



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

**TUESDAY 26 SEPTEMBER 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:

Mr A McCrorie, Depute Chief Executive – Resources and People Services
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services
Mr D Small, Director of Health & Social Care Partnership
Mr R Montgomery, Head of Infrastructure
Mr D Proudfoot, Head of Development
Ms F Robertson, Head of Education
Mr B Davies, Group Service Manager – Planning & Performance
Mr P Vestri, Service Manager – Corporate Policy
Mr J Cunningham, Service Manager - Benefits
Mr B Moffat, Service Manager - Transport
Mr P Iannetta, Service Manager - Engineering Services & Building Standards
Ms S Fortune, Service Manager – Business Finance
Ms L Shaw, Corporate Finance Manager
Ms A Glancy, Principal Accountant (Financial)
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr S Kennedy, Risk Officer
Ms J Mackay, Media Manager

Other Councillors Present:

Councillor J McMillan (Items 3 - 5)

Clerk:

Ms F Currie

Visitors Present:

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

Apologies:

None

Declarations of Interest:

None

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 20 JUNE 2017

The minutes of the Audit and Governance Committee meeting held on 20 June 2017 were approved as a true record.

2. ISA 260 COVERING LETTER (AUDIT SCOTLAND)

Audit Scotland submitted their ISA 260 letter to East Lothian Council which included their proposed unqualified auditor's report and a draft letter of representation under ISA 580.

Gillian Woolman, Assistant Director Audit Scotland, presented the documents to Members outlining the purpose and content and highlighting key issues. In response to a question from Councillor Small, she confirmed that the audit process for 2016/17 would be concluded with the signing of the report and annual accounts on 29 September 2017.

3. 2016/17 ANNUAL AUDIT REPORT TO MEMBERS OF EAST LoTHIAN COUNCIL

Ms Woolman also presented Audit Scotland's annual audit report to Members for 2016/17 confirming that they intended to issue an unqualified audit opinion. She summarised the key messages in each section of the report including the significant findings from the audit of the accounts and reviews of financial sustainability, governance and transparency and value for money.

Ms Woolman also drew Members' attention to the action plan which included the auditors' recommendations for improvement and the response from Council management.

In response to questions from Members, Ms Woolman provided further information on the significant findings of the audit, the evaluation of misstatements and the Council's management of risk.

Councillor Mackie referred to comments in Part 4 of the report regarding governance and transparency. She concurred with Audit Scotland's view that the effectiveness of scrutiny was diminished by one political party not appointing members to the Council's scrutiny committees. She said that, in her view, this constituted a dereliction of duty on the part of the SNP. Councillor Mackie also noted the comments in the report in relation to Trust Funds, observing that this was particularly relevant for Musselburgh ward councillors. She said she looked forward to hearing more of the Council's proposals for action in these two areas.

Councillor Dugdale thanked the auditors for their excellent report which she said had been produced against a background of reducing funding for Councils and increasing demand for services.

The Convener also thanked the auditors for their report and Ms Woolman for her very informative presentation.

Decision

The Committee agreed to note the contents of the ISA 260 letter and 2016/17 Annual Audit Report.

Sederunt: Councillor McMillan joined the meeting.

4. EAST LoTHIAN COUNCIL ANNUAL ACCOUNTS 2016/17

A report was submitted by the Depute Chief Executive (Resources and People Services) to provide the Committee with an update on the main changes arising during the audit of the draft financial statements 2016/17, and to ask the Committee to approve the accounts for 2016/17.

Sarah Fortune, Service Manager – Business Finance, presented the accounts highlighting the main changes made as a result of the audit. She reminded Members that the unaudited accounts had been considered at Council in June and she welcomed the confirmation from Audit Scotland that they would be issuing an unqualified audit opinion.

In response to a question from Councillor Small, Ms Woolman explained that during the coming year Audit Scotland would present their audit plan to the Committee and an interim management report which would include an update on progress with the action plan.

Councillor Findlay asked if next year it would be possible for Members to receive the accounts further in advance of the meeting. Ms Fortune explained the timetable for producing the accounts and the desire to provide Members with as much information as possible to allow them to perform their scrutiny role. She said she would be happy to work with Members going forward and suggested the possibility of additional briefings while the accounts were being prepared.

Ms Woolman added that it was at the point when the unaudited accounts were presented to Members in June that comments were most welcome, by September much of the work had been done. She suggested setting aside additional time around the June meeting next year.

Decision

The Committee agreed to:

- (i) Note the main changes arising during the course of the audit; and
- (ii) Approve the audited accounts for 2016/17.

5. CORPORATE RISK REGISTER

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

Scott Kennedy, Risk Officer, presented the report outlining the background to the register and the risk matrix which was used to evaluate individual risks. He advised that the current Corporate Risk Register contained 1 Very High Risk, 9 High Risks, 7 Medium Risks and 1 Low Risk. He also reminded Members that the register was a live document which was regularly reviewed and updated.

Responding to questions from Councillor Mackie on welfare reform, John Cunningham, Service Manager – Benefits, advised that changes to current Department of Work & Pensions (DWP) processes would be required to support the new legislation and that it remained to be seen whether the new powers would alleviate any of the risks associated with the roll out of Universal Credit.

Councillor Small queried the scoring of the likelihood of risk ELC CR2 as a 4 rather than a 5. Ms Fortune acknowledged that financial management was a high risk for the Council but added that arrangements were in place to mitigate this.

Councillor Small also asked about the potential financial impact of claims against the Council relating to historic childhood abuse. Ms Fortune said that there was no provision as any claims were being channelled through the national inquiry. However, it may be something to consider going forward.

Mr McCrorie advised that this had been added to the register as a result of national developments and he was currently aware of one potential claim. He added that if further claims developed the Council may need to consider making provision and the risk register would be updated accordingly.

In response to a question from Councillor Dugdale, Mr Kennedy explained that the register was presented to the Committee annually and was discussed quarterly at Council Management Team meetings. He suggested that quarterly updates could be provided to the Committee if Members would find this helpful.

The Convener asked why there was no specific risk relating to technology and whether this could be included in the Corporate Risk Register. Mr Kennedy replied that this issue was addressed where appropriate within individual Service Risk Registers. The Corporate Risk Register was an overarching document where risks were only included if they featured on 3 or more Service Risk Registers. However, he agreed to discuss the Convener's comments with the Corporate Risk Working Group.

Decision

The Committee agreed to note the contents of the Corporate Risk Register and that:

- The relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
- The total profile of the 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 over the next year, many are in fact longer term risks for Corporate and are likely to be a feature of the risk register over a number of years.
- Note that the Council Management Team will review all risks in the Corporate Risk Register on a regular basis.

Sederunt: Councillor McMillan left the meeting.

6. EDUCATION RISK REGISTER

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

Mr Kennedy presented the report outlining the background to the register and the risk matrix which was used to evaluate individual risks. He advised that the current Education Risk Register contained 9 High Risks, 8 Medium Risks and 2 Low Risks. He also highlighted two changes to the document relating to risks ED1 and ED3 and reminded Members that, as per the Council's Risk Strategy, only the Very High and High Risks were being reported to the Committee.

Fiona Robertson, Head of Education, responded to questions from Councillor Small on the recruitment and retention of teaching staff and the additional responsibilities for head teachers. She outlined the current vacancies and the arrangements in place to increase recruitment of permanent staff. Referring to head teachers she acknowledged that the system as a whole was going through a significant period of change and that discussions were taking place to ensure that staff were ready to take on the additional demands.

The Convener queried the likelihood scoring for risk ED9 suggesting that it was significantly higher than 'possible'. Ms Robertson said that there were measures in place to mitigate this risk and Mr Kennedy explained that the score referred to the likelihood of the risk coming to fruition.

The Convener acknowledged this but still wished to challenge the scoring. She referred to feedback she had received from people in her ward and stated that, in her opinion, this risk may be being understated.

Mr McCrorie reiterated Mr Kennedy's point but agreed to take the Convener's comments into consideration when reviewing the register.

Councillor Mackie asked about the roll out of additional childcare hours and the involvement of partnership nurseries. Ms Robertson outlined the challenges involved and provided background on the contractual and financial implications for individual nurseries. She added that an implementation plan had been prepared and would be submitted to the Scottish Government in the coming days.

Councillor Findlay queried the provision for placing of vulnerable two year olds and whether this should be seen as a separate risk for the service. Ms Robertson advised that a dedicated staff member was working with families to match the needs of each child but that she did not see it as an additional risk.

Councillor Small commented on the importance of focussing on key areas such as education. He said it was valuable for the Committee to receive regular updates on the risks as there was so much change happening within the service.

The Convener echoed these remarks and added that the Committee needed to be satisfied that the risks had been appropriately assessed as this was such a significant area of expenditure for the Council.

Decision

The Committee agreed to note the contents of the Education Risk Register and that:

- The relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
- The total profile of the Education 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 over the next year, many are in fact longer term risks for Education and are likely to be a feature of the risk register over a number of years.

7. INTERNAL AUDIT REPORT – HOUSING BENEFIT AND COUNCIL TAX REDUCTION

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Housing Benefit and Council Tax Reduction.

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.

Councillor Small queried why the entry in the section headed 'Resource Implications' within the report stated "none". He was surprised that there was no indication that there would be financial implications if procedures were not followed correctly.

Ms Garden explained that Internal Audit's role was to examine internal controls and to highlight the potential risks should these controls be lacking or working ineffectively. The full audit report made reference to the financial implications for the sample of cases reviewed and the subsidy work undertaken by Audit Scotland on housing benefit claims will quantify the financial implications.

Esther Scoburgh, Audit Scotland, advised that there was an audit underway of housing benefit claims in 2016/17 and if there were errors identified these would be rectified in 2017/18 and that is where the Committee would see the financial implications. She said that the findings of this audit would be reported along with the findings of the national audit which was also underway.

Mr Cunningham referred to the interim report by Audit Scotland and the impact that the roll out of Universal Credit had had on the administration work. He said that additional controls had been put in place and this was reflected in the Internal Audit report.

Mr McCrorie added that the purpose of the audit process was to review controls and if sample checking identified anything significant this would be referred to Management for immediate action.

Councillor Findlay asked if there were guidelines relating to audit sample sizes. Ms Garden replied that this was determined by the assessed risk and was agreed with the external auditors. Sample checking took place through all four quarters of the year.

Decision

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

8. INTERNAL AUDIT REPORT – GAS SERVICING AND MAINTENANCE

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

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.

The Convener asked about the risk of properties not being serviced. Paul Iannetta, Service Manager – Engineering Services & Building Standards, confirmed that all properties that required it were being serviced. He added that the management team had agreed to take on board the recommendations and ensure that a full audit trail was in place.

Decision

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

9. INTERNAL AUDIT REPORT – NON-RESIDENTIAL CHARGING

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Non-Residential Charging.

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.

Councillor Small asked whether there had been a significant loss of income to the Council. Ms Garden advised that this information was contained in the full internal audit report which had been circulated to Members.

Bryan Davies, Group Service Manager – Planning and Performance, responded to questions from Councillor Findlay and Councillor Dugdale. He stated that the delay in finalising the charges was down to the requirement to consult on the new policy and to provide clients with notice of the new Non-Residential charges. He also confirmed that discussions were underway with other service areas to resolve the issues surrounding the charging of community alarms for Council tenants.

Decision

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

10. INTERNAL AUDIT REPORT – TAXICARD SCHEME

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

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

The Convener noted that there were a large number of recommendations and that the audit had highlighted an area where procedures were not sufficiently robust. Ms Garden advised that the audit had been conducted at the request of the Service Manager.

Councillor Mackie welcomed the confirmation that a review of the Scheme would be undertaken by officers. Councillor Small asked if a further report would be presented to the Committee.

Monica Patterson, Depute Chief Executive, advised that Internal Audit would flag up any outstanding actions in their usual follow-up report and if any change to policy was required a report would be presented to Cabinet.

Decision

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

11. INTERNAL AUDIT FOLLOW-UP REPORTS

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recent follow-up work undertaken by Internal Audit.

Ms Garden presented the report outlining progress on recommendations made in previously issued audit reports regarding Freedom of Information, Section 75 Payments, Housing Voids and Home to School Transport. She advised that several recommendations relating to Housing Voids and Home to School Transport had yet to be implemented and further progress reports would be brought to the next Committee meeting.

Councillor Findlay asked if Members could receive details of the recommendations which had been implemented and those which remained outstanding.

Ms Garden said that spreadsheets were available and asked Members if they would prefer to have details of outstanding recommendations and revised completion dates as part of the report. The Members agreed that this would be helpful.

Decision

The Committee agreed to note the findings of Internal Audit's follow-up work on Freedom of Information, Section 75 Payments, Housing Voids and Home to School Transport.

12. STRATEGY FOR THE PREVENTION AND DETECTION OF FRAUD AND CORRUPTION

A report was submitted by the Depute Chief Executive (Resources & People Services) to inform the Committee of the updated Strategy for the Prevention and Detection of Fraud and Corruption.

Ms Garden presented the report. She advised Members of the Committee's role in the development of an anti-fraud culture within the Council to ensure that the risk of fraud and corruption was minimised. She explained that the Strategy for the Prevention and Detection of Fraud and Corruption formed part of the Council's counter fraud arrangements and that a review of the Strategy had recently taken place. She invited the Members to note the contents of the updated Strategy.

Councillor Small asked if there were particular areas of the Council that were more vulnerable than others and whether these would receive more attention from Internal Audit.

Ms Garden said that there were three key, high risk areas: contracts; assets disposal; and planning consents and licences but that any area which was involved in the procurement of goods or services was a high risk. She explained that Internal Audit built this into its audit plan and looked at the potential risks in different areas.

Mr McCrorie stated that the Strategy represented an overarching approach to risks and threats across the Council and underneath this were additional, more specific safeguards, for example, strict rules on procurement.

Decision

The Committee agreed to note the contents of the updated Strategy for the Prevention and Detection of Fraud and Corruption.

13. INTERNAL AUDIT PROGRESS REPORT 2017/18

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 2017/18.

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. She confirmed that the team were on target with their current audits.

Councillor Small observed that it was a large workload for a small team.

The Convener commented that the reports were a very valuable way of building Members' knowledge of different subject areas and that the Members who chose not to take up their places on the Committee were missing out on this valuable resource.

Decision

The Committee agreed to note the contents of the Internal Audit Progress Report 2017/18.

14. AUDIT & GOVERNANCE COMMITTEE ANNUAL WORK PLAN 2017/18

The Committee's Annual Work Plan 2017/18 was presented for noting.

Councillor Small asked whether the work plan could be adjusted in any way.

Paolo Vestri, Service Manager – Corporate Policy, explained that some of the reports were statutory requirements and the timing and content of others were dictated by internal policies, such as the Risk Registers and Internal Audit reports. However, it was possible to include additional reports as and when necessary.

The Convener requested that a report on the Musselburgh Joint Racing Committee (MJRC) be added to the November meeting agenda. She said that as the governance of the MJRC had been highlighted in the external auditors' report, it was important that the Audit and Governance Committee was seen to be keeping an overview of progress on this issue.

Decision

The Committee agreed to note the annual work plan for 2017/18.

Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee