



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

**TUESDAY 16 JUNE 2020
VIA SKYPE**

Committee Members Present:

Councillor J Henderson (Convener)
Councillor S Currie
Councillor F Dugdale
Councillor C Hoy
Councillor G Mackett
Councillor K Mackie
Councillor K McLeod
Councillor J Williamson

Other Elected Members Present:

Councillor P McLennan

Council Officials Present:

Ms M Patterson, Chief Executive
Mr A McCrorie, Depute Chief Executive (Resources & People Services)
Ms S Saunders, Head of Communities & Partnerships
Mr J Lamond, Head of Council Resources
Mr D Proudfoot, Head of Development
Mr T Reid, Head of Infrastructure
Ms L Brown, Chief Operating Officer - Education
Ms S Fortune, Chief Operating Officer - Finance
Ms J Tait, Chief Operating Officer - Children's Services
Mr P Vestri, Service Manager – Corporate Policy & Improvement
Mr D Stainbank, Service Manager – Internal Audit
Ms S Smith, Team Manager – Economic Development
Ms K Duff, Treasury & Banking Officer
Ms D Pringle, Corporate Accountant

Clerk:

Miss F Currie

Visitors Present:

Ms E Scoburgh, Audit Scotland

Apologies:

None

Declarations of Interest:

None

The Convener welcomed everyone and briefly outlined the procedures for managing the meeting via Skype.

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 18 FEBRUARY 2020

The minutes of the Audit and Governance Committee meeting held on 18th February 2020 were approved as a true record.

2. INTERNAL AUDIT REPORT – JUNE 2020

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 2019/20 annual audit plan.

Duncan Stainbank, Service Manager – Internal Audit, presented the report outlining the purpose of the audits and indicating that as a result of this work an assessment of ‘moderate assurance’ had been given on Direct Payments and Musselburgh Grammar School; and ‘reasonable assurance’ on Treasury Management and Fostering & Kinship Care Payments. He summarised the main findings of each audit, highlighting areas where controls were met and those with scope for improvement.

Mr Stainbank also drew attention to the Internal Audit progress report for 2019/20 which included details of the audits that had been suspended as a result of the COVID-19 pandemic. He reported that a revised 2020/21 Audit Plan would be presented to the Committee’s September meeting to reflect the revised risk and assurance environment. Officers responded to questions from Members.

Musselburgh Grammar School

Lesley Brown, Chief Operating Officer – Education, confirmed that the good practice identified in report would be shared across the wider school estate, and that work was underway to address the specific actions required within Musselburgh Grammar School.

Direct Payments

Mr Stainbank advised that Adult Services had an intention to formalise a draft policy covering the management and administration of Direct Payments by May 2020, however full policy cover including Children’s Services is not scheduled until November 2020.

Judith Tait, Chief Operating Officer – Children’s Services, explained that issues such as staff absence, and the diversion of staff resource to deal with the impact of COVID-19 and the Scottish Government fostering inquiry had all contributed to the delays. However, they were now actively addressing all of the recommendations contained in the audit report and working on a schedule for reviewing their policies. In the meantime, the practice was working well.

Ms Tait advised that, within Children’s Services, the purpose of Direct Payments was to support children to stay within their families and that the vast majority of children were maintained with smaller care packages than those provided for adults.

Responding to further questions, Mr Stainbank explained that there was no formal policy for financial assessment of children's care packages. For adults, the need for a financial assessment would depend on the package of care required and whether an individual opted to pay for the care themselves. He also confirmed that most of those who were not currently using prepayment cards had joined the Direct Payments scheme before such cards were available.

Ms Tait said that the system was about supporting children to remain within their families and it was important that this was flexible enough to meet individual needs. She agreed to provide figures for the percentage of those who receive social care support and are in receipt of Direct Payments.

Decision

The Committee agreed to note:

- (i) the main findings and recommendations from Internal Audit reports issued during the period from February to June 2020;
- (ii) the findings from Internal Audit's follow-up work;
- (iii) Internal Audit's progress against the annual audit plan for 2019/20.

3. COVID-19 CHANGE CONTROL ASSURANCE

A report was submitted by the Service Manager – Internal Audit informing the Committee of Internal Audit Assurance exercises completed since the last meeting of the Committee in relation to processes that had had significant changes in the control environment implemented as a result of the COVID-19 pandemic.

Mr Stainbank presented the report outlining the main objective of the assurance exercises and summarising the key findings of the work completed on Grant Products and Creditors.

In relation to Grant Products, the sampling had shown that all grants had been processed in line with guidance and assessment criteria set out by the Scottish Government. Controls were operating in an appropriate manner and offered some assurance against the residual risk of fraud.

The work on Creditors, involved sampling of invoices and an analysis of payments. It identified 5 duplicate payments: in 3 cases a refund had been received; and in 2 the refund was still to be sought. The exercise also included a review of the implementation of recommendations made following the audit carried out as part of the 2018/19 audit plan. It found that 8 of the 11 recommendations had been implemented and progress was being made on the remaining 3.

The Convener thanked Mr Stainbank and his team for their efficient production of very useful reports.

Decision

The Committee agreed to note the findings and recommendations from the reported exercises.

4. ANNUAL INTERNAL AUDIT REPORT 2019/20

A report was submitted by the Service Manager – Internal Audit, in line with the Public Sector Internal Audit Standards (PSIAS), providing a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2019/20 and supporting both the Council's Annual Governance Statement and the Internal Audit Controls Assurance Statement.

Mr Stainbank presented the report outlining the background to the Internal Audit service and summarising its performance during 2019/20. He drew Members' attention to the completed audits and levels of assurance provided, and to the impact of COVID-19 which had resulted in the suspension of some audit work. He stated that this work would resume as soon as it was appropriate to do so and a revised 2020/21 Audit Plan would be presented to the Committee's September meeting.

Decision

The Committee agreed to note the contents of the Annual Internal Audit Report 2019/20.

5. CONTROLS ASSURANCE STATEMENT 2019/20

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

Mr Stainbank 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 2019/20.

Mr Stainbank replied to a question from Councillor McLeod regarding the recovery of duplicate payments. He referred to his earlier report outlining the work on COVID-19 Control Assurance which had identified 5 duplicate payments; 2 of which had since been recovered. Those 3 payments constituted over 90% of the total monies paid out and he was confident that the remaining 2 payments would also be recovered.

Councillor Currie asked about the controls in place to identify businesses who had received grants under the COVID-19 support scheme but who had previously failed to pay Council rents or business rates; and whether any assurance could be provided against the likelihood of the Council having to absorb any future debt write-off should these businesses cease trading.

Mr Stainbank said that the assessments took into account information from other parts of the Council, as well as how COVID-19 had impacted on the business.

Sarah Fortune, Chief Operating Officer – Finance, confirmed that there were controls in place to mitigate the potential risk of fraud and that these included other services within the Council, such as economic development and revenues. While it was not

possible to eliminate the risk entirely, she hoped that the report provided some assurance to Members.

Jim Lamond, Head of Council Resources, added that in administering the business grants scheme the Council was acting as an agent for the Government and was required to abide by the guidelines for the scheme. These did not permit the Council to take into consideration any debts owed by businesses seeking support from the scheme and no conditions could be placed on businesses regarding the use of grant monies. He acknowledged that the scenario outlined by Councillor Currie could come to pass but reiterated that the Council had no means to prevent this.

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 2020.

6. EAST LOTHIAN COUNCIL MANAGEMENT LETTER 2019/20

A letter was submitted by Audit Scotland outlining the results of their review of internal controls in the Council's financial systems for 2019/20.

Esther Scoburgh from Audit Scotland presented the letter. She summarised the systems covered by the review and the areas where it had not been possible to test due to the current circumstances. She also outlined the key findings and the overall conclusion.

In response to questions from Councillor McLeod and Councillor Hoy, Ms Scoburgh clarified the term 'trade receivables' and offered to provide data from other Councils on the percentage of NDR quality checks carried out.

Mr Lamond said the key point was that the control measure should be improved by testing at a stipulated level and that clarity had been sought from the auditors as to what would be considered appropriate. He highlighted that any improvement in checks would have resource implications but that this would be addressed as part of the Revenue & Benefits Service review.

Decision

The Committee agreed to note the contents of the management letter.

7. ANNUAL TREASURY MANAGEMENT REVIEW 2019/20

A report was submitted by the Depute Chief Executive (Resources & People Services) updating the Committee on Treasury Management Activity during 2019-20.

Ms Fortune presented the report. She informed Members that the figures quoted should be considered as draft until the completion of the annual accounts and that they would be notified of any changes. She summarised the key points of the report and advised that the Council had borrowed less than anticipated, ending the year in an under-borrowed position. She also drew attention to the investment strategy, the borrowing and investment activity and the impact of COVID-19 on the 2019-20 figures.

Responding to a question from Councillor Currie, Ms Fortune acknowledged that the impact of COVID-19 was unprecedented and that it would be important to keep Members updated on the further impacts and any necessary changes to the Council's financial management strategies as these developed over the coming year.

Mr Lamond echoed these remarks emphasising the need to ensure that the treasury management strategy remained fit for purpose going forward and that it had the scope and flexibility to adapt if a different approach was required. He added that any such changes would also be reflected as part of the formal mid-year review.

Replying to a query from Councillor Dugdale regarding the increase in the PWLB rate last year, Ms Fortune agreed that this rise and the ongoing impact on borrowing had been significant. While the Council's capital and investment strategy took a longer term approach which built in assumptions around future rate rises, it also needed to ensure that plans remained sustainable. The position would continue to be monitored to ensure that borrowing operated at a prudent and affordable level.

Mr Lamond observed that the added tariff of 1% placed on the PWLB had been unforeseen and unwelcome and he hoped to see it removed in future.

In response to a question from the Convener, Ms Fortune stated that the Council's under borrowed position resulted from its use of working capital and cash reserves to support ongoing requirements, rather than seeking additional loans, and this ensured that borrowing remained within affordable limits.

Councillor Currie considered that the strategy would have to be looked at in advance of the budget next year, particularly areas of risk such as the investment strategy, interest rates and the potential impact of developers seeking to revisit Section 75 agreements previously put in place. He also pointed to concerns over the future impact of increased rent debt and reduced income on the HRA and the need to review the investment and borrowing strategy to support the capital plan. Reviewing the treasury management strategy would be a crucial part of the Council's response, especially as it was likely that the full impact of the pandemic had yet to be felt. In the meantime, he thanked officers for their comprehensive report.

The Convener said she was confident that the Committee would have opportunities to look at these aspects over the coming months.

Decision

The Committee agreed to note the report.

8. CORPORATE GOVERNANCE SELF-EVALUATION AND ANNUAL GOVERNANCE STATEMENT 2020

A report was submitted by the Chief Executive advising the Committee of the revised Framework on Delivering Good Governance, the results of the Corporate Governance Self-evaluation 2020 and the proposed Annual Governance Statement to be included in the 2019/20 Annual Accounts.

Paulo Vestri, Service Manager – Corporate Policy & Improvement, 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 2019/20 annual accounts.

Mr Vestri responded to a question from Councillor Dugdale regarding the completion date for work on a Community Charter. He explained that the Resilient Communities Groups had been redirected to work with volunteers in supporting vulnerable people during the pandemic. These groups would also be involved in long-term recovery planning and some of this work would feed into the Community Charter. It was hoped that further progress on the Charter would be made before the end of 2020.

The Convener drew Members' attention to the recommendations contained in the report, in particular the need to consider whether any additional improvement actions were required and to approve the Annual Governance Statement for inclusion in the accounts.

Mr Vestri highlighted some of the actions related to COVID-19 which would form part of the new improvement plan for agreement later in the year and invited Members to consider whether they wished to make any amendments to the proposed Governance Statement.

The Members indicated that they had nothing to add to the improvement actions or the Governance Statement.

Decision

The Committee agreed to:

- i. note the results of the self-evaluation carried out using the Framework and considered whether any additional improvement actions should be added;
- ii. note the progress made with the actions included in the Council Improvement Plan 2018-200; and
- iii. the Annual Governance Statement being included in the 2019/20 Annual Accounts.

9. CORPORATE RISK REGISTER

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

Sharon Saunders, Head of Communities and Partnerships, outlined the salient points in the report and that the Register included 1 Very High risk, 9 High risks, 9 Medium risks and 1 Low risk. She advised that the document was different from previous years as it now held an independent Register of risks related to COVID-19 which had been prepared and would be continually reviewed by the COVID Oversight Group and Council Management Team. Over time, it was expected that many of these risks would be absorbed into individual Service Risk Registers. Ms Saunders also highlighted the other key corporate risk which related to Brexit.

Councillor Currie asked about impact of Brexit on farming and other local industries and the impact of COVID-19 on the workforce.

Ms Saunders advised that the Council's Brexit Working Group was focussing on the impacts across the breadth of Council services, as well as on issues such as the local economy, environmental protection, equalities and workforce planning. She reported that at a recent CoSLA meeting it had been acknowledged that there needed to be an increased national focus and pace between now and December and the Council's Working Group was responding to this.

Regarding COVID-19, Ms Saunders accepted the importance of managing the risks related to the workforce and the impact these had on the Council's capacity to deliver services. As well as capacity, the Council was looking at the impact of working from home on staff mental health and wellbeing and was already providing additional guidance, support and online learning activities to help equip staff and managers for the changes resulting from working from home.

Councillor Dugdale asked about plans for additional control measures in relation to the increased risk of domestic abuse as a result of COVID-19.

Ms Saunders acknowledged that domestic violence was very much an increased area of risk going forward. Services across the Council, along with public protection partner agencies, were working together to identify the scale of the problem, some of which may have been previously hidden, and to identify potential cases and provide appropriate help and support.

Decision

The Committee agreed to note the Corporate Risk Register and in doing so, noted that:

- i. the relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk;
- ii. the total profile of the Corporate risk could be borne by the Council at this time in relation to the Council's appetite for risk; and
- iii. although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer term risks for Corporate and were likely to be a feature of the risk register over a number of years
- iv. the Council Management Team would review all risks in the Corporate Risk register on a regular basis.

Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee