



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

**TUESDAY 12 JUNE 2018  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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**Committee Members Present:**

Councillor J Henderson (Convener)  
Councillor S Currie  
Councillor F Dugdale  
Councillor K Mackie (Items 4 – 19)  
Councillor K McLeod  
Councillor B Small  
Councillor J Williamson

**Other Councillors Present:**

Councillor J Goodfellow (Items 5 - 6)  
Councillor J McMillan (Items 4 – 19)

**Council Officials Present:**

Mrs A Leitch, Chief Executive  
Mr A McCrorie, Depute Chief Executive – Resources and People Services  
Mr D Proudfoot, Head of Development  
Mr J Lamond, Head of Council Resources  
Mr T Shearer, Head of Infrastructure  
Ms S Saunders, Head of Communities & Partnerships  
Mr P Vestri, Service Manager – Corporate Policy & Improvement  
Ms M Garden, Internal Audit Manager  
Mr S Allan, Senior Auditor  
Mr A Steven, Senior Auditor  
Mr C Grilli, Service Manager – Legal & Procurement  
Ms S Fortune, Service Manager – Business Finance  
Mrs L Denovan, Corporate Finance Manager  
Mr R Baty, Team Leader - Business Development  
Ms A Stewart, Rent Income Team Leader  
Ms J Mackay, Media Manager

**Clerk:**

Ms F Currie

**Visitors Present:**

Ms E Scoburgh, Audit Scotland

**Apologies:**

Councillor J Findlay

**Declarations of Interest:**

None

**1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 20 FEBRUARY 2018**

The minutes of the Audit and Governance Committee meeting held on 20 February 2018 were approved as a true record.

**2. MUSSELBURGH RACECOURSE - UPDATE**

A report was submitted by the Depute Chief Executive (Resources & People Services) providing an update to the Committee on Musselburgh Racecourse.

Carlo Grilli, Service Manager – Legal & Procurement, presented the report outlining the background to the governance review and recent developments including amendments to the Minute of Agreement and the setting up of a working group to consider and recommend the best operating model for the Racecourse. He advised Members that the determination of the working group would be reported in the Members Library prior to the Council meeting on 26 June.

Responding to a question from Councillor McLeod, Mr Grilli said that relationships between the Councillors and Lothian Racing Syndicate members on the Committee had improved and both sides were now working well together.

**Decision**

The Committee agreed to note the current position and progress following the Independent Governance review by Pinsent Masons LLP.

**3. REVIEW OF INTERNAL CONTROLS IN KEY FINANCIAL STATEMENTS 2017/18**

A report was submitted by Audit Scotland setting out the results of their assessment of the systems of internal control put in place by management within East Lothian Council.

Esther Scoburgh, Audit Scotland, presented the report summarising the key systems which were tested and the overall findings, including those areas where existing controls could be improved and the actions agreed with management. She stated that, on the basis of the findings, no additional audit work was required and Audit Scotland were satisfied that appropriate and effective internal controls were in place for those key financial systems which had been reviewed.

In response to questions from Councillor Small and the Convener, Ms Scoburgh explained how the auditors identified the areas and systems on which to focus their attention. She said that she and her colleagues met regularly with members of the Council's Internal Audit Team to ensure that there was no duplication of work.

Councillor Small commented on the importance of Members receiving the necessary assurance that controls were working effectively and that the officers involved in audit

work avoided duplication of effort. He noted that Section 9 of the report provided the necessary assurance and he also welcomed the confirmation that both audit teams co-ordinated their work to avoid any duplication.

### **Decision**

The Committee agreed to note the contents of the report.

## **4. ANNUAL TREASURY MANAGEMENT REVIEW 2017/18**

A report was submitted by the Depute Chief Executive (Resources & People Services) providing an update to the Committee on treasury management activity during 2017/18.

Liz Denovan, 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.

Mrs Denovan 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 £30M of reserves and working capital instead of borrowing. She 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”.

Councillor McLeod asked about third party loans to East Lothian Housing Association (ELHA) and about the maturity structure of the debt portfolio.

Mrs Denovan advised that this loan facility had been provided to encourage house building at a time when prevailing market conditions were difficult and had been subject to specific Ministerial consent. Mr Lamond added that the process effectively allowed the housing association to access lower cost funding enabling them to carry out new build programmes that might not otherwise proceed. The arrangements were subject to Government consent, and the facility had been available for an extended number of years but had since expired.

Mrs Denovan provided further details on the profiling of the debt portfolio.

Councillor Currie also queried the loan to ELHA and the conditions attached to that type of borrowing. He said that his understanding of Ministerial consent for such borrowing was that it could only be granted if the organisation demonstrated that properties would not otherwise come forward.

Mr Lamond recalled the discussions which had taken place on this issue seven years ago. He agreed that in order to access this borrowing ELHA had had to demonstrate the added value by obtaining the funds and that this would have been subject to Ministerial agreement at the time of the loan. He explained that the time limit had expired for ELHA to draw down further funds on that agreement. Any request for a further loan would be subject to a new Ministerial agreement and potentially tighter conditions. However, he reminded Members that the borrowing provided to ELHA had

allowed projects to be delivered over the last seven years which may not have happened otherwise.

Mrs Denovan responded to further questions from Councillor Small and Councillor Dugdale on fixed rate borrowing and common good funds.

### **Decision**

The Committee agreed to note the report.

## **5. 2018 CORPORATE GOVERNANCE SELF-EVALUATION / ANNUAL GOVERNANCE STATEMENT**

A report was submitted by the Depute Chief Executive (Partnerships & Community Services) advising the Committee of the outcome of the 2018 Corporate Governance Self-evaluation and seeking approval for the content of the Annual Governance Statement for presentation to Audit & Governance Committee.

Paolo Vestri, Service Manager – Corporate Policy & Improvement, presented the report referring to the outcome of the self-evaluation exercise which had identified eight areas of development building on existing good practice and improvement actions already being implemented. He also referred to the Best Value Assurance Review being carried out by Audit Scotland and advised that the findings of this review, when published in October 2018, and the areas for improvement identified in the self-evaluation exercise would be incorporated into the 2018/19 Council Improvement Plan.

Mr Vestri responded to questions from Members regarding the detailed actions to address the areas of development and improvement, the overlap between the self-evaluation exercise and the Best Value Review and the possibility of having a pictorial view of the results which included the areas of overlap between different assessments.

Angela Leitch, Chief Executive, welcomed the external evaluation provided by the Best Value Review. However, she said that the emphasis continued to be on self-evaluation through tools such as How Good Is Our Council? (HGIOC) and Recognised for Excellence which allowed the Council to identify the areas for improvement.

Mr Lamond added that the Corporate Governance self-evaluation exercise helped to ensure the Council's compliance with the principles and requirements of good governance, as set out by the relevant CiPFA Code of Practice, as well as fulfilling the remit to include an Annual Governance Statement in the Council's Annual Accounts.

### **Decision**

The Committee agreed to:

- (i) Consider and comment on the self-evaluation and to approve the summary for inclusion in the Annual Governance Statement that will form part of the Council's 2017/18 Annual Accounts; and
- (ii) Note that the improvement actions identified through the Corporate Governance Self-evaluation will be incorporated into the 2018/19 Corporate Improvement Plan along with any actions arising from the Best Value Assurance report which will be published by Audit Scotland in October 2018.

## **6. EAST Lothian INVESTMENTS LTD 2017/18**

A report was submitted by the Depute Chief Executive (Resources & People Services) informing the Committee of the work undertaken by East Lothian Investments Ltd (ELI) in 2017/18.

Richard Baty, Team Leader – Business Development, presented the report detailing the background to ELI, its governance arrangements and lending activity. He responded to a number of questions from Members relating to job creation, bad debt, management of loans, governance roles and proposals to address the current gap in funding.

Councillor Currie welcomed the report commenting on the diligence given to the consideration of loan applications which was reflected in the consistently low level of bad debt. However, he expressed concern about the current gap in funding and that the ELI was not being used to its full potential.

Councillor McMillan referred to recent recognition for ELI by the East Lothian and Midlothian Chambers of Commerce and said that it was a unique scheme which had attracted national praise. He commented that ELI was fortunate in its Board members who ensured rigorous scrutiny of applications while also offering support to businesses to help them achieve their potential. He confirmed that a request for further funding had recently been submitted to the Council and concluded that, in the absence of funding from banks for new businesses, this scheme was needed in East Lothian.

Mr Lamond welcomed the positive remarks from Members and said he was reassured by these and the information provided in the report. While he acknowledged the positive role carried out by ELI, he reminded the Committee that the Council was not a bank and that it operates strictly within the terms of our approved Treasury Management Strategy. This strategy requires careful consideration of the risks and rewards associated with all investment loans. He confirmed that a request for further Council funding was being considered and, in the event that this should be considered appropriate, a report would be presented to Cabinet.

The Convener observed that there was a well-documented and historic link between good governance and success and that ELI seemed to be an example of that. She also thanked Mr Lamond for his comments.

### **Decision**

The Committee agreed to note the contents of the report.

## **7. LOCAL GOVERNMENT IN SCOTLAND: CHALLENGES AND PERFORMANCE 2018 (ACCOUNTS COMMISSION, APRIL 2018)**

A report was submitted by the Depute Chief Executive (Partnerships & Community Services) reviewing East Lothian Council's position in relation to the findings of the Accounts Commission report, '*Local Government in Scotland: Challenges and Performance 2018*'.

Mr Vestri presented the report explaining the background to the production of the Audit Scotland report and outlining the key challenges, the responses from local authorities

and the impact on services. He advised that some of the recommendations had already been implemented and that the Best Value Assurance Review would consider many of the issues raised by the recommendations.

In reply to a question from Councillor Currie, Mrs Leitch advised that she had recently raised the issue of a review of the specific distribution formula with CoSLA as part of the Council's work on the expansion of early learning and childcare to 1140 hours per week. She said that the capping of population based upon the GRO census in 2014 had had a flattening effect on funding made available to East Lothian Council also noting that any change to the formula that which would benefit one authority would disadvantage another.

Mr Lamond observed that the multi-formula based approach was incredibly complex and that although in broad terms it sought to move with any increase in population there was always a time lag due to the gathering and testing of datasets; this could be up to 5 years depending on the area. In addition, there was often a focus on incremental movements in new funding and it did not always work as well for core funding that was currently in decline.

Councillor Currie also asked about the tracking and reporting of the transformation programme to show whether it was delivering the expected efficiencies. He referred to health and social care as an example.

Mrs Leitch advised that the transformation programme was regularly reported to the Policy & Performance Review Committee (PPRC) and reviewed by CMT. In addition to an agreed programme of activity which the Transformation Team is responsible for leading, the team also provides support to service areas to bring about improvement and efficiency. In relation to health and social care, she said that a significant amount of time had been spent on integrating both services and East Lothian was further advanced than many other local authorities although there was still work to do.

Sarah Fortune, Service Manager – Business Finance, added that with a requirement for £12.5M of efficiencies over the next 3 years, there needed to be a robust monitoring mechanism in place involving regular updates to CMT and Members and as part of the quarterly financial reporting cycle – such a mechanism had been developed and this would help inform the quarterly financial reviews to members throughout the year.

Mr Vestri said that the transformation programme was regularly reviewed and reported to the Programme Board and the Chief Executive.

Councillor McMillan asked if there had been any work done within individual local authorities on the other challenges and costs they faced and how this compared between authorities.

Mr Lamond advised that local authorities had informed some of the work done through CoSLA in advance of the financial settlement from the Scottish Government, including demand drivers such as policy changes.

Mr Vestri added that the Improvement Service had done some work on increases in the older and younger populations and how this impacted on demand for services.

Councillor Small commented that the report did not offer any new insights but he was reassured that the Members were asking the questions that needed to be asked. He emphasised the importance of ensuring that the public understood the challenges the

Council was facing. He also commended the Waste Services Team for their excellent performance on waste recycling.

Councillor Currie said that the report highlighted a number of key issues including the impact of digital transformation, not attempting to transform all services at the same time, ensuring that the public understood the purpose of any changes to services and the importance of tracking progress and identifying at an early stage if a strategy is not working.

Councillor Dugdale welcomed the report which she said was very readable. It showed clearly where East Lothian Council sat alongside other authorities and the challenges it faced from its fast growing population.

The Convener referred to the list of 12 implications for local authorities set out in the report and remarked on the number of significant changes all happening at the same time. She suggested that the report should have a broader audience than just the members of the Committee and asked that it be circulated to all Councillors.

### **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: Challenges and Performance 2018'; and
- (ii) Use the recommendations in the Accounts Commission report and the questions it poses to elected members to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit & Governance Committee.

## **8. INTERNAL AUDIT REPORT – PERFORMANCE INDICATORS**

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

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.

The Convener enquired about the accuracy of the costings figures for other local authorities and, if there were similar errors elsewhere, whether this might affect the validity of the performance indicator results.

Mrs Leitch advised that the Local Government Benchmarking Framework was never intended to be so precise a measure but rather to act as a way of identifying areas where improvements were required. She added that reports would be presented to the PPRC at its meeting on 20 June to review these areas in more detail.

Councillor McMillan asked about the choice of the indicators for the audit review and whether managers should have picked up on the figures at an earlier stage. Mr Vestri explained the process for monitoring the indicators and the roles of PPRC, CMT and managers.

Mala Garden, Internal Audit Manager, advised that her team had undertaken an analytical review to identify the sample of indicators. She added that the purpose of the audit was to ensure that the Council had accurate and complete information.

### **Decision**

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

## **9. INTERNAL AUDIT REPORT – HOUSING RENT ARREARS**

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

Andrew Steven, Senior Auditor, presented the report. He outlined the purpose of the audit and summarised the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan.

In reply to questions from Councillor Currie, Mr Steven indicated that the Rent Income Team had already begun reviewing their current processes. He also referred to the impact of the roll-out of Universal Credit and that the resulting increase in rent arrears had begun to ease in 2017/18.

Mr Lamond acknowledged the potentially serious consequences for tenants as a result of rent arrears. However, he pointed out that the review was a significant piece of work and therefore a completion date of October 2018 was not unreasonable.

Alison Stewart, Rent Income Team Leader, explained that procedures were being reviewed on a daily basis and she outlined the current case management systems. She said that the Team were keen to make their procedures as streamlined and effective as possible and that joint working was an important part of the process.

In reply to Councillor Currie's question on repayment plans, Ms Garden advised that, as a result of the audit, improvements are being made to ensure that all rent repayment plan agreements are filed and logged on the system.

Douglas Proudfoot, Head of Development, stated that although there was no specific recommendation included in the Action Plan, the teams were working collaboratively to improve the rent arrears position at the point of tenancy sign-up.

Councillor Small queried the timescale for completion of the 'high' level recommendation relating to the prevention of rent arrears. Ms Garden explained that all 'high' level recommendations were expected to be implemented within 3 months. She added that this was an important recommendation which would require liaison between Housing Officers and Rent Income Officers.

### **Decision**

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



## **10. INTERNAL AUDIT REPORT – THROUGH-CARE AND AFTER-CARE**

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

Mr Allan presented the report outlining the purpose and findings of the review and drawing Members' attention to the recommendations contained in the Action Plan.

Councillor Dugdale asked for clarification of the term "more responsive banking system". Mr Allan explained that this referred to minimising delays in payments being made direct to clients' bank accounts and the time required for clearance through the banking system. Where possible, ensuring that payments were planned in advance would reduce the need for emergency payments.

Councillor McMillan queried the grading of some of the recommendations and whether these should be rated 'high' due to the vulnerability of the young people receiving the payments. Ms Garden advised that the purpose of the audit was to review the financial controls. Referring to Councillor Dugdale's point, she added that the review had highlighted the need for changes to the practice for emergency payments and that was why that particular recommendation had been rated 'high'.

### **Decision**

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

## **11. INTERNAL AUDIT REPORT – COMMON REPAIRS**

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

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 a question from Councillor Small, Ms Garden advised that the total amount outstanding was £365,000 some of which related to projects dating back to 2012.

### **Decision**

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

## **12. INTERNAL AUDIT REPORT – NON-DOMESTIC RATES**

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

Mr Steven 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 about the potential for financial loss and Mr Steven stated that robust checking procedures had already been put in place following the audit.

### **Decision**

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

## **13. INTERNAL AUDIT REPORT – CARE AT HOME PAYMENTS**

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

Mr Allan 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 members, Mr Allan advised that the number of recommendations in the action plan reflected the fact that the framework was relatively new. He confirmed that those individuals on Self-Directed Support (SDS) Option 2 could choose non-framework providers for their care but that the rates charged must be consistent to those paid to framework providers.

### **Decision**

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

## **14. ANNUAL INTERNAL AUDIT REPORT 2017/18**

A report was submitted by the Internal Audit Manager providing the Committee with a summary of the work undertaken by the Council's Internal Audit Unit in 2017/18.

Ms Garden presented the report advising Members that the Public Sector Internal Audit Standards (PSIAS) required the Internal Audit Manager to prepare 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 2017/18 and the total number and grading of recommendations made as a result of the completed audits.

In response to a question from Councillor McMillan, Ms Garden confirmed that she was satisfied that the Internal Audit Team had the necessary resources to carry out its programme of work.

### **Decision**

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

## **15. CONTROLS ASSURANCE STATEMENT 2017/18**

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 2017/18 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 was operating as intended.

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 to 31 March 2018.

Councillor Small asked if the weaknesses identified in the report had been found in just one service area or more broadly throughout the Council. Ms Garden replied that they had each been found in more than one audit review and that she and her team had made recommendations to Management to address these weaknesses.

In response to a question from the Convener, Ms Garden stated that the setting of timescales for completion of recommended actions was a matter for each Service Area to determine based on their available resources.

### **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 2018.

## **16. 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.

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 2017/18 annual audit plan.

Councillor Williamson asked for an update on the status of the Learning & Development audit. Ms Garden stated that it had not yet begun.

Sharon Saunders, Head of Partnerships & Community Services, advised that Education Scotland's inspection of the service had impacted on its ability to engage

with the proposed Internal Audit review. However, the inspection was now complete and the audit work would begin shortly.

Responding to a question from Councillor McMillan, Ms Garden advised that Internal Audit had not undertaken any consultancy work in 2017/18.

The Convener welcomed the report noting that the audit programme was very rigorous and substantially complete.

### **Decision**

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

## **17. INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the findings from the recent external quality assessment of the Council's Internal Audit service.

Ms Garden presented the report outlining the background to the assessment and highlighting the key findings. She drew Members' attention to the audit opinion which stated that a high level of assurance could be placed on Internal Audit's compliance with PSIAS.

In response to a question from Councillor Small on the one standard relating to Independence and Objectivity, Ms Garden outlined the three action points identified as part of the assessment.

### **Decision**

The Committee agreed to note the contents of the report.

## **18. INTERNAL AUDIT CHARTER**

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

Mr Allan presented the report outlining the key areas of the Charter. He advised Members that the 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.

Councillor McMillan asked if it would be possible to prepare a single page summary and explanation of the Charter to make it more accessible to clients. Councillor McLeod supported this suggestion and asked if an Index might also be added to the main document. Ms Garden agreed to consider these suggestions.

### **Decision**

The Committee approved the updated Internal Audit Charter.

**SUMMARY OF PROCEEDINGS – EXEMPT INFORMATION**

The Audit and Governance Committee unanimously agreed to exclude the public from the following business containing exempt information by virtue of Paragraph 1 (information relating to particular employees of the Authority) of Schedule 7A of the Local Government (Scotland) Act 1973.

**Whistleblowing Report 2017/18**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the Council's whistleblowing arrangements. The Committee agreed to note the contents of the report.