

Minute of Meeting

Audit Committee
Monday 18 March 2024
Item No 4.1



Audit Committee

Date	Time	Venue
Monday 20 January 2024	11.00 am	Council Chamber/Hybrid

Present:

Councillor Milligan (Chair)
Councillor Bowen
Councillor McCall
Councillor McEwan
Councillor Smail

In Attendance:

Grace Vickers	Chief Executive
Alan Turpie	Legal and Governance Manager/Monitoring Officer
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children, Young People & Partnerships
Morag Barrow	Director Health and Social Care
Derek Oliver	Chief Officer Place
David Gladwin	Chief Financial Officer
Duncan Stainbank	Chief Internal Auditor
Elaine Greaves	Principal Internal Auditor
Gary Thomson	Senior Finance Officer
Patricia Fraser	Audit Scotland
Janet Ritchie	Democratic Services Officer
Hannah Forbes	Democratic Services Assistant

1. Welcome and Apologies for Absence

The Chair welcomed everyone to the meeting and drew the committee's attention to the issue with the online papers which were reinstated on Friday and if everyone agreed to accept all papers the meeting would proceed.

2. Order of Business

The order of business was as detailed in the agenda previously circulated.

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 30 October was submitted for approval.

Mr Gladwin highlighted a typo on page 6 which should read Section 95 Officer, not Section 75 Officer. The minute was approved with this amendment.

Councillor Smaill highlighted that during the discussion on the Newbattle site it was noted that a paper would be presented to March Council then on to the Audit Committee and Mr Anderson in confirming also confirmed that the policy on new houses cost benefit would include passive housing in the analysis and there is no additionality to the rent for passive house status but there is for the new build supplement policy.

4.2 The minute of the meeting of the Special meeting of 5 December 2023 was submitted and approved as a correct record.

4.3 The Action log was submitted and noted.

Councillor Smaill highlighted that Hillend was not on the action log and due to the issues should this be added. Mr Anderson advised that the reporting mechanism was in place and that the Internal Audit review report be reported back to the Audit Committee. Mr Stainbank confirmed that the work on Hillend will proceed shortly, and a report will be brought back to the June Audit Committee.

Councillor Smaill further raised the problems of the road and that it was important to receive assurance that this project would get back on track. Mr Anderson provided an update on the two active contracts, one in relation to the road issue and the other the Alpine Coaster and there is one other in respect of tendering for the main building. Mr Anderson further advised that there has been a resolution in terms of the water pipes and the work will be undertaken by the civil contractor on site and the revised programme will be reported to the Hillend project board this week and this will in turn be reported to the Business Transformation Steering Group.

5 Public Reports

Report No.	Report Title	Submitted by:
5.1	Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2023	Chief Financial Officer and Section 95 Officer
Outline of report and summary of discussion		
<p>In accordance with the Treasury Management Code of Practice, the annual Treasury Management & Investment Strategy (TMIS) & Prudential Indicators report was required to be adequately scrutinised before being recommended to the Council. For Midlothian, this role was undertaken by the Audit Committee, with this report being presented to Audit Committee on 29 January 2024 prior to consideration by Council on 27 February 2024.</p> <p>The purpose of the report to Council will be to provide an update on the implementation of the Council's TMIS 2023/24, and to make recommendations to facilitate consideration of the 2024/25 Strategy, specifically the TMIS for 2024/25, the Prudential and Treasury indicators contained therein, and the approach to the statutory repayment of loans fund advances.</p> <p>Any revisions arising from Audit Committee consideration of the report on 29 January 2024 will be incorporated into the final version of the report to Council on 27 February 2024.</p> <p>Mr Gladwin in presenting this report advised that there were no material changes from the existing strategy presented to Council in February 2023 and advised that the only change asked of Members was to increase the authorised limit for external debt to £545.673 million to reflect anticipated borrowing to the end of the financial year 2024/25. Mr Gladwin highlighted the main sections contained within the report and outlined the recommendations as set out in the report.</p> <p>Councillor Smaill raised the reconciliation of the steep increase on the borrowing capacity and the impact on the general reserves and the impact on the ability to have a balanced budget each year. Mr Gladwin in responding confirmed the importance of the capital plan in the context of the Medium-Term Financial Strategy (MTFS). Mr Gladwin then explained that discussions will take place with elected members in the coming weeks as the 24/25 budget is prepared and he will be restating MTFS projections through to 28/29 or possibly 29/30 including up to date projected debt charges. Further discussion took place with regards to the increase in the debt limit, the overall long-term affordability, and the cost of borrowing.</p> <p>Councillor McEwan asked for clarity on the increase of the borrowing limit for future years and Mr Gladwin confirmed that this is the maximum amount Officers have authority to borrow as based on the capital plans in place. In previous years TMIS the authorised borrowing limit has been set looking out for a number of years. Whilst the Council strives to get to a long-term sustainable medium term financial strategy it is considered prudent to limit the authorised limit to the following financial year only.</p>		

Decision
<p>The Audit Committee endorsed the recommendations which are proposed to be put to Council on 27 February 2024:</p> <ul style="list-style-type: none"> a) Approve the restriction of the Authorised Limit to the value of the Capital Financing Requirement at 31 March 2025 (£545.673 million), pending finalisation of the General Services Capital Plan Prioritisation. b) Note that there are no other material changes proposed to the Treasury Management and Investment Strategy (TMIS) for 2024/25 from the strategy currently in place, other than to update the Prudential Indicators (Section 5 and Appendix 2), to reflect the revised capital plans. c) Note the retention of the current approach for the repayment of loans fund advances as outlined in Section 6 and that any changes arising from the Scottish Government's consultation on the Amendment to the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 will be reflected in a revised TMIS if required; and d) Accordingly approve the Treasury Management and Investment Strategy for 2024/25.
Action
Chief Financial Officer and Section 95 Officer

Report No.	Report Title	Submitted by:
5.2	Follow-Up Review of Completed Internal Audit Recommendations	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to provide an update to members of the Audit Committee on the results of the Internal Audit Follow-up review which included a sample check on the adequacy of new internal controls for Internal Audit recommendations marked as completed by Management in the period April 2022 to March 2023.</p> <p>This report also provides an update to members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports.</p> <p>Mr Stainbank in presenting this report outlined that of the 41 recommendations selected, 27 were fully completed, 8 were partly completed and required further work and 6 were not implemented as detailed within the report.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> (a) Noted the results from the sample check of Internal Audit recommendations that have been marked as completed by Management in the period April 2022 to March 2023 to improve internal controls and governance and mitigate risks. 		

- (b) Acknowledged the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, to mitigate risks, and consider whether it is satisfied with the progress made by Management.
- (c) Considered whether it is satisfied with the outcomes or whether any further action is required.
- (d) Endorsed the proposal to extend the due dates for the overdue recommendations.
- (e) Noted that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.

Report No.	Report Title	Submitted by:
5.3	Internal Audit Mid-Term Performance Report 2023/24	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to inform the Audit Committee of the progress Internal Audit has made in the first 9 months of the year to 31 December 2023, towards completing the Internal Audit Annual Plan 2023/24. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.</p> <p>Mr Stainbank in highlighting the main sections contained within the report advised that the Internal Audit plan had, in addition to regularly required review processes, 13 audits scheduled for completion in 2023/24 and that 2 assignments were substituted for other risk work which had been identified during the year and is detailed on the appendix to the report. Mr Stainbank advised that these audits had been replaced by Property leases as detailed in item 5.5 on today's agenda and work which will be completed in relation to the Hillend project.</p> <p>Mr Stainbank in responding to a comment raised by Councillor Smaill regarding the fact the internal audit team was smaller, advised that the team had been reduced by 1fte but the plan was appropriately sized for this but they were at risk should a member of the team go off unwell it would then have to be reviewed but as no-one was off they were still hoping to complete the work by June 2024.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> (a) Noted the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2023/24 to the end of December 2023. (f) Confirmed that it is satisfied with the performance of the Internal Audit service provision. 		

Report No.	Report Title	Submitted by:
5.4	Internal Audit Work to December 2023	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report is 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>Mr Stainbank in presenting this report advised on the 2 audits which were completed and highlighted the recommendations as detailed within the appendices.</p> <p>Councillor Smaill with regards to care home raised the issue of the financial stress and asked if the council was liable to be faced with a large demand from the IJB. Ms Barrow in responding advised possibly yes, and that discussions have been taking place and this has been reported to the IJB and that a financial recovery plan is in place and has achieved a lot of savings but there still may be a gap for this financial year and going into next financial year it will be significantly worse. Following on from this Mr Smaill asked if this would be brought to some certainty before the budget setting on the 27 February. Ms Barrow further updated that the IJB will meet on 8 February and that there are still some variances around the assumptions made as part of the overspend position relating to how some of the internal systems work but still believe there will be a pressure at the end of the year.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> (a) Considered the Executive Summaries of the final Internal Audit assurance reports issued associated with the delivery of the approved Internal Audit Annual Plan 2023/24. (b) Noted the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter. (c) Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work. 		

Report No.	Report Title	Submitted by:
5.5	Lease of Premises: Burnbrae Road, Bonnyrigg	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 following an instruction from the Council meeting on 29 August 2023.</p>		

The instruction in the minute was that the Council had agreed:

- That Internal Auditors investigate the position of the retail unit at Burnbrae Road, and that the Council are at no undue risk.
- That an update is provided 'in private' on the retail unit currently being constructed adjacent to this building, in Buccleuch Street.

Mr Stainbank in presenting this report advised that Internal Audit has reviewed the situation of the retail unit at Burnbrae road which was subject to the inherent commercial risks of developing retail unit space as part of any place making development. Mr Stainbank highlighted the main points contained within the report confirming that whilst commercial risk had been identified in relation to the development of this retail unit, this risk was being appropriately managed. He further advised that Internal Audit have no concerns over the processes being undertaken in relation to the units at Buccleuch street that they would bring to the attention of the Audit Committee although the process remains ongoing.

The Chair highlighted that he disagreed with the statement that the position of the retail unit at Burnbrae Road that the Council were at no undue risk and further highlighted the that it was very concerning that there was no legal guarantee that the company who signed up to it would take it although the council were committed to spending the money. He further advised on how it would work with the private sector and although the units are now complete there was no legal signed agreement and while these were empty, there was the risk of vandalism and there should be a recommendation before a commitment is made to this amount of money that there is some guarantee that there is a customer at the back of it.

Mr Stainbank in responding advised that there is a commercial risk in developing properties on this basis but advised that getting a legally enforceable agreement in place prior to building work commencing is unlikely in these circumstances and further advised that there was a written agreement in relation to Burnbrae road indicating that the company intended to lease the premises when available , however that was not legally enforceable as it was not a full lease at the point that the development was commencing. He further advised that it is extremely difficult to get a company to sign up to a full lease prior to building commercial properties therefore there is a level of risk in making those decisions to develop properties.

The Chair further highlighted that before the council commits to spending this type of money in the future there should be some reasonable degree of certainty there is a client at the end of it.

Councillor Smaill highlighted that at 3.6 of the report it states that there is a major supermarket retailer and that a final lease is now available for signature during January 2024 and wondered what stage this was now at and highlighted if there was a long void period what would be the impact on insurance costs.

Mr Anderson in responding advised that the conclusion was anticipated to be settled on 9 February 2024 and in terms of Buccleuch Street there was one

settlement and the other in negotiation with a favourable expectation of the wider scope of Dalkeith Town Centre.

In responding to a further question raised by Councillor Smaill with regards to the Buccleuch Street units being converted into a residential properties if these were not taken up as commercial units, advised that while commercial units can be converted into residential status these were not built with that expectation and it was unlikely to be a requirement due to the active retail interest in Buccleuch Street and confirmed also there has been no financial detriment relative to rental charge for Burnbrae.

Decision

The Audit Committee noted the work undertaken by Internal Audit in response to the instruction, from the Council on 29 August 2023 to review the lease of the retail premises at Burnbrae Road Bonnyrigg.

6 Private Reports

None

7 Date of Next Meeting

Date of Next Meeting: Monday 18 March 2024 at 11am.

The meeting terminated at 11.39 pm.