



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

**TUESDAY 20 FEBRUARY 2018  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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**Committee Members Present:**

Councillor J Henderson (Convener)  
Councillor S Currie  
Councillor F Dugdale  
Councillor J Findlay  
Councillor K Mackie  
Councillor K McLeod  
Councillor B Small  
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 D Proudfoot, Head of Development  
Mr J Lamond, Head of Council Resources  
Mr T Shearer, Head of Infrastructure, Communities & Partnerships  
Mr P Vestri, Service Manager – Corporate Policy & Improvement  
Ms M Garden, Internal Audit Manager  
Mr S Allan, Senior Auditor  
Mr C Grilli, Service Manager – Legal & Procurement  
Mr J Coutts, Service Development & Support Manager  
Ms S Fortune, Service Manager – Business Finance  
Mrs K MacNeill, Service Manager – Licensing, Admin & Democratic Services  
Mr K Christie, Service Manager – Revenues & Welfare Support  
Ms S Hunter, Council Tax Team Leader  
Ms H Tiffin, Team leader – Customer Feedback  
Mr R Baty, Team Leader - Business Development  
Mr S Kennedy, Emergency Planning and Risk Officer  
Ms J Mackay, Media Manager

**Clerk:**

Ms F Currie

**Visitors Present:**

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

**Apologies:**

None

**Declarations of Interest:**

None

**1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 28 NOVEMBER 2017**

The minutes of the Audit and Governance Committee meeting held on 28 November 2017 were approved as a true record.

The Committee agreed to take Item 3 next.

**3. 2017/18 ANNUAL AUDIT PLAN**

A report was submitted by Audit Scotland setting out the terms of the 2018/19 Annual Audit Plan.

Carol Foster, Audit Scotland, presented the report and provided an overview of the audit plan including the key risk areas which would require specific audit testing. She outlined the timing and scope of the annual audit and reminded Members that the Council would be one of six local authorities to be subject to a separate Best Value Audit in 2017/18.

Responding to questions from Councillor Small Ms Foster confirmed that the auditors were continuing to review the risks highlighted in health and social care. Esther Scoburgh added that discussions had taken place with officers and assurances had been given that efficiencies were still being considered. She said she was content with the position at the time of drafting the audit plan report.

Councillor Currie asked what reliance could be placed on assurances given at the end of Quarter 2 if, historically, such assurances had been shown not to reflect the year end position. Ms Scoburgh advised that the auditors looked at the position across the year, as well as the assurances given at various stages, before coming to a view. She said that part of the Best Value audit would be to look at trends in more depth. For the current year, she was content with the assurances given and with the efforts being undertaken.

The Convener stated that the materiality of this point was so important that she would like to ensure that the Committee was provided with meaningful reporting at an early stage.

In response to questions from Councillor McLeod, Ms Foster provided further information on journal testing and Ms Scoburgh outlined the group components of the accounts. She also confirmed that it would be for the Council to take on board the recommendations made in the audit report or to provide an adequate response as to why they did not do so.

Councillor Currie referred to his previous point about the value of assurances given during the financial year. He also referred to the sum of £1m which had been added to the Adult Wellbeing budget in 2016/17. He said that if this sum required to be repaid then this would further diminish the Council's ability to deal with future pressures year on year.

Jim Lamond, Head of Council Resources, clarified that the £1m added to the Adult Wellbeing budget had not been a loan. It had been given on the basis of the Quarter 2 report to give support and recognition to the fact that the efficiencies plan had not been delivered in the timescale expected.

The Convener referred to the section of the audit plan outlining arrangements for the Best Value audit and emphasised that outcomes and performance should be clearly defined and should include associated costs and risks.

Ms Scoburgh confirmed that this would be included as part of the Best Value audit and that the evidence gathering would include interviews with Councillors.

### **Decision**

The Committee agreed to note the contents of the report.

## **2. MUSSELBURGH JOINT RACING COMMITTEE - UPDATE**

Carlo Grilli, Service Manager – Legal & Procurement, provided an update on the review of governance arrangements for the Musselburgh Joint Racing Committee. He advised Members that the review report was presented to Council on 19 December 2017 and a further report would be presented to Council at its meeting on 27 February 2018 seeking approval of interim governance arrangements. While he acknowledged the recent interplay in the media, Mr Grilli stated that the report to Council would be considered in private.

In response to questions from Councillor Currie, Mr Grilli confirmed that the report to Council would be private. He also stated that he would have no objection to the independent governance review report being scrutinised by this Committee. He added that he would consider how much of the information could be made public as he was mindful of the level of interest in this issue.

The Convener thanked Mr Grilli and asked Members to note the update.

## **4. DEVELOPMENT RISK REGISTER**

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

Scott Kennedy, Emergency Planning and 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 Development Risk Register contained 1 Very High risk, 6 High risks, 10 Medium risks and 14 Low risks. As per the Council's Risk Strategy only the Very High and High risks were being reported to the Committee.

In response to questions from Members Douglas Proudfoot, Head of Development, advised that the private rent sector was suffering in the same way as the social rent sector from the introduction of Universal Credit and its impact on the ability to collect rents.

James Coutts, Service Development & Support Manager, stated that under the terms of Universal Credit sums for rent were paid to tenants rather than directly to landlords.

In addition, some landlords were uncomfortable with the recent change to legislation which had given tenants greater rights.

Mr Proudfoot advised Members that these risks were kept under constant review and an action plan had been prepared and presented to Cabinet which included reviews of policy and links with the delivery of affordable housing. Mr Kennedy added that although the review date was stated as March 2019 the continuous review process meant that, if necessary, risks could be updated before that date.

Councillor Williamson asked about the involvement of Orchard & Shipman. Mr Proudfoot confirmed that they were no longer managing the contract which had been brought in-house pending a review of temporary accommodation provision.

Mr Proudfoot responded to further questions from Members stating that the Council had a statutory duty to look at the whole housing market and take what action it could to ensure as broad a range of options as possible were available for tenants. He acknowledged that acquisitions could be an invaluable tool in supplementing housing supply. He also offered assurances that the few solid fuel systems left in Council tenancies were serviced regularly and replaced as and when circumstances allowed.

Councillor Currie hoped it would be possible to track the number of landlord registrations over the year and, if there was a reduction, to understand why this was the case. He was concerned that a reduction in the availability of private sector rents for those on Universal Credit and an overall increase in the cost of private rents would have a major impact in East Lothian and may lead to an increase in homelessness.

Mr Proudfoot advised that there was a three year obligation for landlords following registration but he acknowledged the Councillor's concerns.

Councillor Small said he took the risks very seriously – both financial and reputational – and that they may need to be monitored more closely. Although he accepted officers' assurances about the review process he asked that the Committee be kept fully informed of developments on this issue.

Mr Proudfoot referred to a report on homelessness which was being presented to the Policy & Performance Review Committee (PPRC) the following day. He said that the control measures and action plan were reviewed regularly and he would be happy to bring updates to this Committee or the PPRC.

The Convener thanked Mr Proudfoot and expressed the hope that officers would continue to work closely with the Committee to keep these matters under review. She also asked about the implementation of the new mobile working platform and Mr Proudfoot confirmed that this was on target.

## **Decision**

The Committee agreed to note the contents of the Development 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 Development 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 Development and are likely to be a feature of the risk register over a number of years.

## **5. INFRASTRUCTURE RISK REGISTER**

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

Mr Kennedy presented the report referring to the general background provided in his introduction to the previous item. He advised Members that the Infrastructure risk register currently included 10 High risks, 49 Medium risks and 14 Low risks.

In response to questions from Members Tom Shearer, Head of Infrastructure, Communities and Partnerships, provided further information on the Community Pay Back scheme to repair gravestones. He said that the Council was acutely aware of the constraints on space at Inveresk Cemetery and discussions were underway on identifying suitable land for expansion.

Replying to further questions, Mr Shearer advised that regular inspections were undertaken on dangerous buildings and the Council had powers to enforce repair work or to carry out the work themselves and then bill the property owner. He assured Members that the enforcement process was robust. Mr Proudfoot added that many of the buildings had deteriorated through age and where there were issues of public safety appropriate notices would be erected by Building Standards officers.

Mr Shearer also confirmed the appointment of a new Building Standard Surveyor and indicated that consideration was being given to the appointment of Graduate Interns to fill the remaining vacancies.

Councillor Small urged officers to ensure that the work on gathering current asset data remained on target as this would be important to the review of the Council's asset base which had been included in the budget for 2018/19.

Mr Shearer confirmed that work was in hand and the timescale for completion remained April 2018.

### **Decision**

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

## **6. 2017/18 COUNCIL IMPROVEMENT PLAN MONITORING REPORT**

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) to present the 2017/18 Council Improvement Plan monitoring report to the Audit and Governance Committee.

Paolo Vestri, Service Manager – Corporate Policy & Improvement, presented the report informing Members that the ten action points in the Plan were drawn mainly from the Corporate Governance self-evaluation exercise reported to the Committee in June 2017. He said that the six month monitoring report outlined the progress made and that, of the ten actions, six had been completed and the remaining four were on target to be completed by April/May 2018.

Responding to questions from Members, Mr Vestri provided further information on the development of a single regulatory charter and the timing of the completion of the actions contained in the Plan. Mr Lamond confirmed that feedback from the 100 Day Review process would be prepared and circulated to Members as soon as possible.

### **Decision**

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

## **7. EAST LoTHIAN LAND LTD**

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Audit and Governance Committee of the work undertaken by East Lothian Land Ltd in 2016/17.

Richard Baty, Business Development Manager, presented the report outlining the background to East Lothian Land Ltd and providing details of projects considered and delivered in 2016/17.

Councillor Currie asked how proactive the company was in identifying potential sites for commercial use. He referred to his experiences at Planning Committee which seemed to suggest that there was generally little interest in developing sites for commercial use rather than housing.

Mr Baty advised that six years ago a review was undertaken of all land identified for employment use. Approaches had been made for the purchase of these sites but all offers were declined. He added that a business survey was undertaken every two years and there was a high demand for economic units. However, if the land was owned by a developer it was likely to end up as housing.

Councillor Small suggested that the company should be looking to expand. He said that examples such as East Lothian Land Ltd were key to driving forward other income streams and that the Council should be as supportive as possible within existing financial constraints.

Councillor Currie expressed frustration that despite the original intention of planning approvals, and due to an apparent lack of interest from businesses, significant amounts of land identified for commercial use was eventually used for housing. He agreed that East Lothian Land Ltd should have the opportunity to expand and to secure and develop land for employment use.

## Decision

The Committee agreed to note the contents of the report.

### **8. LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2016/17 (ACCOUNTS COMMISSION, NOVEMBER 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: Financial Overview 2016/17*'.

Mr Vestri presented the report explaining the background to the production of the Audit Scotland report and outlining the key findings and recommendations. He also drew Members' attention to the Council's response to the recommendations and its financial position compared to other local authorities across the country.

Members asked a variety of questions and Mr Lamond provided further information on funds allocated from General Reserves. He confirmed that the Council had taken full advantage of low interest rates for borrowing within the terms of its financial strategy, and that it had benefited from the higher base for Council Tax. He also commented on the difficulties associated with the increase in both the young and old populations within the county.

Ms Scoburgh responded to a question on the role of the Audit & Governance Committee in relation to the Integration Joint Board (IJB). She advised Members that the auditors worked closely with the IJB's chief officers who themselves liaise closely with NHS Lothian. She said she was aware of timing issues in relation to budget-setting but that the information was made available at key points. She accepted that this was an ongoing challenge upon which the auditors would continue to advise the IJB but that addressing this may take time.

Mr Lamond also acknowledged the complexities and timing differences and said that the Council and NHS Lothian were trying to mitigate them as far as possible. He said that officers met regularly at both operational and senior management levels and updates were provided throughout the year.

The Convener said she would welcome the Committee's inclusion in this subject and that it should become part of the Committee's scrutiny process to avoid issues being missed.

Councillor Currie commented on the fact that the report was looking at the previous year and many of the issues highlighted had already been dealt with. However, he said it was a useful report which clearly demonstrated the challenges facing East Lothian in terms of growth in both the young and old population. He referred to future stresses and the need for the Council to take a longer term view and balance investing in housing and incurring additional debt, with the need to effectively manage the risks to avoid any impact on the delivery of statutory services.

Councillor Small observed that there were many positives to be taken from the report but that it had also identified issues that needed to be addressed. He said that the report should give the Committee confidence that the Council was headed in the right direction and he agreed with Councillor Currie that they should be taking a longer term

view. However, he questioned where the Committee should fit in relation to scrutinising issues such as the transformational aspects of efficiency savings.

Councillor Dugdale commended the report for its clarity in showing where East Lothian sat in relation to other local authorities. She also appreciated the contributions made by Members during the discussion.

### **Decision**

The Committee agreed to:

- note the position of East Lothian Council in regard to the key messages in the Accounts Commission report, '*Local Government in Scotland: Financial Overview 2016/17*'
- use to recommendations in the Accounts Commission 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.

## **9. INTERNAL AUDIT REPORT – PERFORMANCE BONDS**

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

Stuart Allan, Senior Auditor, presented the report outlining some of the key findings and referring Members to the recommendations contained in the Action Plan which had been agreed by Management.

Responding to questions from Members, Mr Allan advised that the audit team had reviewed 11 contracts over £250,000, of which 8 had required a bond. Of the 8 contracts, 6 bonds were in place and in 2 cases no bonds had been submitted. He also confirmed that it was management's intention to have a clear policy in place by April 2018.

### **Decision**

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

## **10. INTERNAL AUDIT REPORT – OVERTIME**

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

Mala Garden, Internal Audit Manager, presented the report outlining some of the key findings and referring Members to the recommendations contained in the Action Plan which had been agreed by Management.

In response to questions from Councillor Williamson, Ms Garden confirmed that the audit had looked at overtime claims across the Council rather than focusing on particular areas.



Councillor Small said that this report fitted into one of the issues discussed at the recent Council budget-setting meeting. He noted that there were some worrying aspects identified in the audit and he said it would be useful to look at this issue in terms of the wider content of employment terms and conditions.

Councillor Currie was pleased to see that the irregularities relating to authorisation of overtime had been addressed. He questioned the consistently high use of overtime in some areas, and he looked forward to seeing if the implementation of the recommendations in the action plan resulted in a more effective use of overtime.

The Convener echoed these remarks and expressed the hope that the Committee would have the opportunity to review this issue again in the near future.

### **Decision**

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

## **11. INTERNAL AUDIT REPORT – SCHOOL MEALS INCOME**

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

Ms Garden presented the report. She summarised 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 the audit related to primary schools (P4 – P7) income from school meals totalling approximately £360,000 per annum and that the team had selected 3 schools for review – Dunbar, Kings Meadow (Haddington) and Longniddry. Expanding on one of the issues highlighted in the report, she advised that one of the schools was not following the correct procedure for recovering money on unpaid lunches but that this had been addressed.

### **Decision**

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

## **12. INTERNAL AUDIT REPORT – COMPLAINTS HANDLING PROCEDURE**

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

Mr Allan presented the report outlining some of the key findings including areas where controls were met and areas with scope for improvement. He drew Members' attention to the recommendations contained in the Action Plan which had been agreed by Management.

Councillor Small noted that the financial implications in the report were stated as none. He asked if, historically, there had ever been an occasion where a complaint had not been handled appropriately and a financial settlement had been made. Mr Lamond confirmed that there had been instances, although very few, where small compensatory payments had been made. Referring to the financial resource implications section of the report, he advised that this related to any decisions contained within the recommendations of the report.

Councillor McLeod referred to the Internal Audit Progress report which indicated that the audit had been completed in November 2017. Mr Allan replied that the audit work had been undertaken in October 2017 and the report had initially been planned for submission to the Committee's November meeting but had missed this deadline.

### **Decision**

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

## **13. INTERNAL AUDIT REPORT – COUNCIL TAX LIABILITY**

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

Ms Garden presented the report outlining some of the key findings and referring Members to the recommendations contained in the Action Plan which had been agreed by Management.

In response to questions from Councillor Currie, Mr Lamond confirmed that the actions agreed by management would be undertaken within existing budgets.

Kenny Christie, Service Manager – Revenues & Welfare Support, said that a balance had to be struck in terms of deciding which empty properties to visit and, at present, his team undertook a visiting rate of approximately 10%. Shona Hunter, Council Tax Team Leader, explained that much of the work was office based and where conflicting information was received about a property this would result in a visit.

Replying to a question from Councillor Small, Ms Garden confirmed that she was, on the whole, very pleased with the systems that were in place.

### **Decision**

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

## **14. INTERNAL AUDIT REPORT - NATIONAL FRAUD INITIATIVE**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the work undertaken on the 2016/17 National Fraud Initiative.

Mr Allan presented the report, outlining the background and scope of the data matching exercise and reminding Members that data matches did not in themselves indicate

fraud but rather identified cases which may require further investigation. He advised that of the matches received, 578 were recommended matches and that additional matches were also selected for review. He further stated that as at 8 February 2018 477 matches had been investigated and in 363 cases no fraud or errors had been detected. He outlined some of the results of the other investigations, including errors and overpayments, and stated that investigations into the remaining matches would be concluded prior to 31 March 2018.

Mr Allan explained that in addition to these matches, the Council's Revenues section received a separate report on Council Tax and Electoral Roll matches identifying where Single Person Discount may have been incorrectly awarded.

Mr Grilli responded to a question from Councillor Small explaining the legal position for recovery of duplicate payments to contractors.

Mr Allan responded to further questions from Members on matches relating to residential homes, duplicate payments to contractors and the renewal of blue badges.

Ms Garden observed that although 109 cases out of 477 appeared significant, many of these related to timing and updating of systems. She also advised Members that the audit team intended to look more closely at the issue of duplicate payments as part of the 2018/19 audit plan to provide additional assurance.

### **Decision**

The Committee agreed to note the contents of the report.

## **15. 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 and the progress made by Management in implementing audit recommendations.

Mr Allan presented the report outlining progress on recommendations made in previously issued audit reports for 2016/17 regarding Direct Payments – Children's Wellbeing; Preston Lodge High School; Capital Projects (Payment Certificates) and Contracts. He advised Members that all of the recommendations resulting from the audits on Capital Projects (Payment Certificates) and Contracts had been fully implemented. Of the remaining two audits, the majority of recommendations had been implemented but a few were still outstanding.

In reply to a question from Councillor Williamson, Mr Allan explained that reasons were given in each case for the delays in implementation and that revised dates for completion have been provided.

### **Decision**

The Committee agreed to note the findings of Internal Audit's follow-up work on Direct Payments – Children's Wellbeing; Preston Lodge High School; Capital Projects (Payment Certificates) and Contracts.

**16. INTERNAL AUDIT PLAN 2018/19**

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of Internal Audit’s operational plan for 2018/19.

Ms Garden presented the report outlining the factors taken into account when preparing the annual audit plan, the procedures for undertaking reviews, the audit coverage, arrangements in place for the East Lothian Integration Joint Board (IJB) and internal audit performance indicators.

Responding to questions from Members, Ms Garden explained the approach taken when drawing up the audit plan and the risk level attached to particular audits. She confirmed that the team had sufficient resources to manage their work for the IJB, which was shared with NHS Lothian’s internal audit team.

Councillor Small observed that the Area Partnerships were responsible for significant sums of money and should perhaps be included in the audit plan for 2018/19. The Convener agreed to discuss this further with Ms Garden and the Depute Chief Executive.

**Decision**

The Committee approved the Audit Plan for 2018/19.

**17. 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 2017/18 annual audit plan.

**Decision**

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

Signed .....

Councillor Jane Henderson  
Convener of the Audit and Governance Committee