



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

**TUESDAY 20 JUNE 2017
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

Councillor J Henderson (Convener)
Councillor F Dugdale
Councillor J Findlay
Councillor K Mackie
Councillor B Small

Council Officials Present:

Mrs A Leitch, Chief Executive
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
Mr J Cunningham, Service Manager - Benefits
Ms S Fortune, Service Manager – Business Finance
Ms L Shaw, Corporate Finance Manager
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr A Steven, Senior Auditor

Other Councillors Present:

Councillor J Goodfellow (Items 3 - 5)

Clerk:

Ms F Currie

Visitors Present:

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

Apologies:

None

Declarations of Interest:

None

Due to the late arrival of one of the Councillors and the need for a quorum of five committee members, the meeting commenced half an hour later than the scheduled time.

1. ELECTION OF DEPUTE CONVENER

Councillor Small was proposed as Depute Convener by Councillor Findlay, and seconded by Councillor Mackie. The Committee agreed that Councillor Small should be appointed Depute Convener of the Audit & Governance Committee.

2. GUIDE TO SCRUTINY AND REVIEW

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) to provide the Committee with the opportunity to review the Guide to Scrutiny and Review.

Paolo Vestri, Service Manager - Corporate Policy and Improvement, spoke to the report in detail. He recommended that Members utilised the Guide as it laid out how scrutiny could operate. He highlighted the three Scrutiny Committees in East Lothian Council's structure and the four principles of scrutiny outlined within the report.

Mr Vestri provided detail on how a work plan operated and he talked briefly about the sections on policy reviews, questioning styles and performance data. He also advised Members that a workshop would be scheduled in the autumn to look at the work of scrutiny Committees in more detail.

In response to a question from Councillor Small, Mala Garden, Internal Audit Manager, advised that the work to be undertaken by Internal Audit during each year was outlined in the Audit Plan. Part of the Committee's remit was to approve and monitor Internal Audit's progress with the Plan. She explained that the audit reports would be presented to the Committee for consideration and a work plan would be prepared outlining the reports that would be submitted to each Committee, usually 4 or 5 reports would be presented to each meeting. She further stated that the main systems audits would be presented to the final meeting as the sample for testing was selected from each quarter to ensure that the controls were operating throughout the year.

Decision

The Committee agreed to note the content of the Guide to Scrutiny and Review and use it to guide its future work.

3. EAST LoTHIAN COUNCIL INTERIM AUDIT REPORT 2016/17

Audit Scotland presented their Interim Audit Report 2016/17 which contained a summary of the key issues identified during the interim audit work carried out within East Lothian Council.

Esther Scoburgh, Audit Scotland, introduced to the report. She drew Members' attention to the new report format and said she would welcome any feedback.

Carol Foster, Audit Scotland, outlined the content of the report focusing on the testing of key internal controls. Referring to the main findings and action plan she indicated that while no areas of significant concern had been noted, some weaknesses had been identified and an appropriate action plan agreed with Management. She added that the audit of the final accounts for 2016/17 would start shortly and that the report set out the proposed audit plan approach.

Ms Scoburgh and Ms Foster responded to questions from Members on risk ratings, follow up work to monitor progress and annual sample testing to ensure that controls continue to work effectively.

Decision

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

4. ANNUAL TREASURY MANAGEMENT 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 2016/17.

Liz Shaw, Corporate Finance Manager, presented the report. She outlined the purpose of the Treasury Management function within the Council and explained that the report fulfilled obligations under both the Local Government (Scotland) Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) accounting code of practice.

Ms Shaw summarised the contents of the report. She advised Members that the Council continued to postpone some of its borrowing requirement by calling upon cash reserves and when necessary, taking advantage of cheaper short term borrowing to manage cash flows. In doing so, the Council had used £43M of reserves and working capital instead of borrowing and had only increased its overall net borrowing position from last year by £7M. She added that, should market conditions change, the Council was well placed with appropriate guidance to support any borrowing or investment activity that may arise.

Ms Shaw also reported that the Council currently had no internally managed investment funds but did maintain a number of loans to third parties that fell within the scope of “permitted investments”.

In response to questions from Members, Ms Shaw provided further information on the Council’s short term borrowing strategy, its monitoring of interest rates, limits on maturities and broader guidance from treasury management advisers.

Decision

The Committee agreed to note the report.

5. 2017 CORPORATE GOVERNANCE SELF-EVALUATION AND ANNUAL GOVERNANCE STATEMENT

A report was submitted by the Chief Executive to advise the Committee of the outcome of the 2017 Corporate Governance Self-evaluation and seek approval for the content of the Annual Governance Statement.

Mr Vestri presented the report referring to the Code of Corporate Good Governance and the six principles of good governance which formed the framework for the self-evaluation exercise. He also drew Members' attention to the results of recent assessments by Investors in People and Quality Scotland and advised that the improvement actions identified by these assessments had been reflected in the self-evaluation and the Corporate Governance Statement.

Councillor Small observed that as the Council Plan was going forward to the Council meeting in June, it would be important to share it with all members of staff and for Councillors to take the lead in demonstrating their commitment to the Plan.

Angela Leitch, Chief Executive, commented that over the past few months time had been spent investing in staff an understanding of the key themes of the Plan. She also acknowledged that Members had an important role to play in reinforcing the implementation of the Plan.

Decision

The Committee agreed to:

- (i) Note that the Council had been confirmed as an 'established Investor in People organisation', and had received a Committed to Excellence award by Quality Scotland and to extend its congratulations and thanks to all Council staff for achieving these awards
- (ii) Approve the Corporate Governance Self-evaluation
- (iii) Approve the Annual Governance Statement inclusion in the Council's 2016/17 Annual Accounts.

Sederunt: Councillor Goodfellow left the meeting.

6. LOCAL GOVERNMENT IN SCOTLAND: PERFORMANCE AND CHALLENGES 2017 (ACCOUNTS COMMISSION, MARCH 2017)

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, '*Local Government in Scotland: Performance and Challenges 2017*'.

Mr Vestri presented the report. He outlined the findings of the review and the work being undertaken by East Lothian Council in relation to key areas such as funding, demographic changes, legislative changes and workforce planning. He indicated that all of the recommendations contained in the Audit Scotland report were being addressed and this was reflected in the Corporate Governance Statement. He invited Members to agree the recommendations contained in the report and, in particular, to review the self-assessment tool.

In response to questions from Councillor Dugdale, Mr Vestri advised that local authorities such as Perth and Kinross and West Lothian were facing similarly high growth in both the older and younger populations and there would be opportunities to learn from their experiences. He also provided examples of work undertaken as part of the Council's transformational change programme as well as projects being considered to help increase the pace of change.

Mrs Leitch added that while it was essential to have a programme in place to facilitate these projects, it was also important to promote cultural change by encouraging staff to take a more proactive role in relation to transformation and change.

Councillor Small welcomed the reminder that there would be a substantial increase in the young population in the coming years which would impact on all service areas. He said that the focus was often on the older population and that it was important not to lose sight of the fact that young people also needed to be supported.

Decision

The Committee agreed to:

- (i) Note the position of East Lothian Council in regard to the key messages and recommendations in the Accounts Commission report, *Local Government in Scotland: Performance and Challenges 2017*
- (ii) Use the recommendations in the Accounts Commission report and the self-assessment tool that accompanies the report to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

7. HOW COUNCILS WORK: ROLES AND WORKING RELATIONSHIPS IN COUNCILS – ARE YOU STILL GETTING IT RIGHT? (ACCOUNTS COMMISSION, NOVEMBER 2016)

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) to review East Lothian Council's position in relation to the Accounts Commission report, *'How Councils Work: Roles and Working Relationships in Councils – Are you still getting it right?'*

Mr Vestri presented the report. He advised that this was the latest in a series of reports looking at key areas of good governance. He drew Members' attention to the messages highlighted in the report and the work being undertaken by East Lothian Council in each of these areas, in particular, the role of councillors.

Mr Vestri observed that many of these issues also related to the previous report and he invited Members to agree the recommendations contained in the report.

The Chair expressed her thanks to Council officers for the excellent induction programme provided for new and returning councillors which she hoped would lead to a productive five years.

Councillor Small asked if the minority Administration had created additional challenges for the Council.

Mrs Leitch said that this was a new arrangement for everyone and, as time progressed and issues were worked through, officers would consider whether changes were required to Standing Orders and other governance arrangements. She added that the induction programme had helped to set the scene and to build good relationships which, along with the Council Plan, should stand them in good stead for the next five years.

Decision

The Committee agreed to:

- (i) Note the position of East Lothian Council in regard to the issues raised in the Accounts Commission report, 'How Councils Work: Roles and Working Relationships in Councils – Are you still getting it right?'
- (ii) Use the Summary Checklist that accompanies the report to identify any areas where further information or guidance is required for elected members
- (iii) Note that a training needs survey of elected members will be carried out in the autumn to help inform the development of an ongoing training and development programme for councillors.

8. INTERNAL AUDIT REPORT – WORKFORCE PLANNING (SECONDMENTS AND HIGHER DUTIES)

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Workforce Planning (Secondments and Higher Duties).

Stuart Allan, Senior Auditor, presented the report summarising the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan.

Responding to questions from Members, Ms Garden explained that this review had been undertaken as part of the annual Audit Plan and was the latest in a series of reviews looking at different aspects of the payroll service. Mr Allan confirmed that the policy covered both internal and external secondments and that one external secondment had been reviewed as part of the audit sample.

The Convener queried the degree of formality in the policy and whether this might restrict the operation of the Council. Mrs Leitch indicated that the levels of openness and transparency contained within the policies safeguarded both the Council and its staff. However, they also allowed staff to apply for posts at a higher grade and gain useful experience which would contribute to the Council's broader succession planning. Mrs Leitch added that external secondments provided staff with a wider perspective which they could then bring back to their work within the Council.

Jim Lamond, Head of Council Resources, said that he was not aware of the formality of the process standing in the way of any member of staff gaining a secondment and that he supported the use of the policy across the Council.

Decision

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

9. INTERNAL AUDIT REPORT – INFORMATION SECURITY

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Information Security.

Mala Garden, Internal Audit Manager, presented the report. She outlined the report findings and referred Members to the recommendations contained in the Action Plan which had been agreed by Management.

In response to questions from Members, Ms Garden advised that the purpose of the audit was to ensure that adequate controls were in place and to ensure that access to systems was only granted to those individuals who required it as part of their duties. She said that where controls were not working effectively these were highlighted in the areas identified with scope for improvement.

In relation to completion dates on the Action Plan, Ms Garden explained that these were set by Management, however where the potential risk was assessed as 'high' there was an expectation that the agreed date of completion would be within three months.

Decision

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

10. INTERNAL AUDIT REPORT – CAPITAL PROJECTS (PAYMENT CERTIFICATES)

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Capital Projects (Payment Certificates).

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

Mr Allan responded to questions regarding the size of the audit sample and advised that, of those tested, only one case had involved a certificate which had been prepared, checked and authorised by the same member of staff. Ms Garden added that segregation of duties was very important in relation to internal controls and one person doing both the processing and authorisation increased the risk of irregularities. In this case the payment certificate was for a substantial amount and this was why the case had been highlighted.

Councillor Small asked whether the external auditors would also pick up on this issue. Ms Scoburgh advised that they would only do so if they were conducting a targeted review. However, they would see a number of certificates, particularly those for high value payments, as part of their routine testing and anything significant would be highlighted in their year end report.

Decision

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

11. 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 summarising the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan.

In response to questions from Councillor Small and Councillor Findlay Ms Garden explained that at present housing information was held both manually in the Moores Books and on the electronic Orchard system; however the service area were looking to archive the manual records.

Sarah Fortune, Service Manager – Business Finance, replied to questions from the Convener regarding the timescales for completion of the final recommendation contained in the Action Plan. She advised that guidance had been issued by the Scottish Government previously to improve understanding and transparency for tenants associations, etc. and she confirmed that a review of the written methodology was underway. In the meantime, other work was ongoing which would address some of the issues raised in the audit report.

Both Ms Fortune and Mrs Leitch offered to provide additional information to the Convener on the management of the Housing Revenue Account (HRA).

Decision

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

12. ANNUAL INTERNAL AUDIT REPORT 2016/17

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 2016/17 and to support both the Council's Annual Governance Statement and the Internal Audit Manager's Controls Assurance Statement.

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 the Council's Annual Governance Statement. She summarised the contents of the report including the audit work undertaken in 2016/17, the reports currently outstanding and the total number and grading of recommendations made as a result of the completed audits.

The Convener thanked Ms Garden for her report and for the invaluable work of the Internal Audit Team.

Decision

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

13. CONTROLS ASSURANCE STATEMENT 2016/17

A report was submitted by the Internal Audit Manager informing the Committee of her responsibility to independently review the internal control systems within East Lothian Council; make an assessment of the control environment and report annually on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control.

Ms Garden presented the report summarising the background and basis for her opinion; referring to the assessment of controls and governance; and highlighting that the majority of Internal Audit recommendations made in 2016/17 were categorised as medium risk. She advised that the implementation by Management of agreed actions to address these weaknesses should provide assurance that the system of internal controls is operating effectively.

Ms Garden concluded that in her opinion, subject to the weaknesses outlined in the report, reasonable assurance could be placed on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control for the year 2016/17.

In response to a question from Councillor Small, Ms Garden confirmed that follow up work would be undertaken on all of the audits carried out in 2016/17 to ensure that the recommendations contained in each Action Plan had been implemented.

Decision

The Committee agreed to note that the Controls Assurance Statement is 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 2017.

14. 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 Jane Henderson
Convener of the Audit and Governance Committee