



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

**TUESDAY 18 JUNE 2019
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

Councillor J Henderson (Convener)
Councillor S Currie
Councillor F Dugdale
Councillor J Findlay
Councillor G Mackett
Councillor K McLeod
Councillor J Williamson

Council Officials Present:

Mr A McCrorie, Depute Chief Executive
Ms M Patterson, Depute Chief Executive
Mr D Proudfoot, Head of Development
Mr J Lamond, Head of Council Resources
Mr T Reid, Head of Infrastructure
Ms S Saunders, Head of Communities & Partnerships
Ms S Fortune – Chief Operating Officer - Finance
Mr P Vestri, Service Manager – Corporate Policy
Mr C Grilli, Service Manager – Legal & Procurement
Mr D Oliver, Service Manager – Protective Services
Mr K Christie, Service Manager – Revenues & Welfare Support
Mr R Baty, Team Leader Business Development
Mr I McFarlane, Planning Service Manager
Mr B Farnsworth, General Manager, Musselburgh Racecourse
Mr D Kennedy, Financial Controller, Musselburgh Racecourse
Mr S Kennedy, Emergency Planning, Risk and Resilience Officer
Mr S Allan, Senior Auditor
Mr A Steven, Senior Auditor
Mr P Moore, Senior Auditor

Clerk:

Miss F Currie

Visitors Present:

Ms E Scoburgh, Audit Scotland
Mr M Duff, Audit Scotland

Apologies:

None

Declarations of Interest:

Item 8 - Councillor Currie declared an interest as a member of MRAC.

Item 8 - Councillor McLeod declared a non-financial interest.

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 19 FEBRUARY 2019

The minutes of the Audit and Governance Committee meeting held on 19 February 2019 were approved as a true record.

2. INTERNAL AUDIT REPORT – JUNE 2019

A report was submitted by the Depute Chief Executive (Resources & People Services) informing the Committee of Internal Audit reports issued and follow-up work completed since the last meeting of the Committee and providing an update on the progress against the 2018/19 annual audit plan.

Stuart Allan, Senior Auditor, presented the report outlining the purpose of the audits and the level of assurance provided to management as a result of this work. Mr Allan, along with Senior Auditors Andrew Steven and Peter Moore, summarised the main findings of each audit, highlighting areas with scope for improvement. Officers responded to questions from Members.

Building Standards

Mr Allan clarified the definitions of the level of assurance provided by Internal Audit and advised that he would shortly be meeting with Ruth Colston to discuss the issue of non-statutory fees for building standards.

Tom Reid, Head of Infrastructure, said that a review of the service was underway with a view to improving outcomes and increasing resilience. Regarding the need for an additional member of staff in the reconciliation process, Mr Reid confirmed that the member of staff would be working across several systems and would require further training.

Council Tax Recovery and Enforcement

Mr Steven stated that while the systems were generally working well, a weakness had been identified with the checks made to the status applied to debt held by the Council. However, staff were beginning to address issues and a service review was in progress.

Kenny Christie, Service Manager – Revenues & Welfare Support, said that the service review would take some time but other work was underway to address areas where improvements were required. His team would be trying to complete as many actions as possible in advance of the agreed dates.

Mr Steven clarified that reasonable assurance had been provided as the processes were working well overall, the current year recovery routines are automated and the Council Tax Team had achieved their target collection rate.

Bank Reconciliations

Sarah Fortune, Chief Operating Officer – Finance, clarified the issues around the timing of reconciliations between the bank balance and cashbook balance. She advised that part of the solution would require upgrades to the Great Plains electronic system and the timing of this work was out with her control. In the meantime, she

assured members that there was a clear audit trail from bank reconciliations to the final ledger and the issues related more to timing than a failure in process.

Performance Indicators

Mr Allan outlined when it might be appropriate to give 'substantial assurance' following an audit review. He acknowledged that the timing of Local Government Benchmarking Framework annual assessments meant there was often a delay in reporting the results. However information on Performance Indicators (PIs) was prepared and reported on a quarterly basis to the Policy & Performance Review Committee.

In relation to residential care costs, Mr Allan said that these were in line with the national care home contract however, in terms of reporting, it would have been helpful to see a commentary attached to the assessment. He advised that an analytical review of PIs was undertaken and any unusual results were investigated. Although PIs were included in each annual audit plan the focus of each review was determined by previous analysis.

Ms Fortune added that the baseline financial data came from local financial returns and a lot of work had been done to ensure the analytical review was valid and to understand the reasons for any anomalies. It was important to get Service Areas to take ownership of their returns and to check and challenge anything unusual.

The Convener commented on the volume of statistics and the importance of getting the correct explanation.

Planning Enforcement

Iain McFarlane, Planning Service Manager, responded to questions on planning enforcement. He advised that the service was recruiting for a new Enforcement Officer and efforts were being made to improve recording of individual cases. He welcomed the audit report which demonstrated that the service was carrying out the actions required of it, though recording processes could be improved. He advised that the report would be useful as a training tool.

Mr McFarlane outlined the constraints around confidentiality of information and GDPR in resolving complaints. In reply to Councillor Findlay, he acknowledged that on occasions the public perception might have been that large developers were not properly held to account for breaches of planning conditions. However, he advised that the key point was proportionality of response and being aware that enforcement is a very legalistic and potentially lengthy process. He said that the Council did not have the power to simply close down a site and to do so may put it at risk of legal action.

Business Grants

Mr Moore advised that in the sample of cases reviewed there were no examples of funding being paid where the recipient was not eligible.

Richard Baty, Team Leader Business Development, responded to questions on the maximum grant funding available and the potential for costs having to be borne by the Council.

Mr Allan then took the Committee through the findings in respect of Internal Audit's recommendations to previously issued audit reports for 6 areas (Gas Servicing and Maintenance, Performance Bonds, Care at Home Payments, Performance Indicators, Throughcare and Aftercare and Non-Domestic Rates). He informed Members that all the recommendations contained in these reports had been implemented. He also drew attention to the Internal Audit progress report for 2018/19 and advised that the 3

outstanding audits would be completed and presented to the Committee's September meeting.

Decision

The Committee agreed to note:

- (i) the main findings and recommendations from Internal Audit reports issued during the period from March 2019 to June 2019;
- (ii) the findings from Internal Audit's follow-up work;
- (iii) Internal Audit's progress against the annual audit plan for 2018/19.

3. ANNUAL INTERNAL AUDIT REPORT 2018/19

A report was submitted by the Depute Chief Executive (Resources & People Services) providing a summary of the work undertaken by the Internal Audit Unit in 2018/19.

Mr Allan presented the report outlining the background to the Internal Audit service and summarising its performance during 2018/19. He drew Members' attention to the list of audits completed, the number of recommendations made and the levels of assurance provided as a result of each review.

Responding to Councillor Williamson, Mr Allan advised that the percentage of staff with CCAB accounting qualifications (3 out of 4 of the staff in the Unit) was in line with other local authorities. Not all staff were required to hold this qualification.

Decision

The Committee agreed to note the contents of the Annual Internal Audit Report for 2018/19.

4. CONTROLS ASSURANCE STATEMENT 2018/19

A report was submitted by the Depute Chief Executive (Resources & People Services) as part of Internal Audit's responsibility to 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.

Mr Allan presented the report highlighting the key findings: the work of the Internal Audit Unit; the sources which inform its evaluation of the control environment; and the assessment of controls and governance. It was Internal Audit's view that reasonable assurance could be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control during 2018/19.

In reply to a question from Councillor Currie, Mr Allan advised that the Committee should take assurance from the fact that the recommendations made following each audit were accepted by Management and implemented within agreed timescales.

Decision

The Committee agreed to note that the Controls Assurance Statement was 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 2019.

5. EAST LOTHIAN COUNCIL – REVIEW OF INTERNAL CONTROLS IN FINANCIAL SYSTEMS 2018/19

A letter was submitted by Audit Scotland outlining the results of their review of internal controls in the Council's financial systems for 2018/19.

Esther Scoburgh from Audit Scotland presented the letter. She summarised the systems covered by the review, the key findings and the overall conclusion. She also indicated that due to staff annual leave the letter was still in draft form, however she would circulate the final version to Members following the meeting. She did not anticipate any significant changes.

Councillor McLeod queried the assessment of 'adequate' in relation to the prevention or detection of material misstatement, error or fraud (*bullet 2, page 65*). Michael Duff from Audit Scotland advised that 'adequate' was towards the higher range of assessment results.

Jim Lamond, Head of Council Resources, commented that both this and the previous item gave him very significant assurance that the framework of systems and controls was working as expected. He said that these particular reviews were a very important part of the financial assurance process and he welcomed the contents of Audit Scotland's letter.

The Convener thanked the officers involved for all of the very useful reports presented to the Committee throughout the year.

Decision

The Committee agreed to note the contents of the letter.

6. ANNUAL TREASURY MANAGEMENT REVIEW 2018/19

A report was submitted by the Depute Chief Executive (Resources & People Services) updating the Committee on treasury management activity during 2018/19.

Ms Fortune presented the report. She informed Members that since preparation of the report there had been a change to the charge to the loan fund and this would be reported to Council as part of the annual review and in the annual accounts. She summarised the key points of the report and advised that the Council had used some reserves instead of borrowing and had ended the year in an under-borrowed position. She also drew attention to the investment strategy and the borrowing and investment activity during 2018/19.

In response to questions from Councillors McLeod and Findlay, Ms Fortune explained that the Council's long-term borrowing was in line with its financial strategy but she did not know how this compared with other local authorities. She confirmed that the

Council could borrow from local authorities on a short-term basis if this was thought appropriate. She also outlined some of the purposes of borrowing and said that it was important to ensure that the Council had sufficient liquidity through the revenue account but within appropriate limits.

Responding to Councillor Currie, Mr Lamond confirmed that the possibility of bringing forward aspects of the capital programme to take advantage of low borrowing rates had been considered as part of the Council's wider financial strategy. He acknowledged that a large capital programme placed strains on revenues, however, the Council was bound by affordability caps and any borrowing had to be paid for through the revenue account.

Councillor Currie welcomed the report which he said demonstrated the importance of the work that goes on throughout the year. He considered the Council to be well placed in terms of its financial strategy and he hoped that this would feed through to its policy decisions regarding future investment in services and infrastructure.

Decision

The Committee agreed to note the report.

7. CORPORATE GOVERNANCE SELF-EVALUATION AND ANNUAL GOVERNANCE STATEMENT 2019

A report was submitted by the Chief Executive advising members of the revised Framework on Delivering Good Governance, the results of the Corporate Governance Self-evaluation 2019 and the proposed Annual Governance Statement to be included in the 2018/19 annual accounts.

Paolo Vestri, Service Manager – Corporate Policy, presented the report outlining the background to the Good Governance framework, its core principles and the key findings from the self-evaluation exercise. He also drew Members' attention to the proposed Annual Governance Statement for inclusion in the 2018/19 annual accounts.

Mr Vestri responded to questions advising that reviews by the external auditors and others such as Recognised for Excellence provided a level of assurance around the validity of the self-evaluation results. He explained the process for evaluation and confirmed that it included reviewing both the processes and outcomes from partnership working.

Ms Fortune added that self-evaluation was a statutory requirement and both the results and the process were reviewed as part of the annual audit.

Councillor Currie emphasised the importance of external validation of the self-evaluation process in providing additional assurance for the Committee, the Council and the wider public. He added that external evaluation may also be helpful in identifying areas missed in the Council's own assessments.

Decision

The Committee agreed to:

- i. Note the adoption of the Delivering Good Governance in Local Government Framework as the Council's Corporate Governance Framework;

- ii. Note the results of the self-evaluation carried out using the Framework and consider whether any additional improvement actions should be added;
- iii. Note the progress made with the actions included in the Council Improvement Plan 2018-2020; and
- iv. The Annual Governance Statement being included in the 2018/19 Annual Accounts.

Councillor Currie declared an interest as a member of the Musselburgh Racing Associated Committee (MRAC) and indicated his intention of leaving the Chamber.

Councillor McLeod declared a non-financial interest but remained in the Chamber.

Sederunt: Councillor Currie left the Chamber. Councillor Dugdale left the meeting.

8. MUSSELBURGH RACING ASSOCIATED COMMITTEE 2018/19 PERFORMANCE

A report was submitted by the General Manager of Musselburgh Racecourse informing the Committee of the performance of the racecourse during 2018/19.

Bill Farnsworth, General Manager of Musselburgh Racecourse, presented the report. He summarised key aspects of performance during 2018/19 and gave an overview of the year with references to the number of abandonments due to adverse weather, additional race meetings and the impact of non-recurring unbudgeted expenditure on the overall financial performance. He concluded by praising the staff who he said had maintained their commitment to the racecourse throughout the year despite the many challenges.

Mr Farnsworth responded to questions. He advised that the costs set out in the report included staffing and he outlined the procedure for calculating prize money and the impact of adding an additional race meeting. He acknowledged that the deaths of four horses on a single day had been very difficult for the racecourse and he defended the racing industry's record on equine safety. He conceded that it was hard to know if the incident had had a negative impact on the racecourse but the attendance at subsequent race meetings, which included two sell-out events, suggested that horseracing remained very popular at Musselburgh.

In reply to questions from Councillor McLeod about non-recurring costs, Alex McCrorie, Depute Chief Executive, explained that the procurement costs were for the benefit of the racecourse and had been incurred in line with instructions from the Musselburgh Racing Associated Committee (MRAC). He confirmed that without these costs the racecourse would have made a profit, however there were a number of factors, both national and local, which had impacted on the financial performance of the racecourse in 2018/19.

Mr Farnsworth added that he would work with Council Officials to attempt to ensure that the racecourse was no longer running a deficit by the time the new operator was scheduled to take over. These proposals would be discussed at the MRAC's June meeting.

Responding to further questions Mr Farnsworth advised that previous issues with the governance structures had caused uncertainty b. He explained that the racecourse was still subject to a temporary licence from the British Horseracing Authority (BHA) which would expire on 15 October 2019 and this had created business challenges, including securing sponsorship. It was expected that the new operator would take over in November 2019 and they could then apply for an extension and thereafter a new, full licence from January 2020.

Regarding the relationship between the golf course and the racecourse, Mr Farnsworth acknowledged that there were sometimes tensions but that, overall, they worked well together. He hoped that the new operator would maintain a good working relationship with the golf course.

The Convener thanked Mr Farnsworth and suggested that in future it would be useful to include the annual accounts as part of the report to Committee.

Decision

The Committee agreed to note the contents of the report.

Sederunt: Councillor Currie returned to the Chamber.

9. CORPORATE RISK REGISTER

A report was submitted by the Chief Executive presenting the Corporate 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 Corporate Risk Register contained 9 High risks, 9 Medium risks and 1 Low risk. He advised that the Council were looking to move the risk registers from MS Word to specialist software and examples of the new format were included with the report. He also reminded Members that specific risks in relation to the UK's withdrawal from the EU were covered in more detail in the report under Agenda item 11.

Derek Oliver, Service Manager – Protective Services, replied to questions from Councillor McLeod relating to the number and type of locations out with Council premises where lone workers were employed and the safeguarding measures in place. Douglas Proudfoot, Head of Development, provided details of the 'Check and Call' system in use for property maintenance staff.

In response to questions from Councillor Currie regarding Brexit, Ms Fortune advised that the Council had received £50,000 from the Scottish Government to assist with preparing for Brexit but that this was unlikely to cover all costs. The Council would continue to monitor these costs along with the wider implications of Brexit.

Councillor Findlay asked whether the risk associated with early learning and childcare hours took account of the recent closure of a partnership nursery and ongoing issues with recruitment of staff. Mr McCrorie said that the Council was aware of these issues and he would ask the Head of Education to respond to the Councillor in more detail.

The Convener thanked Mr Kennedy for the report and said that the Committee would welcome a briefing session on the new risk register software.

Decision

The Committee agreed to note the Corporate Risk Register and in doing so 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; and
- the Council Management Team will review all risks in the Corporate Risk Register on a regular basis.

10. LOCAL GOVERNMENT IN SCOTLAND: CHALLENGES AND PERFORMANCE 2019 (ACCOUNTS COMMISSION, MARCH 2019)

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 2019'*.

Mr Vestri presented the report explaining that this was the second of a two part overview from the Accounts Commission and part 1 (financial challenges) had been discussed at the Committee's last meeting. He outlined how the Council was responding to the seven areas highlighted in the Accounts Commission report and drew attention to the recommendations made by the Commission and to the scrutiny tool checklist for elected members.

Mr Vestri responded to questions regarding the Scottish Government's funding to Council's, as referenced in the report, and advised that collaboration with partners included all partnership working whether community based or through other local authorities and organisations.

The Convener welcomed the report as a helpful point of reference.

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 2019*; and
- ii. Use the recommendations in the Accounts Commission report and the questions it posed for elected members to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

11. WITHDRAWAL FROM THE EUROPEAN UNION (AUDIT SCOTLAND, OCTOBER 2018)

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) reviewing East Lothian Council's position in relation to the findings of the Audit Scotland report, *'Withdrawal from the European Union: Key audit issues for the Scottish public sector'*.

Mr Vestri presented the report and advised that it had been a useful tool for the Council's Brexit Working Group. He drew Members' attention to the Council's responses to the 14 questions highlighted in report which should give the Committee assurance that, where possible, the Council was taking action to mitigate against the potential impacts of Brexit.

Mr Oliver responded to questions indicating that the Council had been proactive in providing information to staff. In relation to staff who were EU nationals and who had decided to return home, it was difficult to provide numbers but HR had been actively supporting them through the process.

Mr Lamond said that this proactive approach had been well received by employees who had expressed their gratitude for the signposting drawn to their attention. It had also been recognised by the Trade Unions.

Decision

The Committee agreed to:

- i. Note the position of East Lothian Council in regard to the key messages in the Audit Scotland report, *'Withdrawal from the European Union: Key audit issues for the Scottish public sector'*; and
- ii. Note the Council's responses to the questions posed in the report.

Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee