



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

**TUESDAY 19 MAY 2015  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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**Committee Members Present:**

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

**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 J Lamond, Head of Council Resources  
Mr T Shearer, Head of Communities and Partnerships  
Mr R Montgomery, Head of Infrastructure  
Ms L Shaw, Corporate Finance Manager  
Mr P Vestri, Service Manager - Corporate Policy  
Ms M Garden, Internal Audit Manager  
Mr S Allan, Senior Auditor  
Mr A Steven, Senior Auditor  
Mr S Kennedy, Risk Officer

**Clerk:**

Miss F Currie, Committees Assistant

**Visitors Present:**

Mr A Shaw, KPMG LLP  
Ms S Burden, KPMG LLP

**Apologies:**

Councillor S Brown  
Councillor A Forrest  
Councillor J Williamson

**Declarations of Interest:**

None

## **1. MINUTE OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 17 MARCH 2015 FOR APPROVAL**

The minute of the Committee's meeting on 17 March 2015 was approved.

## **2. EAST LOTHIAN COUNCIL – AUDIT AND GOVERNANCE COMMITTEE UPDATE (KPMG)**

A report was submitted by KPMG to update the Committee on progress with the audit of East Lothian Council for the year ended 31 March 2015.

KPMG Director, Andy Shaw, presented the report summarising the key points, in particular the significant risks and other matters identified in the audit strategy document and the results of KPMG's control framework testing, encompassing governance and systems control. He advised Members that minor weaknesses had been detected and details of the recommendations and Management's responses were contained in the action plan.

The Head of Council Resources, Jim Lamond, responded to questions from Councillor Currie in relation to capital spending. He advised that in 2013/14 East Lothian had been one of several local authorities in Scotland to record an underspend with its capital programmes. While it was too early to say definitively, he hoped that the Council would achieve a higher level of spend relative to budget in 2014/15. The situation was complex as major investment in our planned vehicle replacement programme, as well as some major contract works payments had been delayed. However he assured Members that officers would always analyse the reasons for any underspend and reflect this within both updated plans and a report back to Council.

### **Decision**

The Committee agreed to note the contents of the report.

## **3. CORPORATE RISK REGISTER**

A report was submitted by the Chief Executive to present to the Committee the Corporate Risk Register 2015 for discussion, comment and noting.

The Risk Officer, Scott Kennedy, presented the report advising Members that the Risk Register had been updated following a review by the Corporate Risk Management Group and had been presented to Cabinet for approval. The 2015 Risk Register included 1 Very High risk, 7 High risks and 6 Medium risks.

In response to questions from Members, Mr Lamond confirmed that the Council would consider very closely the UK budget, expected in July, and its implications for the Council's short and longer term financial planning. He reminded Members that the Risk Register was a live document and could be updated to take account of changing circumstances.

The Chief Executive, Angela Leitch, explained that the Risk Register was 'owned' by the Council and it was therefore appropriate for it to be approved by Cabinet.

However, the Audit & Governance Committee had an important scrutiny role and any amendments or suggestions the Committee put forward would be taken on board.

### **Decision**

The Committee agreed to note the Corporate Risk Register for 2015 and, in doing so, that:

- the relevant risks have been identified
- the significance of each risk is appropriate to the current nature of the risk;
- the total profile of corporate risk can be borne by the Council at this time in relation to the Council's appetite for risk;
- although the risks presented are those requiring close monitoring and scrutiny throughout 2015, many are in fact longer term corporate risks for the Council that are likely to be a feature of the risk register over a number of years; and
- the Council Management team will review all risks in the Corporate Risk Register on a regular basis.

#### **4. AN OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND 2015 (ACCOUNTS COMMISSION, MARCH 2015)**

A report was submitted by the Depute Chief Executive – Partnerships and Community Services to review East Lothian Council's position in relation to the findings of the Accounts Commission report, *'An overview of local government in Scotland 2015'*.

The Service Manager – Corporate Policy, Paolo Vestri, presented the report considering the findings of the review and the actions being taken by East Lothian Council. He explained that the report was in two parts: the first reviewed the financial context in which councils were operating; and the second part looked at how councils were managing financial challenges. He summarised the key messages of the report and the six recommendations put forward by the Accounts Commission.

Responding to a question from Councillor Currie, Mrs Leitch advised that the Council was constantly reviewing how it delivers services and referred to recent successes with shared service and partnership arrangements as evidence of its commitment to considering alternatives. She said that the Council would continue to pursue such options where it made sense to do so and where it offered increased capacity to deliver services.

In response to other questions from Members, Mr Vestri confirmed that most Councillors had attended the mandatory parts of their induction programme, although some had required reminders to do so. He also advised that the Council had highlighted the additional burden which would be placed on remaining elected Members as part of their response to the Boundary Commission's proposals to reduce councillor numbers in East Lothian.

Councillor Currie commented on an interesting report which, in his view, raised a number of questions but offered few answers. Referring to the Chief Executive's comments, he said that current and future financial constraints meant that it was more important than ever that the Council consider alternatives for delivering services and that any proposals were accompanied by a detailed options appraisal.

## **Decision**

The Committee agreed to:

- note the position of East Lothian Council in regard to the recommendations contained in the Overview of Local Government in Scotland;
- note that a follow up elected members' training and development needs survey will be carried out before the end of 2015; and
- identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit & Governance Committee.

## **5. BORROWING AND TREASURY MANAGEMENT IN COUNCILS – A NATIONAL REPORT BY AUDIT SCOTLAND**

A report was submitted by the Depute Chief Executive – Resources and People Services to provide the Committee with a summary of the Accounts Commission report, 'Borrowing and treasury management in councils' and the Council's actions in relation to the report's key messages.

The Corporate Finance Manager, Liz Shaw, presented the report summarising the key findings, recommendations and the position within East Lothian Council. In particular she highlighted the importance of providing additional training to support Members and of identifying and sharing best practice between local authorities.

In response to questions from Members, Ms Shaw said that the report had shown the need for councils to consider longer term financial planning rather than simply relying on 3 or 5 year budgets. She also confirmed that borrowing for capital projects such as housing would always be over a longer term and in some cases the profile could be up to 50 years.

Mr Lamond advised that all budgets presented to Council clearly state that they have met certain key tests, including that of affordability.

Councillor Currie acknowledged the advice of Audit Scotland on spending, however, he pointed out that the Council had to balance this against the demands of the Main Issues Report and the future financial implications, many of which were still unclear.

Councillor Goodfellow was sympathetic to this view but commented that funding for schools was not solely from Council Tax and that the Council's block grant should also increase in line with future population increases.

## **Decision**

The Committee agreed to note the Accounts Commission report and the approach that is being taken to improve treasury management procedures and practices.

## **6. 2015 CORPORATE GOVERNANCE SELF-EVALUATION/ ANNUAL GOVERNANCE STATEMENT**

A report was submitted by the Chief Executive to advise the Committee of the outcome of the 2015 Corporate Governance Self-evaluation and seek approval for the content of the Annual Governance Statement.

Mr Vestri presented the report reminding Members that Cabinet had previously approved the adoption of a Code of Corporate Good Governance based on the six principles of good governance and self-evaluation model outlined in CIPFA/SOLACE *Guidance on Delivering Good Governance in Local Government*. He advised that there were no recommendations for improvement following this year's evaluation and the improvement actions carried out over the last four years had addressed weaknesses that had been identified in previous self-evaluations.

### **Decision**

The Committee considered the self-evaluation and agreed to approve the summary for inclusion in the Annual Governance Statement that will form part of the Council's 2014/15 Annual Accounts.

## **7. INTERNAL AUDIT REPORT – MANDATORY AND DISCRETIONARY FINANCIAL ASSISTANCE**

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of the recently issued audit report on Mandatory and Discretionary Financial Assistance.

The Internal Audit Manager, Mala Garden, presented the report outlining the areas where expected controls were met and those with scope for improvement. She referred Members to the recommendations contained in the Action Plan, all of which had been accepted by Management.

Responding to a question from Councillor Goodfellow, Ms Garden advised that contract sizes varied but the average was around £5000.

### **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **8. INTERNAL AUDIT REPORT – FRAMEWORKI PAYMENTS ON SCHEDULE**

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of the recently issued audit report on Frameworki – Payments on Schedule.

Ms Garden presented the report which had been undertaken as part of the 2014/15 audit plan. She advised that the main objective of the audit was to ensure that the internal controls in place were operating effectively. She drew Members attention to the findings and the recommendations contained in the Action Plan, all of which had been accepted by Management.

In response to questions from Members, Ms Garden confirmed that client and billing details were checked by providers to ensure that the information on the remittance advice was correct and, where inaccuracies were identified, the Council was able to reclaim any sums paid out in error. In response to a question on the action plan, Ms Garden clarified that references to a transfer of responsibilities related to there being no Service Manager (Resources) currently in post for Adult Wellbeing.

## **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **9. INTERNAL AUDIT REPORT – BORROWINGS**

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

Ms Garden presented the report summarising the main findings of the audit. She referred Members to the recommendations contained in the Action Plan, all of which had been accepted by Management.

Responding to questions from Members, Ms Garden indicated that it would be for managers to determine how regularly cash flow forecasts were updated with bank balances. She explained that in four cases the original purpose of the loan was not clear but these were older loans which pre-dated the change from Lothian Region to East Lothian Council. The loans had been included in the audit as they were all still 'live' and, in all cases, the payment and balance details were correct.

## **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **10. INTERNAL AUDIT REPORT – PENSIONS**

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

Ms Garden presented the report which had been undertaken as part of the 2014/15 audit plan. She summarised the main findings and Action Plan, confirming that all of the recommendations had been accepted by Management.

## **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **11. INTERNAL AUDIT REPORT – PAYROLL OVERTIME**

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of the recently issued audit report on Payroll Overtime.

Ms Garden presented the report summarising the main findings of the audit. She referred Members to the recommendations contained in the Action Plan, all of which had been agreed by Management.

## **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **12. INTERNAL AUDIT PROGRESS REPORT 2014/15**

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of Internal Audit's progress against the annual audit plan for 2014/15.

Ms Garden presented the report which had been prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.

Responding to a question from Councillor Currie, Ms Garden confirmed that the audit work plan for 2015/16 would be presented to the Committee in due course.

## **Decision**

The Committee agreed to note the contents of Internal Audit's progress report 2014/15.

## **13. ANNUAL INTERNAL AUDIT REPORT 2014/15**

A report was submitted by the Internal Audit Manager to provide the Committee with a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2014/15.

Ms Garden presented the report advising Members that the Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit Manager prepares an annual internal audit opinion and report to support both the Council's Annual Governance Statement and the Internal Audit Manager's Controls Assurance Statement. She summarised the contents of the report including the list of reviews completed as part of the 2014/15 audit plan.

Councillor Currie welcomed the report saying that it was hugely reassuring to know that none of the audits undertaken in 2014/15 had identified any issues of serious concern. Councillor Goodfellow echoed these comments.

## **Decision**

The Committee agreed to note the contents of the Annual Internal Audit Report 2014/15.

## **14. CONTROLS ASSURANCE STATEMENT 2014/15**

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 explaining that the majority of Internal Audit recommendations made in 2014/15 were categorised as medium risk with a small number of high risk recommendations. However, the implementation by Management of agreed actions to address these weaknesses should provide assurance that the system of internal controls is operating effectively.

Councillor Currie commended Ms Garden and her team for the report and their hard work throughout the year. He said it was important that people have confidence in the Council's financial operations. The Convenor also thanked Ms Garden and the Internal Audit team.

**Decision**

The Committee agreed to note the Controls Assurance Statement as a formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2015.

Signed .....

Councillor Kenny McLeod  
Convenor of the Audit and Governance Committee