



**MINUTES OF THE MEETING OF THE  
AUDIT AND GOVERNANCE COMMITTEE**

**TUESDAY 18 SEPTEMBER 2012  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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**Committee Members Present:**

Councillor S Currie (Convener)  
Councillor S Brown  
Councillor J Caldwell  
Councillor A Forrest  
Councillor J Goodfellow  
Councillor P McLennan  
Councillor J Williamson

**Other Councillors Present:**

Councillor D Berry

**Council Officials Present:**

Mr A McCrorie, Executive Director (Support Services)  
Ms M Patterson Executive Director (Services for Communities)  
Mr J Lamond, Head of Council Resources  
Mr P Vestri, Corporate Policy Manager  
Ms M Garden, Internal Audit Manager  
Mr A Gillespie, Finance Manager  
Mr S Allan, Senior Auditor

**Clerk:**

Ms J Totney (Items 1-4 and 6)  
Ms F Currie (Items 5 and 7-11)

**Visitors Present:**

Mr S Reid, KPMG  
Mr P Denning, Education Scotland  
Ms L Brown, Education Scotland

**Apologies:**

Councillor K McLeod

**Declarations of Interest:**

None

## **1. ELC ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE**

Stephen Reid, External Auditor, KPMG, presented the report, in accordance with ISA 260, summarising their work in relation to the Council's financial statements.

Mr Reid mentioned that this is the first year that KPMG has been appointed as external auditors to East Lothian Council. He outlined the three key areas in the report, and in particular, drew Members' attention to heritable assets and prior-year adjustments. Mr Reid then ran through the details and recommendations contained in the report and highlighted that there are concerns which include bank reconciliations, the risk of non-detection of fraud within the procurement framework and the processes for independently reviewing journal entries. He informed the committee that eight of the 14 findings in the report are rated as significant.

In response to Councillor Berry, Mr Reid advised that common good funds are considered as part of the overall external audit process but that they are not included in this report.

Mr Reid acknowledged the comments from Councillors Berry and Currie regarding the interpretation of the red/amber/green status reports when the committee papers are printed in black and white and undertook to discuss the matter with the committee clerk.

***Sederunt:*** Councillor McLennan joined the meeting

Head of Council Resources, Jim Lamond, reminded the committee that the detail of the systems recommendations had been debated at the special meeting of the Audit and Governance committee which was convened during the summer recess. He informed the committee that the agreed management responses are included in the report which is being presented to the committee today.

In response to a question from Councillor Currie, Mr Reid advised that the change in Council House valuation is complex and is partly to do with the modernisation works carried out, but is also as a result of a change in the accounting rules relating to componentisation. Mr Lamond informed Members the Council had agreed to early engagement on this key issue.

Responding to questions from Councillor Berry, Mr Reid confirmed that the findings in the report related to the Council's internal procurement processes and not to Scotland Excel. Mr Lamond advised that he would be happy to discuss the valuation of the Lothian Buses shares off-line with Councillor Berry due to the unique nature of this share-holding.

### **Decision**

The Committee noted the report.

## **2. DRAFT ANNUAL AUDIT REPORT**

Stephen Reid, External Auditor, KPMG, submitted the draft annual audit report for the year ended 31 March 2012.

Mr Reid commented that the Council had a statutory deficit of £7.5 million at the year-end; a position that was slightly better than anticipated. He highlighted that reserves were utilised in 2011/12 for the first year ever and that the 3-year plan indicates that all usable un-earmarked general reserves would be utilised by 31 March 2014. The outturn position on the Housing Revenue Account is a deficit of £4.4 million.

Mr Reid then ran through the report drawing Members' attention to the concerns associated with the Council's open market acquisitions strategy; the Scottish Government's 2012 homelessness targets; the Council's capital expenditure of £71.5 million and the level of the Council's external borrowing. He pointed out that East Lothian Council has the highest level of external debt of all the 32 Scottish local authorities (as a proportion of revenue expenditure and per head) and commented on the risk that this presents for future available revenue funding and capital expenditure. Mr Reid stressed that both the level of borrowing and the emerging risks are areas which require critical focus by the Council's management team. He advised that a mid-year financial review report would be presented to the October 2012 meeting of East Lothian Council and would include a review of the capital plan.

Mr Reid referred back to the key audit focus areas in the ISA 260 report which included the Chief Officer Structure review, the financial statements and the Council's Statutory Performance Indicator results. He commented that it is of primary importance that there is a strong risk management strategy across the Council and that the Council Plan is supported by robust organisational controls and financial management processes. Mr Reid referred to the recommendations in the Action Plan and informed Members that one out of the four findings/risks is rated as significant.

In response to questions from Councillor Berry, Mr Reid advised that the findings for the Chief Officer Structure review related to the documentation of meetings and discussions, and that there were no material non-compliance issues. Regarding the question about external borrowing and the capital programme, Mr Reid commented that the current strategy poses a risk in being able to deliver a balanced financial position post-2014 and will require continued focus on an ongoing basis.

Responding to Councillors Goodfellow and McLennan, Mr Reid advised that despite the investment in affordable housing, it was unlikely that the Scottish Government's 2012 homelessness target would be achieved and that medium/long term financial planning needs to be a key part of the Council's strategy which should include the impact of the Welfare Reforms.

Councillor Currie requested that the financial impact of the Welfare Reforms be considered at the next agenda setting meeting with a view to this being included in the work programme.

Councillor Goodfellow commented on the high level of external debt and drew comparisons with other local authorities who were expanding but had a significantly lower level of debt.

Councillor Currie outlined the reasons why the debt was incurred by the previous Administration which included the costs associated with providing temporary accommodation and new build housing, the population growth in East Lothian and the reduction in Developers' contributions. He welcomed the mid-year financial review and suggested that a formal review of the budget, six months after it has been approved, is built into Standing Orders for all future budgets.

Councillors McLennan, Berry and Currie continued the debate by providing further background information regarding the previous Administration's policy decisions, spending priorities and anticipated synergies from shared services. They expressed their concern at the current lack of progress with shared services and made it very clear, when challenged by Councillor Goodfellow on the matter, that they had fully understood the impact of the high level of borrowing.

The Convenor thanked Mr Reid for his contribution.

### **Decision**

The Committee noted the report.

### **3. ASSURANCE AND IMPROVEMENT PLAN UPDATE 2012-15**

A report was submitted by the Chief Executive informing the Committee of the Assurance and Improvement Plan Update 2012-15 provided by Audit Scotland.

The Corporate Policy Manager, Paolo Vestri, introduced Mr Phil Denning, District Inspector, Local Area Network, and Ms Lesley Brown from Education Scotland. A copy of the Assurance and Improvement Plan Update 2012-15 was tabled.

Mr Vestri advised that this was a positive report which considers 38 areas of scrutiny risk assessment specific to East Lothian Council and which had already been presented to the August 2012 meeting of East Lothian Council by Mr Denning.

Building on his presentation to Council in August, Mr Denning commented that new ways of working should now be explored. He stated that the Local Area Network (LAN) is committed to working in partnership with East Lothian Council Senior Officials and with the Audit and Governance Committee.

Ms Brown outlined her involvement in the shared risk assessment process and indicated that self evaluation; self assessment; planning and scheduling scrutiny activity; and joint working would be at the heart of the process going forward. She talked through changes that would be implemented and advised that the red/amber/green status indicators would be retained. However, the descriptors are changing to red – Scrutiny required, Amber – Further information required and Green – Scrutiny not required.

Ms Brown informed the committee that a report would be presented to Scottish Ministers at the end of the year following the conclusion of the work being carried out by Audit Scotland with community planning partnerships. She updated members on the programme of integrated inspections within the Care Inspectorate.

Councillor Currie welcomed the changes and anticipated that improved results would be obtained as a result of joint working.

Councillor McLennan stated that it will be important to plan and phase scrutiny activities and commented that the policies regarding roads, education and financial environment are all effective. He enquired about the involvement of the third sector to which Mr Denning advised that there is already engagement with parents in schools and the community management of school budgets.

As Chair of the Policy and Performance Committee (PPRC), Councillor Berry indicated that the PPRC would be looking at the detailed operational implementation of improvements and self evaluation.

### **Decision**

The Committee welcomed the Assurance and Improvement Plan Update 2012-15 and noted that the Chief Executive will keep the Council updated on any ongoing monitoring of Areas of Uncertainty (para 3.12) by the Auditor and Local Area Network.

*Sederunt: Ms Brown, Mr Denning and Mr Gillespie left the meeting*

## **4. AN OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND 2012**

A report was submitted by the Chief Executive reviewing the Council's position in relation to the findings of the Audit Scotland report, 'An Overview of Local Government in Scotland 2012'.

The Corporate Policy Manager, Paolo Vestri, presented the report which details the both the Accounts Commission finding for local authorities and the East Lothian position. Mr Vestri referred to the four key areas for improvement as listed at 4.2 of the report and advised that these had now been incorporated into the Council Plan 2012/13. He stated that the report presented an opportunity for the committee to identify areas of scrutiny for inclusion in the work programme.

Councillor MacLennan indicated that it is vital that identifying opportunities for getting best value from partnerships and making efficiency savings through partnership working are included in the work programme.

With regards to service redesign and structural changes, the Convenor acknowledged Councillor Berry's request that these be dealt with more specifically in future, as part of the work programme. Councillor Berry commented on the lack of bench-marking sharing of good practice between local authorities.

Mr Vestri informed the committee that Key Performance Indicators for local authority benchmarking are being developed by the Improvement Service any by the Society of Local authority Chief Executives (SOLACE).

The Executive Director (Support Services), Alex McCrorie, commended Mr Vestri for the East Lothian context which had been incorporated into the report.

### **Decision**

The Committee agreed to: -

- i. note that the improvement points detailed in para 4.2 have been included in the Council Improvement Plan 2012/13 which was presented to the 26 June 2012 Council meeting.
- ii. review the contents of this report and identify areas for further scrutiny at future meetings of the Audit and Governance Committee.

## **5. 2012/13 COUNCIL IMPROVEMENT PLAN**

A report was submitted by the Chief Executive presenting the 2012/13 Council Improvement Plan to the Committee.

The Corporate Policy Manager, Paolo Vestri, presented the report drawing Members' attention to the attached Council Improvement Plan (CIP) which outlined the work programme for 2012/13. Mr Vestri explained that most of the 2011-12 Corporate Plan items had been progressed or completed and that the 2012-13 CIP was mainly for information and to highlight future items within the work programme. He also commented that an update on progress with the CIP would be brought to a future meeting.

In response to a question from Councillor McLennan, Head of Council Resources, Jim Lamond explained that there would be a review of the budget planning process in the autumn but no firm deadline for this work had yet been set. Councillor McLennan asked that, when available, further information on the budget review process be presented at a future meeting.

Councillor Berry was pleased to see plans to review and revise the reports template. However, in relation to the roll out of Continuous Professional Development for all Elected Members, he expressed the view that it was unnecessary for re-elected members to repeat their training. The Convenor acknowledged this view, but pointed out the importance of regular training for all Members. He also commented that the inclusion of some of the post-election training is a statutory requirement for all Councillors.

Councillor Williamson remarked that the electronic caseload management system was on hold. He asked when members might expect progress on this issue and whether there were any plans for an electronic filing system within the Council. Mr Vestri explained that the local authorities which have piloted the system have had problems and the advice from our IT department is to delay implementation until these problems have been resolved.

Mr Lamond added that in the meantime the Council was working on its own case management system and that an electronic filing system, which includes scanning of incoming mail, is being piloted in several departments within the Council.

### **Decision**

The Committee:

- (i) noted the 2012-13 Council Improvement Plan (appendix 3); and
- (ii) requested that an update on the review of the budget planning process be provided at a future meeting.

## **6. USING COST INFORMATION TO IMPROVE PERFORMANCE: ARE YOU GETTING IT RIGHT?**

A report was submitted by the Executive Director (Support Services) advising the Committee of the contents of the Audit Scotland report, 'Using cost information to improve performance: are you getting it right?'

The Corporate Policy Manager, Paolo Vestri, presented the report, which is the third in the 'How Councils Work' series, and highlighted the key messages at 3.3. Mr Vestri advised that the report's findings can be summarised into four broad categories: developing the use of cost measures; using cost information for planning and budgeting; providing greater openness about service costs to staff and communities; and using cost measures and sharing good practice more effectively. He drew Members' attention to the summary and East Lothian context for each category and advised that the appendix contained best practice from other local authorities.

Councillor Berry asked how Councillors could evaluate value for money, to which the Convenor responded that Appendix 1 to the report was a valuable tool, referring in particular to bullet point 6 on the cost implications of decisions and policy options.

Mr Vestri stressed that the Council is reviewing how its service planning and budgeting arrangements can be better aligned and more effective use can be made of cost information. He added that work is also on-going on developing a more robust approach to options appraisal for capital programmes and in service and best value reviews.

The Head of Council Resources, Jim Lamond, remarked that the Aberdeen City Council approach of using cost information to support priority-based budgeting was of interest and may be used to inform East Lothian Council's budget development procedures.

Councillor McLennan requested that any developments regarding priority-based budgets are brought back to the Audit and Governance Committee.

The Convenor commented favourably on an options appraisal approach and reiterated the value of Appendix 1 entitled 'A tool for checking progress'.

## **Decision**

The Committee noted the contents of the report.

## **7. ANNUAL WORK PROGRAMME**

### **(a) Report by the Chief Executive**

A report was submitted by the Chief Executive offering the Committee the opportunity to adopt an annual work programme.

The Corporate Policy Manager, Paolo Vestri, presented the report highlighting the issues which could be coming before the Committee during the 2012-13 committee session. Mr Vestri reminded Members that the work programme contained 5 categories reflecting the main areas of the Committee's remit: internal audit reports; external audit reports; Audit Scotland reports; governance; and risk. He also explained that the work programme would be updated for each Committee meeting to take account of any additions or amendments and he invited comments and suggestions from Members.

**(b) Council Plan 2012-17 (consideration within future work programme)**

The Convenor suggested that further discussion of the Council Plan would be appropriate and recommended that this item be brought back to the November meeting. He also suggested that the Leader of the Council, Councillor Innes, be invited to this meeting.

Councillor McLennan concurred and suggested that the structure of the meeting be discussed at the agenda setting meeting. The Convenor agreed, confirming the importance of the Committee being able to deal thoroughly with the Council Plan at one meeting.

**(c) Summer Recess Decisions**

The Convenor advised the Members that the matter of Summer Recess decisions would be dealt with elsewhere.

**Decision**

The Committee agreed:

- (i) the annual work programme; and
- (ii) that the Head of Service (Council Resources), Jim Lamond, speak to Councillor Innes about his attendance at the November meeting and propose that the structure of this meeting be agreed in advance.

**8. AUDIT SCOTLAND REPORT – THE NATIONAL FRAUD INITIATIVE IN SCOTLAND**

A report was submitted by the Executive Director (Support Services) informing the Committee of the Audit Scotland report on 'The National Fraud Initiative in Scotland' issued in May 2012.

The Internal Audit Manager, Mala Garden, presented the report highlighting paragraph 3.4 which summarised the conclusions of the Audit Scotland report and the 5 key areas identified for improvement. Ms Garden indicated that Internal Audit had been asked to take a lead role in the 2012-13 exercise and would take all 5 points into account. She emphasised that the Council had been performing well under the National Fraud Initiative but that there was room for improvement.

Councillor Berry noted that blue badges continued to be the most common type of fraudulent practice. The Convenor agreed but indicated that as badges were issued for a three-year period, individuals' circumstances could change and the badge may no longer be appropriate. However, changing to an annual renewal system had cost implications.

Councillor Goodfellow commented that the figure of 4403 blue badges in the report related to those badge holders who were now deceased but whose badges had not been withdrawn.

**Decision**

The Committee noted the key messages contained in Audit Scotland's report, 'The National Fraud Initiative in Scotland'.



## **9. INTERNAL AUDIT REPORT – PRESTONPANS INFANT SCHOOL**

A report was submitted by the Executive Director (Support Services) informing the Committee of the recently issued audit report on Prestonpans Infant School.

The Internal Audit Manager, Mala Garden, presented the report and indicated to members that the recommendations contained within the Action Plan had been agreed with management at the School.

The Convenor asked whether there had been specific problems with this school which had led to the audit being undertaken or whether this was simply part of the ongoing audit process. Ms Garden explained that Prestonpans Infant School was one of two schools chosen at random as part of the annual audit plan.. Ms Garden further stated that there was a new Head Teacher in post who had changed the procedures within the school..

The Convenor asked whether the Committee could be confident about procedures within other schools given the issues unearthed by this audit report and Councillor Williamson asked whether examples of “best practice” were shared with other schools. Ms Garden indicated that she was confident that the guidelines for schools were robust and that a follow up report would be prepared on Prestonpans Infant School, as well as a further audit on a second, randomly chosen, school later in the year.

In response to a question from Councillor Goodfellow, Ms Garden indicated that the school was given plenty of warning that an audit would be taking place.

### **Decision**

The Committee noted the contents of the Executive Summary and Action Plan for Prestonpans Infant School.

## **10. INTERNAL AUDIT REPORT – PAYMENT CARD INDUSTRY DATA SECURITY STANDARD**

A report was submitted by the Executive Director (Support Services) informing the Committee of the recently issued audit report on the Payment Card Industry Data Security Standard (PCI DSS).

The Internal Audit Manager, Mala Garden, presented the report explaining that the Standard was relevant to all organisations who accept debit and/or credit card payments. Ms Garden outlined the findings of the report which assessed the Council's performance against all 12 requirements of the Standard and highlighted the main areas for improvement.

### **Decision**

The Committee noted the contents of the Executive Summary and Action Plan for the PCI DSS.

**11. INTERNAL AUDIT REPORT – CARBON MANAGEMENT REDUCTION**

A report was submitted by the Executive Director (Support Services) informing the Committee of the recently issued audit report on Carbon Management Reduction.

The Internal Audit Manager, Mala Garden, presented the report explaining that the review was undertaken as part of the audit plan for 2012-13. The main objective was to ensure that the Council had appropriate arrangements in place to meet its statutory obligations in relation to the CRC Energy Efficiency Scheme. She commented, that in general, arrangements were good for carbon management but that there were a few areas where improvements could be made, such as convening regular meetings of the Carbon Management Programme Board.

**Decision**

The Committee noted the contents of the Executive Summary and Action Plan for Carbon Management Reduction.

Signed .....

Councillor Stuart Currie  
Convener of the Audit and Governance Committee