section 95 Officer provide regular financial improvement updates to the Audit Committee and that the first update be provided at December 2020 Audit Committee meeting.

It was also agreed that the draft Unaudited Accounts would be circulated to the Audit Committee and the External Auditors by the 30 June 2020 and that Lothian Buses liabilities would be discussed along with the unaudited accounts at the meeting to be arranged.

**Decision**

The Audit Committee:

- a) Considered the details of the Annual Governance Statement 2019/20 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledged the actions identified by Management to improve internal controls and governance arrangements;
- b) Approved that it be published in the Council's Statement of Accounts 2019/20.
- c) Agreed that regular financial improvement updates would be provided by the Chief Officer Corporate Solutions (Section 95 Officer) to the Audit Committee and that the first update would be provided at the December 2020 meeting.

Report No.	Report Title	Presented by:
5.7	Financial Statements 2019/20	Chief Officer Corporate Solutions

**Outline of presentation and summary of discussion**

The purpose of this report was to secure arrangements for Audit Committee to consider the unaudited financial statements for 2019/20 as submitted to the Auditor.

The Chair highlighted that this item had been covered within the discussion of the previous item and that a further meeting would be arranged before the end of August 2020 to discuss the unaudited accounts and that these accounts would be circulated next week to the Audit Committee and the External Auditors.

**Decision**

The Audit Committee:

- a) Noted that at the time of writing this report work continues to finalise the unaudited financial statements and that financial statements were expected to be submitted to the auditor by 30th June;
- b) Noted that the financial statements would be circulated to the Audit Committee when submitted to the External Auditors by 30 June 2020.
- c) Agreed to remit to the Executive Director Place, in discussion with the Chair of the Audit Committee, arrangements for a special meeting/ reconvened meeting of the Audit Committee prior to 31 August 2020 to consider the unaudited financial statements.

Report No.	Report Title	Presented by:
5.4	Counter Fraud Annual Report 2019/20	Jill Stacey, Chief Internal Auditor
<b>Outline of presentation and summary of discussion</b>		
<p>The purpose of this report was to provide an update to the Audit Committee on the Council's counter fraud responsibilities and the activities of the Corporate Fraud team over the past year as part of the arrangements to tackling fraud at the Council, and to propose a revised Counter Fraud Policy Statement and Strategy for Council approval.</p> <p>The Chief Internal Auditor presented this report to the Committee highlighting the main sections contained within the report and the Appendices attached. The Audit Committee acknowledged the hard work done by the Corporate Fraud team and expressed their thanks and fully supported and endorsed the recommendations as set out in the report.</p>		
<b>Decision</b>		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> <li>a) Considered the counter fraud work undertaken by the Corporate Fraud Team during the year to 31 March 2020 (Appendix 1), in support of Management and the delivery of the Council's antifraud and corruption policy and strategy;</li> <li>b) Noted the Outcomes of Midlothian Council's participation in the National Fraud Initiative 2018/2019 (Appendix 2);</li> <li>c) Endorsed the revised Counter Fraud Policy Statement (Appendix 3) and Counter Fraud Strategy (Appendix 4) for full Council approval, and endorsed the proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Strategy which requires additional resources;</li> <li>d) Approved the Terms of Reference for the new Integrity Group (Appendix 5); and</li> <li>e) Approved the Corporate Fraud Annual Plan 2020/21 (Appendix 6) which was based on the proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Strategy.</li> </ul>		

Report No.	Report Title	Presented by:
5.5	External Audit Plan Addendum	E.Y. External Auditors
<b>Outline of presentation and summary of discussion</b>		
<p>The External Auditors Annual Audit Plan was presented and agreed at the Audit Committee meeting in March 2020. The plan provided an overview of our audit scope and approach for the audit of the financial statements and the wider scope audit work.</p>		

The purpose of this addendum was to provide an update to the Audit Committee on the planned scope and approach to the external audit for 2019/20 in light of the significant impact of the Covid-19 global pandemic on local government. The audit procedures have been re-assessed to ensure they address the changing risks and issues which have emerged as a result. The aim was to deliver a high quality audit while supporting the Council to prioritise key public services and wider support for the community.

Grace Scanlin in presenting this report outlined the four key areas of impact for the Audit in 2019/20: Impact on their audit risk assessment; Impact on the financial statements; Best Value and wider scope risk assessment; and Audit Logistics.

Thereafter Officers responded to questions and comments raised by the members of the Committee and Grace Scanlin confirmed on responding to a comment from the Chief Executive that an amendment would be made to the wording on page 2 of the report to the 'risk of fraud and procurement'.

#### Decision

The Audit Committee noted the update.

Report No.	Report Title	Presented by:
5.6	Annual Treasury Management Report 201920	Gary Fairley, Chief Officer Corporate Solutions

#### Outline of presentation and summary of discussion

A draft of the Annual Treasury Management Report 2019/20 report was being presented today to Audit Committee. The CIPFA Treasury Management Code of Practice 2017 requires that all Treasury Management reports were presented to an appropriate body for adequate scrutiny prior to being presented to full Council for approval. For Midlothian Council, this body was the Audit Committee.

The Chief Officer Corporate Solutions presented this report highlighting that any comments would be taken into account in the report presented to Council in August 2020. He further advised that two issues which had been highlighted by the Chair had been noted and would be corrected on the report prior to being presented to Council.

Thereafter the Chief Officer Corporate Solutions responded to questions and comments from the committee.

#### Decision

Audit Committee noted the draft Treasury Management Annual Report for 2019/20.



Report No.	Report Title	Presented by:
5.8	Audit Committee Annual Report 2019/20	Mike Ramsay, Independent Chair
<b>Outline of presentation and summary of discussion</b>		
<p>The purpose of this report was to provide Members with the Audit Committee Annual Report 2019/20 and the annual self-assessments of the Committee against best practice.</p> <p>The Chair presented this report to the committee advising that the report summarised the work carried out by the Audit Committee during the current year, the self-assessment outcomes of improvements and the key items for the Audit Committee to improve on which included obtaining feedback from Officers and Stakeholders. He also commented that there would be a slight amendment to the report that had reference to the unaudited accounts being reviewed at this meeting.</p> <p>The Chief Internal Auditor highlighted that the established informal sessions prior to each Audit Committee were utilised as ongoing learning and development sessions and also to implement some of the areas of improvement. She further advised on the proposal to gain some feedback from the Corporate Management Team with regards to performance, engagement and scrutiny of the Audit Committee which would address one of the areas of improvement.</p>		
<b>Decision</b>		
<p>The Audit Committee approved the Audit Committee Annual Report 2019/20 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3), and agreed that the Audit Committee Annual Report 2019/20 would be presented to the Council.</p>		

## **6. Private Reports**

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No private reports were submitted.

## **7. Date of Next Meeting**

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The next meeting will be held on Tuesday 18 August 2020 at 11 am

The meeting terminated at 13.00 pm