



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

**TUESDAY 29 NOVEMBER 2016
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

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

Council Officials Present:

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
Mr T Shearer, Head of Communities & Partnerships
Mr P Vestri, Service Manager – Corporate Policy
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr A Stubbs, Service Manager - Roads
Mr C Redpath, (Acting) Team Manager - Engineering
Ms L Shaw, Corporate Finance Manager
Mr S Kennedy, Risk Officer

Clerk:

Ms F Currie

Visitors Present:

Ms G Woolman, Audit Scotland
Ms E Scoburgh, Audit Scotland

Apologies:

Councillor S Currie

Declarations of Interest:

None

1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 13 SEPTEMBER 2016 (FOR APPROVAL)

The minutes of the Committee's meeting on 13 September 2016 were approved.

Item 10 - Jim Lamond, Head of Council Resources, provided information to Members' regarding the Council's involvement with Lothian Buses. He outlined the value of the Council's shares, the stakes held by Edinburgh, West and Mid Lothian Councils and the arrangements for minority shareholder representation on the Lothian Buses Board.

2. INTRODUCTORY LETTER FROM AUDIT SCOTLAND

An introductory letter was submitted by Audit Scotland to provide the Committee with further information on its appointment as the Council's new external auditors.

Gillian Woolman, Assistant Director, presented the letter. She introduced the wider audit team and outlined the background to Audit Scotland's appointment, its audit approach, reporting arrangements and key timescales.

The Convener queried the timescale of September 2017 for presentation of the final accounts to Members. Mr Lamond acknowledged that this year there had been a delay in sharing the final version of the accounts with Members, although the statutory deadline had been met. He said that his team continued to work on bringing forward aspects of the financial reporting timetable and he hoped to avoid a similar delay next year.

Decision

The Committee agreed to note the contents of the introductory letter from Audit Scotland.

3. REVISED ANNUAL WORK PLAN 2016/17

The Convener advised Members that the Annual Work Plan, which had been revised to reflect future input from Audit Scotland, had been submitted for information.

Mr Lamond referred to the Overview of Scottish Local Government which was scheduled for presentation at the Committee's meeting on 20 June 2017. He advised Members that Part 1 had just been published, Part 2 was due in March 2017 and that this may result in a change to the proposed reporting timescales set out in the Work Plan.

Decision

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

4. COUNCIL RESOURCES RISK REGISTER

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

Scott Kennedy, Risk Officer, presented the report. He outlined the background to the Risk Register and drew Members' attention to the current scorings which included 3 Very High risks, 6 High risks, 26 Medium risks and 11 Low risks. As per the Council's Risk Strategy only the Very High and High risks had been reported to the Committee.

In response to questions from Members, Mr Lamond acknowledged that the recent increase in rent arrears was undoubtedly linked to the extended rollout of Universal Credit to "Full digital Service" and that the Council's experience was similar to that of the other local authority areas of Highland and Inverclyde who had more recently also been subject to the full service. He outlined some of the mitigation measures which the Council had put in place including public awareness campaigns and increasing support for Council tenants. He added that discussions had taken place at both operational and senior management levels with the Department of Work & Pensions (DWP) and concerns remained about the sustainability of the current working arrangements.

Mr Lamond responded to further questions on the effects of this policy on staffing levels, budgets and the ability of the proposed control measures to adequately manage the risks. He advised that following correspondence from the Chief Executive the DWP's Excellence Group would be visiting the Council next month to gather more information on the challenges facing Council services. A further update report would be presented to the Council meeting on 20 December 2016.

Councillor McAllister commented that the rollout of Universal Credit was not only dislocating poorer people from funds but also from direct communication following the closure of dedicated phone lines. He said that, in his view, the policy represented an unremitting attack on the poorest and most vulnerable in society the full effects of which were yet to be known.

Decision

The Committee agreed to note the Council Resources 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 Council Resources 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 Council Resources and were likely to be a feature of the risk register over a number of years.

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW 2016/17

A report was submitted by the Depute Chief Executive – Resources and People Services to update the Committee on Treasury Management activity during the first half of 2016/17.

Liz Shaw, Corporate Finance Manager, presented the mid-year report which had been prepared in compliance with CIPFA's Code of Practice on Treasury Management. She summarised the key areas contained in the report including a review of the Council's borrowing and investment activity for 2016/17 and the economic update provided by Capita Asset Services.

Mr Lamond responded to questions from Members regarding the possibility of bond market funding. He also provided a brief update on the exploratory work being undertaken to assess any potential for review of the Council's contractual commitments under PPP.

Decision

The Committee agreed to note the content of the report.

6. 2016/17 COUNCIL IMPROVEMENT PLAN MONITORING REPORT

A report was submitted by the Depute Chief Executive – Partnerships and Community Services to present to the Committee the 2016/17 Council Improvement Plan six month monitoring report.

Paolo Vestri, Service Manager – Corporate Policy, presented the report which outlined progress that had been made in completing the 12 actions in the Improvement Plan since its adoption in June 2016. He said that significant progress had been made on most actions and that all actions would be completed by March 2017.

Mr Vestri responded to questions on the process for identifying the three Service Areas and the comparison local authorities used in the benchmarking exercises.

Decision

The Committee agreed to note the progress in achieving the Council Improvement Plan as detailed in the monitoring report.

7. INTERNAL AUDIT REPORT – ROADS CONTRACTS

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

Mala Garden, Internal Audit Manager, 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.

Ms Garden responded to questions from Members regarding progress since the last audit in 2004 and failure to comply with HMRC regulations in respect of VAT receipts.

In reply to a question from the Convener, Ray Montgomery, Head of Infrastructure, confirmed that the contractors were on an approved list but that the Council had previously engaged a company called Construction Line to undertake appropriate

checks on their behalf. However, he had accepted the recommendation from Internal Audit that these checks should now be done in-house.

Decision

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

8. INTERNAL AUDIT REPORT – PUBLIC SERVICES NETWORK

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Public Services Network (PSN) compliance.

Ms Garden presented the report. She advised that a high level review of PSN compliance had been undertaken as part of the audit plan for 2016/17. She outlined the main findings and referred Members to the recommendations set out in the Action Plan which had been accepted by Management.

Ms Garden responded to Members questions on the timeframe for signing of the Acceptable Use Policy and third party access to Council systems.

Mr Lamond stated that every two years was a reasonable timeframe for signing of the Policy and would ensure that staff were regularly familiarising themselves with their responsibilities. He added that the completion date of August 2017 would allow the Council time to reach all members of staff and to ensure that arrangements were in place to meet its obligations thereafter.

Councillor McAllister commented on the advance of digital technology and the scope of its application at work, in schools, at home and as part of leisure activities. He reflected on its all pervasive nature and the implications for individuals and organisations.

Decision

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

9. INTERNAL AUDIT REPORT – PAYMENTS TO THIRD SECTOR ORGANISATIONS

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

Stuart Allan, Senior Auditor, presented the report outlining the findings and recommendations contained in the Action Plan which had been accepted by Management.

In response to a question from Councillor Caldwell regarding duplicate creditor accounts, Mr Allan stated that there was no evidence to suggest that duplicate payments had been made.

Tom Shearer, Head of Communities and Partnerships, advised that the 2016/17 arrangements for Children's Services grants was currently undergoing a process of consolidation and a report would be presented to Cabinet in March 2017. He added that the next stage of work would involve drawing together the different grant procedures and integrating these into a single process.

Decision

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

10. INTERNAL AUDIT FOLLOW UP REPORTS

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recent follow up work undertaken by Internal Audit.

Mr Allan presented the report. He advised Members that as part of the audit plan for 2016/17 Internal Audit had followed up the recommendations made in previously issued audit reports to ensure that they had been implemented as agreed by Management. He outlined the findings in relation to Musselburgh Burgh Primary School, Bad Debt Write-offs, Waste Management and Out of Authority Placements.

Responding to a question from the Convener on bad debt write-offs, Mr Allan confirmed that one of the actions currently outstanding was to ensure that debts over £10,000 recommended for write-off were submitted timeously to Cabinet for approval.

Mr Lamond acknowledged that there had been an undue passage of time since the last submission and he advised Members that a report would be presented to Cabinet before March 2017.

Decision

The Committee agreed to note the findings of Internal Audit's follow up work on Musselburgh Burgh Primary School, Bad Debt Write-offs, Waste Management and Out of Authority Placements.

11. 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.

Mr Allan 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.

In response to a question from the Convener, Ms Garden confirmed that a report on PPP Contract Monitoring would be presented to the Committee's January 2017 meeting.

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