



MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

**TUESDAY 13 SEPTEMBER 2016
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

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

Other Councillors Present:

Councillor J McMillan (Item 3)

Council Officials Present:

Mr A McCrorie, Depute Chief Executive - Resources and People Services
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services
Mr J Lamond, Head of Council Resources
Mr R Montgomery, Head of Infrastructure
Mr D Proudfoot, Head of Development
Ms F Robertson, Head of Education
Mr T Shearer, Head of Communities & Partnerships
Mr P Vestri, Service Manager – Corporate Policy and Improvement
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Ms C Borland, Service Manager – Children’s L/Term Care & Support Services
Ms S Fortune, Service Manager – Business Finance
Mr P Grant, Service Manager – Property Maintenance
Ms T Leddy, Service Manager (Adult Wellbeing)
Ms C McCorry, Service Manager – Community Housing
Mr R Parker, Service Manager – Education (Strategy & Operations)

Clerk:

Ms F Currie

Visitors Present:

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

Apologies:

Councillor J Caldwell
Councillor A Forrest
Councillor J Williamson

Declarations of Interest:

None

The Convener advised Members that, under the terms of Standing Order 5.2, agenda item 10 – East Lothian Council Annual Accounts 2015-16 - had been added as an urgent item of business. He explained that the Accounts should have formed part of the business of the meeting but, due to an oversight, had been omitted from the original agenda. This item would be taken directly following agenda item 2.

Councillor Currie queried the reasons for the Accounts being added to the agenda at such short notice and whether there had also been issues with the preparedness of the document which resulted in its late circulation to Members.

Jim Lamond, Head of Council Resources, explained that it was a combination of factors: the oversight which resulted in its omission from the agenda, and the readiness of the Accounts. He said it had always been the intention to include the Accounts on the agenda with the expectation that they would be ready to circulate to Members the Friday before the meeting. Mr Lamond acknowledged that the timing was tight and that significant work was being undertaken up to the previous week. However, he reminded Members that they had already considered the draft Accounts in some detail and were required to consider the final Accounts before their submission at the end of September.

Councillor Currie thanked Mr Lamond for his response and suggested that, for future years, some thought should be given to the timing of the Committee's September meeting to allow Members sufficient time to fully consider the final Accounts.

1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 14 JUNE 2016 (FOR APPROVAL)

The minutes of the Committee's meeting on 14 June 2016 were approved.

2. ANNUAL AUDIT REPORT TO THE MEMBERS OF EAST LOTHIAN COUNCIL

A report was submitted by KPMG summarising its opinion and conclusions on significant issues arising from the annual audit.

Andy Shaw and Sarah Burden from KPMG presented the report. Mr Shaw summarised the key features of the audit drawing Members' attention to the audit conclusions, significant risks and areas of audit focus. He confirmed that KPMG intended to issue an unqualified audit opinion.

Ms Burden outlined the wider scope of the audit referring to financial management and sustainability, governance and transparency and risk assessment. She indicated that although the report made two low level recommendations on the timeliness of financial reporting and bad debt provision, no significant risk factors had been identified during the audit.

Mr Shaw responded to questions from Members. He confirmed the audit had looked at the reasons for the slippage in capital projects and at the overspend in the Adult

Wellbeing budget. He noted that these areas would continue to be monitored and he was satisfied with the approach being taken by the Council.

On the issue of bad debt recovery, Mr Shaw referred to the comments in the report but said that this was not considered to be a significant risk. He explained that accounting rules were the same for all Local Authorities and the key issue was whether or not the debt was recoverable.

Mr Lamond added that the Council had been wrongly reported in the media as being the third worst in Scotland at recovering debt when in fact it had performed above the national benchmark.

Responding to a question on charging for services, Sarah Fortune, Service Manager – Business Finance, confirmed that the Council could charge for the provision of financial services and had done so for the Musselburgh Joint Racing Committee.

Councillor Currie welcomed the report and the recommendation in relation to the timeliness of financial reporting. He reiterated the importance of Members receiving reports as early as possible to allow them time to properly understand and scrutinise the financial information.

The Convener reminded members that KPMG would shortly cease to be the Council's external auditors and he thanked Mr Shaw and Ms Burden for their contributions.

Decision

The Committee agreed to note the contents of the report.

10. EAST LoTHIAN COUNCIL ANNUAL ACCOUNTS 2015/16

A report was submitted by the Depute Chief Executive (Resources & People Services) to provide those Members charged with governance the 2015/16 Annual Accounts.

Ms Fortune presented the report. She reminded Members that the draft 2015-16 annual accounts had been presented to the Committee on 14 June and had been submitted for audit on 30 June. A copy of the full accounts had been placed in the Members' Library. She advised that the audit review had resulted in a small number of non material amendments and that the group accounts and draft management commentary had also been added. She concluded that the audited accounts would be formally submitted by 30 September 2016.

In response to questions from Members, Mr Lamond clarified the position in relation to staff salaries and agreed to provide additional information on the Council's interest in Lothian Buses.

Regarding the ownership and potential buyout of PFI contracts, Mr Lamond provided the name of the company handling the contracts and agreed to look into their ownership. He also reiterated his previous advice that in order to arrange a buy-out, the contractor had to be willing to agree and, due to the current extremely low levels of investment return, this was unlikely. He added that the cost of such a deal would be significant but that he could explore the options if Council wished him to do so.

Councillor McAllister commented on the importance of knowing who owned the Council's PFI contracts and he welcomed Mr Lamond's offer to look into the matter.

Councillor Currie welcomed the level of detail provided in the accounts and the opportunity for the Committee to scrutinise them in an open and transparent way. However he said that it would be helpful if the Council could publish on its website a summarised version of the accounts, as it was important for the public to understand how the Council budget had been spent.

Decision

The Committee agreed to:

- note the 2015-16 audited final accounts, taking into consideration the External Auditors' Annual Audit Report; and
- note the intention to submit the audited final accounts in accordance with the statutory timetable.

3. EDUCATION RISK REGISTER

A report was submitted by the Chief Executive presenting to the Committee the Education Risk Register for discussion, comment and noting.

Paolo Vestri, Service Manager – Corporate Policy & Improvement, presented the report explaining to Members that although the current Risk Register contained 6 High risks, 10 Medium risks and 2 Low risks, as per the Council's Risk Strategy, only the Very High and High risks were reported to the Committee.

Councillor McAllister enquired about the relationship between the numbers of supply teachers and the sickness absence level among permanent teaching staff. Fiona Robertson, Head of Education, advised that it was the nature and availability of supply teachers which was more of a risk factor than the reason for supply.

In response to a question from the Convener, Ms Robertson indicated that the Council was aiming to increase cover by recruiting 4-6 permanent Primary supply teachers.

Councillor Currie asked about the planned risk control measures in relation to School Estate Management and whether the Condition and Suitability Survey would be extended to secondary schools.

Douglas Proudfoot, Head of Development, advised that the Council was adopting a risk based approach to all public buildings and that the current survey of primary schools would be extended to secondary schools and other public buildings.

Councillor Goodfellow referred to a recent report brought before Cabinet and another in the Members' Library relating to the Council's policy to address the shortage in supply teachers. He congratulated the Education Department on its work in this area.

Decision

The Committee agreed to note the Education Risk Register and, in doing so, note that:

- the relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk.
- the total profile of the Education risk could be borne by the Council at this time in relation to the Council's appetite for risk.
- although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer term risks for Education and were likely to be a feature of the risk register over a number of years.

4. CHILDREN AND ADULT SERVICES RISK REGISTER

A report was submitted by the Chief Executive presenting to the Committee the Children and Adult Services Risk Register for discussion, comment and noting.

Mr Vestri presented the report referring to 7 High risks, 10 Medium Risks and 1 Low risk contained in the current Risk Register. He reminded Members, as per the Council's Risk Strategy, that only the Very High and High risks were reported to the Committee.

Councillor Currie asked about the risk of the failure of a major Care Home, the effect of the recent Care Inspectorate review and the effectiveness of the planned risk control measures. Mr Vestri advised that the risk level was reassessed following the Care Inspectorate's review of services in East Lothian and that control measures were already in place. Trish Leddy, Service Manager in Adult Wellbeing, added that these measures were considered appropriate to manage the level of risk.

In response to a question about delayed discharges, Ms Leddy outlined the measures being put in place to address this issue. She acknowledged that the national target of 'no delays over two weeks' had been a regular topic for discussion but that delivering this would depend on a range of factors.

Councillor Currie said that the Council needed to be clear about its goal - meeting the national target or simply improving the current number of delayed discharges - and that this should be reflected in the document to allow progress and ongoing risk levels to be accurately assessed.

The Convener enquired about the use of Crookston Care Home as a step down facility. Ms Leddy replied that the current step down beds would be replaced by beds at Liberton Hospital and that Crookston would be used for decant of patients from Roodlands Hospital.

Councillor McAllister raised questions about the use of the top floor at Eskgreen Care Home and whether the Social Care Fund could be used to bring these beds into service. Ms Leddy offered to provide information on these matters.

In reply to a further question from Councillor McAllister, Ms Leddy confirmed that the Council would expect independent care providers to maintain the standard of the living wage.

Decision

The Committee agreed to note the Children and Adult Services Risk Register and, in doing so, note that:

- the relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk.
- the total profile of the Children and Adult Services risk could be borne by the Council at this time in relation to the Council's appetite for risk.
- although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer term risks for Children and Adult Services and were likely to be a feature of the risk register over a number of years.

5. ANNUAL WORK PLAN 2016/17

The Convener advised Members that the Annual Work Plan, which outlined the business of the Committee for the coming session, had been submitted for information.

Decision

The Committee agreed to note the contents of the Annual Work Plan 2016/17.

6. INTERNAL AUDIT REPORT – SECTION 75 PAYMENTS

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Section 75 Payments.

Mala Garden, Internal Audit Manager, presented the report advising Members that, at the request of Management, a review had been undertaken of the arrangements in place for the administration, management and monitoring of Section 75 payments. She outlined the main findings and the recommendations for action, which had been accepted by Management.

Douglas Proudfoot, Head of Development, responded to questions from Councillor Currie regarding Section 75 agreements, the assessment of education contributions, the revised supplementary planning guidance which would support the proposed Local Development Plan (LDP) and the need for additional staff resource to take forward the next stage of the work.

In response to questions from Councillor Goodfellow, Ms Robertson confirmed that the review of the average New Build Child Per House Ratios had been undertaken. Mr Proudfoot added that the policy looked at the whole life of the LDP and would be subject to statutory consultation. However, this did not preclude subsequent revisions being made to take account of changing circumstances over the life of the LDP.

Ms Garden responded to further questions from Members confirming that where Internal Audit identified any significant weaknesses or failures in controls they would undertake further substantive testing. She said that the report did not quantify loss but rather systems failures and that any inconsistencies would be addressed by the actions agreed with Management.

Councillor Currie commented on the importance of ensuring that areas such as health and social care were factored into the calculations for future developer

contributions. He welcomed the report and that the recommendations would be completed before the implementation of the LDP.

Councillor Goodfellow also welcomed the report which he hoped would offer reassurance that the appropriate policies and systems were in now in place.

Decision

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

7. INTERNAL AUDIT REPORT ON DIRECT PAYMENTS – CHILDREN'S WELLBEING

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Direct Payments – Children's Wellbeing.

Ms Garden presented the report summarising the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan which had been accepted by Management.

Decision

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

8. INTERNAL AUDIT REPORT - HOUSING VOIDS

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

Ms Garden presented the report outlining the findings and the recommendations contained in the Action Plan which had been accepted by Management.

In response to questions from Members, Caitlin McCorry, Service Manager – Community Housing, provided advice on the timescales for preparing void properties for re-letting and the arrangements in place for tenants with rent arrears who applied for a transfer.

Ms Garden advised that of the 40 cases reviewed by Internal Audit, 12 were transfer applications. She said that the reasons for the delays were not always clear and these cases had been passed to Management for further investigation. Ms Garden confirmed that the outcome of this work would be included in the follow up report.

Ms McCorry also informed Members that some of the recommendations would form part of the wider review of the Voids Policy which would begin later in the year and which would require a period of statutory consultation with tenants.

Monica Patterson, Depute Chief Executive, added that recommendations would be acted on as quickly as possible, subject to any legislative constraints.

Councillor Currie welcomed the report which highlighted the complexity of the system. He said it was important to take the time to get the policy right to allow Members and tenants to have confidence in the system. He added that when Members received the follow up report he hoped that it would provide reassurance that the necessary resources were in place.

Councillor Goodfellow commented that there should be something in the tenancy agreement which required tenants seeking a transfer to agree to a pre-transfer inspection.

Councillor McAllister observed that the less obvious aspect of housing voids was the impact on the surrounding community. He added that properties left empty over a long period often attracted anti social behaviour.

Decision

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

9. INTERNAL AUDIT PROGRESS REPORT 2016/17

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 2016/17.

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.

Decision

The Committee agreed to note the contents of the Internal Audit Progress Report 2016/17.

Signed

Councillor Kenny McLeod
Convener of the Audit and Governance Committee