



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

**TUESDAY 20 MAY 2014
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

Councillor K McLeod (Convener)
Councillor S Brown
Councillor J Caldwell
Councillor S Currie
Councillor J Goodfellow
Councillor F McAllister
Councillor J Williamson

Council Officials Present:

Mrs A Leitch, Chief Executive
Mr A McCrorie, Depute Chief Executive - Resources and People Services
Ms M Patterson, Depute Chief Executive - Partnerships and Community Services
Mr R Montgomery, Head of Infrastructure
Mr T Shearer, Head of Communities & Partnerships
Mr J Lamond, Head of Council Resources
Ms S Cormack, Service Manager – HR & Payroll
Ms M Ferguson, Service Manager – Legal & Procurement
Mr P Vestri, Service Manager - Corporate Policy
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Ms A Cullen, Senior Review Officer
Mr A Strickland, Policy Officer

Clerk:

Miss F Currie, Committees Assistant

Visitors Present:

Mr A Shaw, Engagement Director, KPMG LLP
Ms S Burden, Assistant Manager, KPMG LLP

Apologies:

Councillor A Forrest

Declarations of Interest:

None

1. MINUTES OF THE MEETING OF THE AUDIT & GOVERNANCE COMMITTEE ON 18 MARCH 2014

The minutes of the meeting of the Audit & Governance Committee on 18 March 2014 were approved.

2. INTERIM MANAGEMENT REPORT (KPMG)

KPMG submitted a report updating the Committee on progress with their audit of East Lothian Council for the year ended 31 March 2014.

Engagement Director - KPMG, Andrew Shaw, presented the report which gave Members an update on the key business and governance issues identified following KPMG's interim visit. The third quarter results indicated that the use of reserves had been less than budgeted, as had capital spending. Sarah Burden, Assistant Manager - KPMG, summarised the report's findings in relation to the National Fraud Initiative, internal audit and the review of the controls framework. She stated that although some low level recommendations had been identified, controls appeared to be working effectively.

In response to questions from Councillor Currie, Mr Shaw advised that KPMG had looked at budget processes and forward planning arrangements across the Council as a whole rather than looking at individual efficiency saving targets. It was the role of Management to keep these under review and to identify any issues which might prevent their targets from being met.

The Head of Council Resources, Jim Lamond, confirmed that the Council had in place a longer term financial planning horizon that extended beyond the published 3 year budget and financial strategy. The forward planning and budget-setting process involved the Council Management Team and Service Managers from across all business areas.

The Chief Executive, Angela Leitch, added that the recently approved Budget Review Group was in place to review the Council's progress towards achieving its efficiency savings targets.

Decision

The Committee noted the report.

3. PROGRESS REPORT ON MANAGING THE WORKFORCE

A report was submitted by the Depute Chief Executive – Resources and People Services to provide the Committee with updated information in relation to the implementation of the Council's Voluntary Early Release Scheme (VERS) and to provide an update on Efficient Workforce Management Planning during 2013/14.

Mr Lamond presented the report giving Members the background to VERS and Efficient Workforce Management Plans. He explained that almost 300 applications had been received under VERS and of these, 97 had been approved. Although the Council fell just short of its target, with a total saving from VERS of £2.85 million, Management were pleased with the outcome overall.

Mr Lamond indicated that costs associated with VERS amounted to £3.1 million and there would be a recurring annual saving of £2.85 million. Overall, this could be viewed as delivering a payback period of 1.1 years, well within the Audit Scotland guideline of 2 years. He acknowledged that the impact on the Council in terms of workloads and the cumulative loss of experience continued to be challenging. Although the impact on service delivery had been minimised by service redesign and the diligence of remaining staff, it would be some time before the full effect of these changes would be known. However, the results of the recent Staff Engagement Survey suggested that there had been no significant deterioration in staff morale and the Council Complaints officer had confirmed there had been no obvious deterioration in public satisfaction with service delivery. In the meantime, work was continuing on the modification and redesign of services to take account of the reduced staff resource.

In response to questions from Members, the Service Manager – HR & Payroll, Sue Cormack, confirmed that those employees who were not accepted for VERS had received feedback and support from their line managers as necessary. Mr Lamond added that a large number of the applications had been speculative and had subsequently been withdrawn by employees after receiving their estimate. Following on from VERS, he stated that 49 service reviews had been concluded to date with a further 24 currently in progress. These varied in size and included larger business areas such as Children's Wellbeing and Property Services.

Mrs Leitch advised Members that it was important to remember that this programme had been necessary to allow the Council to adapt to the changing demands of the public sector and to achieve its ambitious plans under the Single Outcome Agreement. Management had taken on board the views of staff and were working to improve the way that change is managed within the organisation. Service reviews were only one tool and staff would continue to be engaged in the redevelopment of services through HGIOC and other means.

The Head of Communities & Partnerships, Tom Shearer, stated that despite the challenges there had been some very positive outcomes, such as the enrichment of roles for staff in customer services and library services.

Councillor McAllister asked about the use of agency or casual staff and zero hours contracts and Mr Lamond agreed to provide this information.

Decision

The Committee noted the recent progress made with implementation of the VER Scheme and EWMP during 2013/14.

[Sederunt – Sue Cormack and Jim Lamond left the Chamber.]

4. 2014 CORPORATE GOVERNANCE SELF-EVALUATION/ANNUAL GOVERNANCE STATEMENT

A report was submitted by the Chief Executive advising the Committee of the outcome of the 2014 Corporate Governance Self-evaluation and to seek approval for the content of the Annual Governance Statement.

The Service Manager - Corporate Policy, Paolo Vestri, presented the report stating that Cabinet had approved the adoption of the Code of Corporate Good Governance in 2010. The Council's task group had met and reviewed the actions from last year against the six principles and model outlined in CIPFA/SOLACE *Guidance on Delivering Good Governance in Local Government* and had agreed a list of improvement points for this year.

Councillor Currie commented that events such as Elected Members briefings and the Working Together Forum were very helpful. However, there appeared to be no forum in which Elected Members and officers could work together, outwith the Chamber, to address some of the longer term strategic issues facing the Council. He suggested that such a forum might be something to consider for the future.

Decision

The Committee approved the summary for inclusion in the Annual Governance Statement that will form part of the Council's 2013/14 Annual Accounts.

5. INTERNAL AUDIT REPORT – CREDITORS

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on Creditors.

The Internal Audit Manager, Mala Garden, presented the report explaining that this audit, along with the others to be presented at this meeting, had been carried out as part of the 2013/14 audit plan. She summarised the main findings and drew Members attention to the recommendations for action which had been agreed by Management.

In response to questions from Members, Ms Garden indicated that while some guidance was in place it needed to be clearer and the approved signatory list also required updating. Other issues identified included the arrangements in place for the recovery of outstanding unused credit notes – the audit testing identified an outstanding credit note for £72,000, although this money could be recovered from the supplier - and a lack of consistency in approval limits for authorised signatories.

Mrs Leitch responded to Members concerns about timescales for completion of the action plan indicating that these would be reviewed and brought forward as necessary.

Decision

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

Sederunt – Angela Leitch left the Chamber.

6. INTERNAL AUDIT REPORT – HOUSING REVENUE ACCOUNT

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on the Housing Revenue Account.

Ms Garden presented the report indicating that the main objective of the audit was to ensure that the internal controls in place were operating effectively. She summarised

the main findings and confirmed that the recommendations had been accepted by Management.

In response to questions from Members, Ms Garden explained that the actions for completion in 2015 related to annual billing and would be in place before the next billing cycle began. In general, completion dates were agreed with managers in each department depending on the nature of the risk associated with each recommended action, e.g. low, medium or high risk.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for the Housing Revenue Account.

7. INTERNAL AUDIT REPORT – JOURNAL PROCESSING

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on Journal Processing.

Ms Garden presented the report summarising the main findings including areas where controls were met, areas with scope for improvement and the action plan agreed by Management.

In response to a question from the Convenor, Ms Garden advised that of the 29 manual journal entries reviewed only one had contained an error.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Journal Processing.

8. INTERNAL AUDIT REPORT – PROCUREMENT SCHEME OF DELEGATION

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on Procurement – Scheme of Delegation.

Ms Garden presented the report summarising the main findings including areas where controls were met, areas with scope for improvement and the action plan agreed by Management.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Procurement – Scheme of Delegation.

9. INTERNAL AUDIT REPORT – TRADING OPERATIONS

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on Trading Operations.

Ms Garden presented the report. She stated that the Council currently operates 3 Statutory Trading Accounts for Significant Trading Operations (STOs): Property Maintenance, Roads Services and Facilities Services. However, recent changes to guidance indicate that STOs should focus only on those services or activities which are external to the local authority. The Council's STOs no longer generate significant levels of income from external clients. Internal Audit had therefore recommended that the Council take the opportunity to review its services and decide whether STOs were still required.

Following questions from Members, Depute Chief Executive, Alex McCrorie, stated that removing STOs would not prevent income from being received from external sources. The potential effect of any change on the rate of return and the impact on budgets such as the Housing Revenue Account would be carefully considered before any decision was taken.

The Head of Infrastructure, Ray Montgomery, indicated that any review would be more about reducing the bureaucracy of the process rather than the actual level of business. He also confirmed that while there was scope to provide some services to external clients, the main focus would always be on the core business of the Council.

Mr McCrorie added that all local authorities were subject to certain rules although it was possible for them to make use of surplus capacity.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Trading Operations.

10. INTERNAL AUDIT PROGRESS REPORT 2013/14

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of Internal Audit's progress against the annual audit plan for 2013/14.

Ms Garden presented the report advising Members that all but 3 of the audits had been completed in line with the 2013/14 plan. The remaining audits were underway and would be completed shortly.

Following a question from the Convenor, Ms Garden confirmed that the Housing Allocations audit, although carried out in February, had looked at the potential impact of the new housing policy which took effect from April 2014.

Decision

The Committee noted the contents of the Internal Audit Progress Report 2013/14.

11. CONTROLS ASSURANCE STATEMENT 2013/14

A report was submitted by the Internal Audit Manager informing the Committee of the Internal Audit Manager's assessment of the control environment and her report on the adequacy and effectiveness of internal controls.

Ms Garden presented the report. She explained that the majority of Internal Audit recommendations made in 2013/14 were categorised as medium risk with a small number of high risk recommendations. However, the implementation by Management of agreed actions to address the weaknesses should provide reasonable assurance that the system of internal control is operating as intended.

Decision

The Committee noted that the Controls Assurance Statement as a formal confirmation of Internal Audit's opinion on the Council's control environment for the year ended 31 March 2014.

SUMMARY OF PROCEEDINGS – EXEMPT INFORMATION

The Committee agreed to exclude the public from the following business containing exempt information by virtue of Paragraphs 1, 3, 4 and 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

(a) Whistleblowing Report 2013/14

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the concerns raised in 2013/14 under the Council's Whistleblowing Policy. The Committee agreed the recommendation.

(b) Internal Audit Report: East Lothian Investments Ltd – Progress Update

The Depute Chief Executive – Partnerships and Community Services submitted a report informing the Committee of the progress made in implementing the recommendations of the recently issued audit report on East Lothian Investments Ltd. The Committee agreed the recommendation.

Signed

Councillor Kenny McLeod
Convener of the Audit and Governance Committee