

MINUTES of MEETING of the MIDLOTHIAN COUNCIL AUDIT COMMITTEE held in the Council Chambers, Midlothian House, Buccleuch Street, Dalkeith on Tuesday, 29 October 2013 at 11.00 am.

Present: - Mr P Smaill (Independent Chair), Councillors Baxter, Bryant, Muirhead, and de Vink; Mr R Rae (Independent Member).

Apology for Absence:- Councillor Beattie and Milligan.

1 Declarations of Interest

No declarations of interest were intimated.

2 Minutes

The Minutes of Meeting of 17 September 2013 were submitted and approved.

3 Corporate Risk Register - Quarterly Update

There was submitted report, by the Head of Finance and Human Resources, providing the Committee with the 2013/14 quarter 1 update of the Corporate Risk Register, following review by Service Managers. The report indicated that the highest risks facing the Council were Corporate Change & Transition; the Welfare Reform Act and securing a balanced Budget. In addition, work was progressing to review the risk register and assessment of risk facing the Council. This work had considered new and emerging risks which were not currently reflected within the risk register. Benchmarking work had also been undertaken with East Lothian Council, comparing Corporate Risks. A further report would be submitted to the Committee with the findings of the review and recommendations for action as appropriate.

Decision

- (a) To note that a review of risk management was presently being undertaken, the results of which would be the subject of a future report; and
- (b) To otherwise note the report.

(Action: the Head of Finance and Human Resources).

4 Code of Corporate Governance

There was submitted report, dated 15 October 2013, by the Head of Customer Services proposing a revised Code of Corporate Governance for 2013/14 and inviting the Committee to review this prior to it being presented to the Council

for approval. The report incorporated (i) a self assessment of the Council's governance arrangements, which showed that the Council was fully compliant with a number of areas within in the code although this did not necessarily demonstrate that the Council had a consistent approach to monitoring, embedding and communicating these aspects across all parts of the organisation and (ii) a revised Code of Corporate Governance which had been updated to reflect the results of the self assessment and included an improvement action plan.

Decision

To endorse the draft Code of Corporate Governance.

(Action: Head of Customer Services)

5 Internal Audit – Progress Report

There was submitted report, dated 1 October 2013, by the Internal Audit Manager, updating the Committee on the work undertaken by Internal Audit since 1 April 2013 and outlining the progress made against the Internal Audit Plan for 2013 / 14. The report detailed the completed tasks; the due date for the completion of outstanding tasks; and the areas of work currently in progress. The report concluded that the Internal audit plan was 50% completed and was on target to be fully completed by 31 March 2013.

Decision

To note the report.

6 Investigation / Consultancy Protocol

There was submitted report, dated 29 October 2013, by the Internal Audit Manager, highlighting the need to agree a protocol where Internal Audit was requested to undertake either consultancy reviews or investigations; identifying some of the difficulties in agreeing a protocol which was consistent with the requirements of the Public Sector Internal Audit Standards; and proposing a protocol for approval. The report explained (i) that the new Public Sector Internal Audit Standards required that any significant consulting assignments, not already within the Audit Plan, need to be approved by the Audit Committee; and (ii) the priority attached to consultancy and investigations work could also be high, leading to the delay or interruption of Internal Audit work already approved by the Audit Committee. The report therefore contained a suggested approach to dealing with requests for consultancy reviews or investigations.

Decision

- (a) To adopt the Protocol as amended to reflect the discussion and as shown in the appendix hereto: and

- (b) To review the effectiveness of the Protocol at its meeting scheduled for 28 October 2014.

(Action: Internal Audit manager)

7 Accounts Commission Reports

There was submitted report, dated 29 October 2013, by the Internal Audit Manager, dated 31 July 2013, advising the Committee of national reports which had been published by Audit Scotland relating to Local Government during the period from 1 April 2013 to 31 July 2013. The national reports related to:-

Maintaining Scotland's Roads;
Managing early departures from the Scottish public sector; and
Housing in Scotland.

Decision

To note the reports.

8 Treasury Management Mid-Year Review Report 2013/14

There was submitted report, dated 21 October 2013, by the Head of Finance and Human Resources, (which was also scheduled to be considered by the Council on 5 November 2013) advising the Committee of the Treasury Management activity undertaken during the first half of 2013/14; the forecast activity for the second half of 2013/14; and updating the Prudential Indicators for 2013/14. The report therefore incorporated a detailed summary of treasury activity during the period 1 April 2013 to 30 September 2013 and the Council's loan and investment portfolio as at 30 September 2013 and advised that Treasury Management activity would continue to follow the same strategy during the remainder of 2013/14. The report also detailed the prudential indicators for 2013/14 and drew attention to the facts that the expected underlying borrowing requirement for the current year was £261m; the authorised limit for Borrowing was £291m (the projected underlying borrowing Requirement as at 31 March 2016). The report therefore proposed that permission be granted to borrow up to the forecast 2015/16 Underlying borrowing requirement of £313.6m, if market conditions supported this course of action. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early was minimised and that the maturity structure of all debt was sufficiently robust to ensure that the Underlying Borrowing Requirement, and Capital Funded from Revenue, at 31 March 2016, remained achievable.

Decision

- (a) To note that the Financial Services team has achieved a better than benchmark return on investments for the half year;

- (b) To note the report and the Treasury activity undertaken in the first-half of the year, and the expected activity during the second-half of the year; and
- (c) For its interest, to approve the revisions to the Prudential Indicators proposed in the report.

(Action: Head of Finance and Human Resources)

9 Exclusion of Members of the Public

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 items, as contained in the Addendum hereto, as there might be disclosed information as defined in paragraphs 4, 6 and 14 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

- (a) Investigation of Term Contractors – agreed
 - (i) To adopt the recommendations to improve controls over the management of term contractors as detailed in the Management Action Plans contained within the Internal Audit Manager's report; and
 - (ii) That officials undertake a sample review of accounts rendered by contractors to ascertain whether there were further instances of overcharging and if so identified, report in early course on whether it would be economically viable to engage an external resource to undertake a wholesale review of accounts rendered with a view to securing the recovery of any sums identified as overcharging; and
- (b) Midlothian Council's Involvement in the Esk Bridge Landslide - Progress report – Agreed
 - (i) To receive further update reports; and
 - (ii) To otherwise note the report.

The meeting terminated at 12.35 pm.

**Appendix
(Relative to paragraph 6)**

Investigation / Consultancy Protocol

Where the Internal Audit Manager is requested to undertake an investigation or consultancy or has separately identified the need for such work he / she will undertake a risk assessment of the assignment and make a decision on whether to undertake the review. The Internal Audit Manager will also make the decision on the priority that should be given to the review. Where those requesting Internal Audit involvement are not satisfied with the decision on whether (i) to undertake a review or (ii) the timing of the review, they can request referral to the Chief Executive and/or the Chair of the Audit Committee for further consideration.

The assessment will be based upon the perceived risks and materiality of any:

- legal/ regulatory non compliance;
- strategic concerns / impact;
- financial impact;
- reputational damage; and
- allegations of fraud.

The Audit Committee will be kept informed of the number of consultancies and investigations that the Internal Audit team has undertaken and the number and type rejected. They will also be notified where the number budgeted has been or is likely to be exceeded and the impact this has on the current plan. The Audit Committee will also be notified where Internal Audit has taken on an urgent investigation / consultancy where this is likely to impact on the delivery of the Internal Audit plan.

Internal Audit will not normally become involved with investigations out- with the Council unless significant Council money has been provided. In such cases the work will only be undertaken where there is a clear Council right to undertake (for example through a legal contract) and where the Council is adequately covered by Indemnity Insurance.