

# Minute of Meeting

Audit Committee  
Tuesday 21 March 2017  
Item 4.1



## Audit Committee

Date	Time	Venue
Tuesday 13 December 2016	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

### Present:

Peter Smail (Independent Chair)	
Councillor Baxter	Councillor Bryant
Councillor de Vink	Councillor Milligan
Councillor Muirhead	

### In attendance:

Stephen Reid	Ernst & Young LLP
Kenneth Lawrie	Chief Executive
John Blair	Director Resources
Mary Smith	Director Education, Communities and Economy
Graham Herbert	Internal Audit Manager
Elaine Greaves	Internal Audit Manager
Chris Lawson	Risk Manager
Heather Mohieddeen	Senior Auditor
James Polanski	Auditor
Amber Ahmed	Auditor
Ian Johnson	Head of Communities and Economy
Kevin Anderson	Head of Housing and Customer Services
Ricky Moffat	Head of Commercial Services
Janet Ritchie	Democratic Services Officer

## 1. Apologies

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1.1 Apologies were received from Councillor Parry and Michael Thomas

## 2. Order of Business

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

## 3. Declarations of interest

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The Chair declared that he has been adopted as the Conservative Unionist candidate for Midlothian East in the forthcoming local elections in May 2017.

## 4. Minutes of Previous Meetings

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4.1 The minutes of the Audit Committee meeting of 20 September 2016 were approved as a correct record.

4.2 Matters Arising from previous Minutes:

Councillor Byrant referred to section 5.1 for comments with regards to the decision paragraphs (c) the position in relation to bad debt and (d) PPP commitments.

The Director Resources confirmed that with regards to the PPP commitments there is a management team proposal included in the Revenue Budget proposals for the next financial year which has been circulated to Members and with regards to bad debt this is reported routinely within the quarterly financial monitoring.

## 5. Reports

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Report No.	Report Title	Submitted by:
5.1	Midlothian Council External Audit Framework overview	External Auditors, Ernst & Young LLP
<b>Outline of report and summary of discussion</b>		
<p>There was a report submitted to the Audit Committee from the External Auditors dated December 2016 providing details of the evolving focus of the public sector external audit, the external auditor's approach over the term of their appointment and the initial areas of focus for the Council. The annual audit plan will be presented to the Audit Committee in March 2017 upon completion of the initial planning process.</p> <p>Stephen Reid, External Auditor, presented the report to the Committee summarising the audit framework contained within the report.</p> <p>Thereafter responded to questions raised by members of the committee which</p>		

included:

- The Accounts Commission's new model for Best Value audits and the work with Audit Scotland to support the review of Best Value at the Council.
- The number of Local Authorities that Ernst & Young audit as well as Midlothian Council are: 3 Local Authorities in Scotland, 3 Integrated Joint Boards and 1 Pension Fund and in England approximately 60 Local Authorities.
- The External Auditor explained that around significant risk under auditing standards you are required to identify and report on areas which represent a higher likelihood that there could be a material misstatement in the Financial Statement. This would include any risks of management overrides.

#### Decision

- To note the Report.
- To note that a risk assessment would be undertaken and included in the External Auditor's Report to be brought back to the next meeting of the Audit Committee and this could be discussed in more detail from a Midlothian Council perspective.

#### Action

EY, External Auditors

Report No.	Report Title	Submitted by:
5.2	Risk Management, Update for 1 April 2016 – 30 June 2016	Chris Lawson, Risk Manager
5.3	Risk Management, Update for 1 July – 30 September 2016	Chris Lawson, Risk Manager

#### Outline of report and summary of discussion

The Risk Manager presented the 2016/17 quarter 2 and quarter 3 reports to the Audit Committee providing strategic risk management updates for the periods 1 April to 30 June 2016 and 1 July to 30 September 2016.

Thereafter responded to questions raised by the Members including:

- The geological risk and if a more detailed geological assessment is required.
- The risks associated with BREXIT.
- The Risk Registers are used by Internal Audit when developing their annual internal audit plan. The Internal Audit Section also undertakes their own assessment of the risks facing Midlothian Council.

#### Decision

To note the quarter 2 and 3 /2016/17 Strategic Risk Profile report and to consider the current response to the risks and opportunities highlighted.

Report No.	Report Title	Submitted by:
5.4	Maintaining Midlothian's Roads Update Report	Head of Commercial Operations
<b>Outline of report and summary of discussion</b>		
<p>The report dated 17 November 2016 was presented to the Audit Committee by the Head of Commercial Operations highlighting some of the key issues raised in the Audit Scotland 'Maintaining Scotland's Roads Update report' published in August this year. The report examines the changes in the condition of the road network since 2011, the current spend on roads maintenance and how the road maintenance service is managed.</p> <p>Thereafter responded to questions raised by the Committee which included:</p> <ul style="list-style-type: none"> <li>• The number of Insurance Claims received with regards to defective roads which was reported as low level in comparison to other Local Authorities,</li> <li>• The amount spent on the roads network and the reason this is higher than other Councils.</li> <li>• Guidelines on spending with regards to road repairs.</li> <li>• Difference on the road deterioration and the weather conditions.</li> <li>• The quality of Midlothian roads that are used by public transport and how this is monitored.</li> </ul>		
<b>Decision</b>		
<ul style="list-style-type: none"> <li>• Additional analysis was required on the spending on roads in Midlothian and why it is so expensive per kilometre.</li> <li>• To otherwise note the Report</li> </ul>		
<b>Action</b>		
Head of Commercial Services		

Report No.	Report Title	Submitted by:
5.5	Anti Fraud and Corruption, Anti Bribery and Whistle blowing Policies	Internal Audit Manager
<b>Outline of report and summary of discussion</b>		
<p>The report dated 23 November 2016 was presented to the Audit Committee by the Internal Audit Manager on the Anti Fraud and Corruption, Anti Bribery and Whistle blowing Policies. These policies are reviewed regularly by the Internal Audit Section with assistance from Legal and Human Resources and updated with new national guidance as set out in the report. A separate Anti Bribery policy has been created following a recommendation from CIPFA.</p>		
<b>Decision</b>		
<ul style="list-style-type: none"> <li>• To Note the Anti Fraud and Corruption, Anti Bribery and Whistle blowing policies.</li> </ul>		

- To note that the Anti Fraud and Corruption and Anti Bribery policies will be submitted to Cabinet for approval following consultation with the Trade Unions.

**Action**

Internal Audit Manager

Report No.	Report Title	Submitted by:
5.6	Audit Scotland Report - National Fraud Initiative 2014/15	Internal Audit Manager

**Outline of report and summary of discussion**

The Audit Scotland Report – National Fraud Initiative 2014/15 dated 8 November was presented to the Audit Committee by the Senior Auditor. The report provides a summary of how the Audit Scotland report relates to the work undertaken within Midlothian Council; to review the actions taken within Midlothian to address recommendations made in the Audit Scotland Report and to allow the Audit Committee to consider and comment on the draft self assessment questionnaire contained within the Audit Scotland report.

**Decision**

To note the Report.

Report No.	Report Title	Submitted by:
5.7	Corporate Fraud – Annual Report	Internal Audit Manager

**Outline of report and summary of discussion**

The Corporate Fraud Annual Report dated 17 October 2016 was presented by the Senior Auditor providing the Audit Committee with an update on the activities of the Corporate Fraud team over the past year and to seek input from the Audit Committee on areas where this resource could be used further.

Thereafter a discussion took place regarding the systems in place to identify fraud and the processes for prosecution.

**Decision**

- To provide an update to the next meeting over the recovery of the 2 Council houses referred to in the report and whether any legal action was considered.
- To otherwise note the content of the report.

**Action**

Internal Audit Manager / Head of Housing and Customer Services

Report No.	Report Title	Submitted by:
5.8	Progress Update Report	Internal Audit Manager
<b>Outline of report and summary of discussion</b>		
<p>The Progress Update Report dated 21 November was presented by the Internal Audit Manager providing the Audit Committee with a summary of the work undertaken by the Internal Audit since April 2016 and an update on the progress with the current audit plan which was approved by the Audit Committee on 15 March 2016.</p>		
<b>Decision</b>		
<ul style="list-style-type: none"> <li>• To note the work completed by the Internal Audit Section since April 2016.</li> <li>• To note the progress with the current plan.</li> <li>• To note the suggested amendment to the audit plan.</li> <li>• To note that the Internal Audit Manager will continue to provide updates if there is a risk of non delivery of the plan.</li> </ul>		

Report No.	Report Title	Submitted by:
5.9	Internal Audit Recommendations	Internal Audit Manager
<b>Outline of report and summary of discussion</b>		
<p>The Internal Audit Recommendations Report dated 16 November was presented by the Internal Audit Manager informing the Audit Committee of the number of recommendations raised by Internal Audit over the last 4 years and the Council's performance in addressing these issues by the agreed implementation dates.</p> <p>Thereafter the Head of Communities and Economy responded to a question raised by the Committee which included:</p> <ul style="list-style-type: none"> <li>• Developer's contributions and the processes in place in securing the contributions and they are spent appropriately.</li> <li>• Income lost due to incorrect wording in agreements.</li> <li>• Explanation of the actions with 0% progress noted which are low priority and are not significant risks.</li> </ul>		
<b>Decision</b>		
<ul style="list-style-type: none"> <li>• To note the content of the report.</li> <li>• To note that Internal Audit will continue to monitor for completion of the outstanding issues and will provide reports to the Audit Committee.</li> </ul>		
<b>Action</b>		
Internal Audit Team		

Report No.	Report Title	Submitted by:
5.10	Internal Audit Report – Welfare Reform Universal Credits	Internal Audit Manager
<b>Outline of report and summary of discussion</b>		
<p>The Internal Audit Report on Welfare Reform Universal Credits dated November 2016 was presented by the Internal Auditor to the Audit Committee which reviewed the adequacy of the controls in place over the implementation of Universal Credits.</p> <p>Thereafter the Head of Housing and Customer Services responded to concerns raised by the Committee with regards to Housing Benefits overpayments and these are currently not being recovered by the DWP from Universal Credit claimants and the high risk of rent arrears increasing as payments are made directly to claimants rather than the Council and the impact of this on housing.</p>		
<b>Decision</b>		
To note the content of the report.		

Report No.	Report Title	Submitted by:
5.11	Internal Audit Report – Tyne Esk LEADER	Internal Audit Manager
<b>Outline of report and summary of discussion</b>		
<p>The Internal Audit Report Tyne Esk LEADER dated 24 November was presented by the Internal Auditor to the Audit Committee which reviewed the internal controls in place for the administration of the Tyne Esk LEADER Programme.</p> <p>Thereafter the Head of Communities and Economy responded to a question raised by the Committee regarding clarity on the management costs.</p>		
<b>Decision</b>		
To note the content of the Report.		

Report No.	Report Title	Submitted by:
5.12	Financial Monitoring 2016/17 and Financial Strategy 2017/18 to 2021/22	Director Resources
<b>Outline of report and summary of discussion</b>		
<p>The report dated 16 November 2016 was presented to the Audit Committee by the Director Resources bringing to the committee's attention reports presented to Council on 8 November 2016 by the Head of Finance and Integrated Service Support, in relation to Financial Monitoring and Financial Strategy. The report refers to the following reports:</p> <ul style="list-style-type: none"> <li>• Financial Monitoring 2016/17 – General Fund Revenue</li> <li>• General Services Capital Plan 2016/17</li> <li>• Housing Revenue Account</li> </ul>		

- Financial Strategy 2017/18 to 2021/22
- Treasury Management Mid-Year Review Report

Thereafter the Director Resources responded to questions raised by the Committee on the deposits made with the German bank, 'Heleba'.

#### Decision

- To provide a link to the Treasury Management Investment Strategy when issuing the minute:  
[Treasury Management Investment Strategy 2016/17 and Prudential Indicators – Midlothian Council 8 March 2016.](#)
- To provide a briefing note on the Heleba Investment.
- To otherwise note the reports.

#### Action

Director Resources

## **6. Private Reports**

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No private reports were submitted to this meeting.

The meeting terminated at 12:23 pm