



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

**TUESDAY 24 JANUARY 2017
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

Councillor K McLeod (Convener)
Councillor J Caldwell
Councillor S Currie
Councillor A Forrest
Councillor J Goodfellow
Councillor J Williamson

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
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 P Forsyth, Team Manager – Assets & Regulatory
Mr S Kennedy, Risk Officer

Clerk:

Ms F Currie

Visitors Present:

Ms E Scoburgh, Audit Scotland
Ms C Foster, Audit Scotland

Apologies:

Councillor S Brown
Councillor F McAllister

Declarations of Interest:

None

The Convener advised Members that Agenda Item 11 had been withdrawn to allow further consideration of the implications of the recommendations contained within the report.

1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 29 NOVEMBER 2016 (FOR APPROVAL)

The minutes of the Committee's meeting on 29 November 2016 were approved.

The Convener and Councillor Currie sought an update on the review of the Council's PFI contracts and clarification of the ownership of these contracts.

Jim Lamond, Head of Council Resources, said he had recently attended a meeting in December 2016 with CIPFA and other local authority Directors of Finance to discuss the PFI contracts. CIPFA had advised that there was some scope for reviewing contractual arrangements but less so for significant restructure and buy out of contracts. Mr Lamond added that the Council would be looking to get a 'health check' of all its PFI contracts to ensure they were getting best value and that this should take place over the next few months.

On the issue of ownership of PFI contracts, Mr Lamond advised that the Council's Legal Team had made initial enquiries of the contractors and he would provide members with an update of progress.

2. INTRODUCING THE NEW CODE OF AUDIT PRACTICE

A report was submitted by Audit Scotland informing the Committee of the new Code of Audit Practice.

Esther Scoburgh, Audit Manager, presented the report. She explained that the Code was reviewed every 5 years and that the Auditor General, the Accounts Commission and Audit Scotland had agreed four audit dimensions to be used when planning and reporting public audits: financial sustainability, financial management, governance and transparency and value for money. She also summarised the key aspects of the Code including the framework, scope and reporting of public audits.

Responding to questions from Members, Ms Scoburgh explained that the new Code would ensure that, as well as focussing on financial statements, the audit process would also take into account wider matters such as financial and workforce planning and the four audit dimensions. She added that completed audit reports would be published on Audit Scotland's website making them more accessible to the public.

Councillor Currie emphasised the need for longer term financial planning and referred to the current development at Wallyford as an example of a large capital project which would stretch over a number of years with significant implications for infrastructure, transportation, education and other services. He added that he would look forward to reading Audit Scotland's opinion on the adequacy or otherwise of the Council's financial planning.

Ms Scoburgh confirmed that the audit process would take account of these and other issues and she advised Members that the audit plan would be presented to the Committee at its March meeting.

Decision

The Committee agreed to note the contents of the Code of Audit Practice.

3. INFRASTRUCTURE RISK REGISTER

A report was submitted by the Chief Executive presenting to the Committee the Infrastructure 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 6 High risks, 26 Medium risks and 15 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, Ray Montgomery, Head of Infrastructure, outlined progress on headstone safety works and securing additional land for burial sites. He also agreed to provide additional information on the new mobile working platform within property Maintenance.

Responding to further questions, Mr Kennedy confirmed that the impact of planned control measures and residual risk scores would be reviewed within the timescales laid out in the Register and that comparison information was available where a risk had changed within the last 3 years.

Decision

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

4. RISK MANAGEMENT STRATEGY

A report was submitted by the Chief Executive advising the Committee of the revised and updated Risk Management Strategy.

Mr Kennedy presented the report outlining the content of the Strategy. He advised Members of a correction to the report recommendations: the Committee was being asked to 'note' rather than 'approve' the Strategy. Approval of the Strategy would be a matter for full Council.

Paolo Vestri, Service Manager – Corporate Policy, responded to questions from Councillor Currie regarding the tracking of resource implications by individual service areas.

Mr Lamond acknowledged the importance of providing sufficient information when reporting to Council or Cabinet and ensuring that there was a clear financial and policy rationale to support the decisions being made.

Decision

The Committee agreed to note the revised Risk Management Strategy and to note that it was a live document which would be reviewed by the Corporate Risk Management Group.

5. MAINTAINING SCOTLAND'S ROADS: A FOLLOW-UP REPORT (ACCOUNTS COMMISSION)

A report was submitted by the Depute Chief Executive – Partnerships & Community Services informing the Committee of the main findings of the Audit Scotland report *Maintaining Scotland's Roads: a follow up report* (August 2016); providing further information and detail relevant at a local level; providing context to the findings and providing a basis for discussion, comment and noting.

Alan Stubbs, Service Manager – Roads, presented the report. He summarised the background to the Accounts Commission report and recommendations and detailed the key messages from an East Lothian perspective.

Both Mr Stubbs and Peter Forsyth, Team Manager – Assets & Regulatory, responded to questions from Members. Mr Stubbs provided some additional background on the Council's Roads collaboration programme with neighbouring local authorities over short and longer term priorities. He advised that this work was ongoing and had generated moderate savings and it was anticipated that this would increase over the longer term. He also explained the use of the velocity patcher for temporary road repairs.

Mr Forsyth advised that the Council had completed a full survey of its roads in the last year. This had provided a good indicator of the overall condition of the roads and he expected this to remain constant over the next few years, based on the current level of investment in roads. He stated that a number of factors were taken into account when assessing priorities for repairs, including the level of customer complaints and the number of potholes observed on a particular stretch of road.

In response to further questions Mr Forsyth explained the definition of 'steady state value' and the Council's current steady state investment of £3.2 million to ensure the roads were maintained in their current condition. He acknowledged that some roads do have to be repaired more than once and that this can often relate to the volume of traffic, gradient of the road, general condition and other factors. The needs assessment allowed them to identify roads with heavy usage and high levels of repairs and to develop strategies for getting the most out of them and the wider road network.

Mr Stubbs added that decisions on major capital investments on roads where heavy development was taking place, such as Wallyford, would be taken into account as part of the works programming and a decision would be taken on whether it would be wise to spend money on maintenance while this development was ongoing.

Councillor Goodfellow welcomed the report; in particular that the Council was investing more than the steady state value in its roads and that it was taking advantage of opportunities to work with neighbour local authorities.

Decision

The Committee agreed to:

- (i) note progress on the development and action of the recommendations made by Audit Scotland in the context of maintaining Scotland's roads and the detailed analysis of local progress;
- (ii) note the key messages contained within the report, namely:
 - the percentage of local roads in an acceptable condition within East Lothian Council (ELC) is 68% placing the Council in the top 10 of the 32 Scottish local authorities and above the Scottish average of 63%
 - overall condition of Council maintained roads remains stable
 - ELC is one of 14 local authorities in Scotland to invest more than the steady state value necessary to maintain current road conditions in 2014/15
 - ELC is actively exploring opportunities for increased Roads collaboration with Edinburgh, East Lothian, Midlothian, West Lothian, Scottish Borders and Fife Councils (ELBF)
 - ELC use a suite of local and national performance indicators to manage and monitor road maintenance. These are reported regularly and used to highlight unusual activity and areas for improvement
 - National spending on road maintenance is decreasing.

6. INTERNAL AUDIT REPORT – PRESTON LODGE HIGH SCHOOL

A report was submitted by the Depute Chief Executive – Resources and People Services informing the Committee of the recently issued audit report on Preston Lodge High School.

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 the timescale for implementation of certain recommendations, petty cash limits and the management of bank accounts.

Alex McCrorie, Depute Chief Executive, added that Fiona Robertson, the Council's Head of Education, would be meeting with Head Teachers to share examples of best practice. Mr McCrorie also agreed to review the timescales for implementation of the audit recommendations.

Decision

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

7. INTERNAL AUDIT REPORT – PREVENTION OF TENANCY FRAUD

A report was submitted by the Depute Chief Executive – Resources and People Services informing the Committee of the recently issued audit report on the Prevention of Tenancy Fraud.

Ms Garden presented the report and advised that, for the purposes of the audit report, tenancy fraud included discrepancies relating to succession, assignation and sole to joint tenancies. She outlined the report findings and referred Members to the recommendations contained in the Action Plan which had been agreed by Management.

Ms Garden responded to questions from Members regarding false information on application forms, applications for Right to Buy following a change in tenancy and the checklists to be completed upon receipt of an application form.

Tom Shearer, Head of Communities and Partnerships, also responded to questions relating to changes in the legislation, subletting and completion of Electoral Roll returns. He added that although the procedures in place were robust the audit report had identified some gaps which needed to be addressed.

Councillor Currie commented that tenancy fraud had a negative impact on the public's perception of the Council and it was crucial that the necessary checks and balances were in place to allow both Members and residents to have confidence in the system. He welcomed the findings of the report and the timescales for implementation of the Action Plan.

Councillor Goodfellow agreed that tenancy fraud undermined the confidence of residents on the housing waiting list. He welcomed the introduction of new legislation and the greater need for evidence to support applications.

Decision

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

8. INTERNAL AUDIT REPORT – CONTRACTS

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

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

Mr Allan responded to questions from Councillor Currie on the Quick Quote process. Ms Garden confirmed that the contractors from the Council's Framework Agreement who had submitted a tender under the Quick Quote process had not been awarded the contract.

Decision

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

9. INTERNAL AUDIT REPORT – WASTE SERVICES INCOME

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

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.

Mr Montgomery provided Members with some context to the report outlining the processes for separating and selling on scrap and other recyclates. He advised that the current recycling rate was 57% and it was hoped that this could be increased to 60%. Mr Montgomery welcomed the audit report and its findings and confirmed that the recommendations contained in the Action Plan would be put in place.

Decision

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

10. INTERNAL AUDIT CHARTER

A report was submitted by the Depute Chief Executive – Resources and People Services presenting to the Committee the Internal Audit Charter for approval.

Ms Garden presented the report outlining the key areas of the Charter. She advised Members that the Public Sector Internal Audit Standards (PSIAS) required that an Audit Charter was in place in each local authority and that it should be reviewed periodically and presented to Senior Management and to the Audit & Governance Committee for approval.

Decision

The Committee agreed to approve the Internal Audit Charter.

12. 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.

Councillor Currie acknowledged the significant amount of work involved in these audits and the level of assurance they provided to Councillors and members of the public. The Convener echoed these comments.

Mr McCrorie thanked members for their comments on the audit reports presented during the meeting which would be taken on board. He accepted that there was some work still to be done in certain areas and agreed that the audit process added value to the Council.

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