



MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

**TUESDAY 15 JUNE 2021
VIA DIGITAL MEETINGS SYSTEM**

Committee Members Present:

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

Council Officials Present:

Ms M Patterson, Chief Executive
Mr J Lamond, Executive Director for Council Resources
Mr D Proudfoot, Executive Director for Place
Ms L Brown, Executive Director for Education and Children's Services
Ms S Saunders, Head of Communities
Ms N McDowell, Head of Education
Ms M Sullivan, Head of Development
Ms S Fortune, Head of Finance
Ms W McGuire, Head of Housing
Mr A Cruikshank, Service Manager - IT
Mr D Stainbank, Service Manager – Internal Audit
Mr C Grilli, Service Manager - Legal
Mr P Vestri – Service Manager – Corporate Policy & Improvement
Ms A Glancy, Finance Manager – Corporate Accounting
Mr P Ritchie, HR Operations Manager
Mr S Kennedy, Emergency Planning, Risk and Resilience Officer
Mr P Moore, Senior Auditor
Mr A Steven, Senior Auditor
Ms K Duff, Treasury & Banking Officer
Ms D Pringle, Corporate Accountant
Miss R Crichton, Committees Officer

Clerk:

Miss F Currie

Visitors Present:

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

Apologies:

None

Declarations of Interest:

None

The Committee unanimously agreed to exclude the public from any questions on the details of the Whistleblowing or Fraud Investigations referred to in the report for agenda Item 3. This exclusion was in terms of Paragraph 1 (information relating to particular employees of the Authority) and of Paragraph 14 (any action taken or to be taken in connection with the prevention, investigation or prosecution of crime) of Schedule 7A of the Local Government (Scotland) Act 1973.

The Committee also unanimously agreed to exclude the public from Item 10 of the business agenda in terms of Paragraph 14 (any action taken or to be taken in connection with the prevention, investigation or prosecution of crime) of Schedule 7A of the Local Government (Scotland) Act 1973.

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 16 FEBRUARY 2021

The minutes of the Audit and Governance Committee meeting held on 16th February 2021 were approved.

2. INTERNAL AUDIT REPORT – JUNE 2021

A report was submitted by the Service Manager – Internal Audit informing the Committee of Internal Audit reports issued since the last meeting of the Committee and providing an update on the progress made against the 2020/21 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 Payroll Systems, Payroll Overtime and Performance Indicators. He summarised the main findings of the audits, highlighting areas where controls were met and those with scope for improvement. Officers then responded to questions from Members.

Payroll Systems/Payroll Overtime

Mr Stainbank provided further detail on the number of pay runs and the implications for future staffing levels within the Payroll team, explained the justification of the timescale for completion of the policy review and confirmed that manual payments had been introduced to deal with teacher's pay as a result of the change in terms dates during 2020/21.

Sarah Fortune, Head of Finance, advised that her staff were working collectively across all areas of the Council to ensure that internal controls were working as effectively as possible to avoid fraud and errors. She confirmed that her team would work with payroll to implement the recommendations from the audit reports as soon as was practicable, including those relating to reviews of existing policies. She added that a number of changes had happened within Payroll in the last year but that controls were in place regarding overtime management and monitoring.

Paul Ritchie, HR Operations Manager, said that the recommendation related to practices which were slightly out of line with existing policy; the Head of Service was supposed to authorise payments but in practice it was the Service Manager.

Mr Stainbank provided clarification of figures relating to hourly rates for Home Care staff which reflected rates paid by the NHS as well as the local authority. Ms Fortune

agreed to provide confirmation to Members of the amounts paid in 2019/20 re Home Care Costs per hour for people over 65.

Mr Stainbank advised that in addition to the highlighted audit reports, a number of follow up reports had been completed and all but 3 of the recommendations made in the original audit reports had yet to be implemented.

He also referred Members to Appendix 2 of his report which outlined progress against the annual audit plan for 2020/21. He advised that 5 reports remained outstanding and that 4 of these would be presented to the September Committee meeting. This reflected the fact that services continued to be impacted by COVID-19 recovery work.

The Convener thanked Mr Stainbank for his report which she said highlighted the essential and very valuable work of the Internal Audit team.

Decision

The Committee agreed to note:

- i. the main findings and recommendations from the Internal Audit reports issued during the period from February 2021 to June 2021;
- ii. the findings from Internal Audit's follow-up work;
- iii. Internal Audit's progress against the annual audit plan for 2020/21.

3. ANNUAL INTERNAL AUDIT REPORT 2020/21

A report was submitted by the Service Manager – Internal Audit providing the Committee with a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2020/21 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 2020/21. He drew Members' attention to the completed audits and levels of assurance provided; and the non-graded assurance statements issued between June and September 2020 covering areas which had changed control environments as a result of COVID-19. He also confirmed that there had been no instances during the year which had impacted on Internal Audit's independence and/or which had led them to declare any interest.

Councillor Currie commended the report which he said demonstrated the significant amount of work undertaken during the past year. He observed that many functions had been scaled back during the pandemic to allow the Council to focus on essential services but this report had highlighted the importance of continuing to audit the work being done, especially in relation to changes of practice and additional funding schemes being put in place as a result of COVID-19. He thanked Mr Stainbank and his team for their work and for supporting the Committee in its governance role.

Decision

The Committee agreed to note the contents of the Annual Internal Audit Report 2020/21.

4. CONTROLS ASSURANCE STATEMENT 2020/21

A report was submitted by the Service Manager – Internal Audit informing the Committee 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, subject to the weaknesses identified within the report, that reasonable assurance could be placed on the overall adequacy and effectiveness of East Lothian Council's framework of governance, risk management and control for the year ended 31 March 2021.

Councillor Forrest thanked Mr Stainbank and his team for their work. In such a difficult year it was a great achievement to ensure that all appropriate controls and governance had continued to work effectively.

The Convener agreed that the appreciation of all Committee members should be passed on to the staff in the Internal Audit team. She said that a huge amount of work and assurance had been given to the Committee through this work and that where issues had been identified these had subsequently been addressed.

Decision

The Committee agreed to note the Controls Assurance Statement as 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 2021.

5. ELC ANNUAL AUDIT PLAN 2020/21

The annual audit plan for 202/21 was submitted by Audit Scotland.

Gillian Woolman, Audit Scotland, presented the plan referring to the impact of COVID-19 during 2020/21 and how this would be reflected her team's external audit work. She then highlighted the main points of the audit plan and reminded Members that the statutory deadlines for completion of this work had once again been extended with final sign-off required by 30th November 2021.

Councillor Currie asked about the risk of fraud in COVID-19 related transactions, referring to grant award schemes, provision of materials such as PPE and the pressure on local authorities to complete these transactions as quickly as possible. He said that as payments continued to be made to the social care and other sectors it could take a couple of years before the full picture became clear.

Ms Woolman agreed saying that this highlighted the challenges of 2020/21. The pressure to turn things around quickly had meant that the financial reporting of those transactions had not always been at the forefront of minds and there had been much subsequent debate about how to record them within the annual accounting process. However, some guidance was now available and further advice would come in relation to PPE and other transactions. Regarding fraud and error, she said that Internal Audit

had worked hard to provide assurances during the year that appropriate controls were in place and working effectively. She acknowledged that the payments would continue for some time and would feature in the 2021/22 audit work. In the meantime, Audit Scotland was planning a national report on 'following the pandemic pound'.

Jim Lamond, Executive Director for Council Resources, said that the pace of developments and the resulting pressures had been quite breath-taking at times and it was not simply lack of time but rather the guidance from Scottish Government, which meant that they were prevented from making off-sets against grant payments which might otherwise have been pursued.

Ms Fortune added that the year-end financial review and draft accounts would be presented to Council next week and every attempt had been made to consolidate all such transactions for 2020/21. As support payments and interactions were ongoing they would continue to be a significant focus during 2021/22 and beyond and would be reported to Council at appropriate points going forward.

Douglas Proudfoot, Executive Director for Place, added that the business support grant payments had created a significant amount of work over the past 15 months and had required a balance between appropriate governance and controls as well as observing the Scottish Government guidance to deliver payments as quickly as possible. He thanked Mr Stainbank and his team for their help in designing the governance processes and he said he looked forward to working with the external auditors over the coming months.

Ms Woolman replied to a question from Councillor McLeod explaining the justification for the increase in the audit fee.

The Convener asked the adequacy of resourcing of the Internal Audit team and elsewhere in the Council over the next year or two as the effects of the pandemic continued to be felt.

Ms Woolman acknowledged that the situation would remain challenging across the public sector for some time to come. She said that a remarkable amount had been achieved in the past year but that the risk of burnout was high and the full impact had yet to be seen.

Mr Lamond agreed that the pressures continued to be multiple and considerable and that managing these would remain challenging for some time yet. However, in accordance with the Council's Business Continuity Plans there was a focus on critical business priorities; redirecting resources as required. He confirmed that producing the annual accounts and supporting the audit process were deemed critical activities and carried high priority for the Council. Nevertheless he said that the Council had to work within the resources it had available and had demonstrated its ability to do that effectively over the past year.

Councillor Currie said that he had been reassured by the questions asked and answered that proper governance had continued throughout the pandemic and he hoped that this would be reflected in the audit findings. He referred to the review of the Dr Bruce Fund and other small trusts held by the Council and the importance of restarting this work to ensure that the funds available were used, as intended, for community benefit. He also pointed to the need for continuity of the scrutiny functions as the Council recovered from the pandemic; pointing to the local government elections in May 2022 and the fact that not all Elected Members would straddle both periods.

Decision

The Committee agreed to note the contents of the annual audit plan 2020/21.

6. ELC MANAGEMENT LETTER 2020/21

Ms Woolman also presented Audit Scotland's letter outlining the results of their review of internal controls in the Council's financial systems for 2020/21. She summarised the key findings and Management's response.

Ms Woolman and her colleague Esther Scoburgh responded to a question from the Convener. They confirmed that the control issues noted in the report were not unique to East Lothian and that the 'working from home effect' had impacted on a range of audit results.

Decision

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

7. ANNUAL TREASURY MANAGEMENT REVIEW 2020/21

A report was submitted by the Executive Director for Council Resources updating the Committee on Treasury Management Activity during 2020-21.

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 again borrowed less than anticipated ending the year in an under-borrowed position. She drew attention to the investment strategy, the borrowing and investment activity and the ongoing impact of COVID-19 on the 2020/21 figures.

Ms Fortune responded to a questions from the Convener regarding debt rescheduling.

Decision

The Committee agreed to note the report.

8. CORPORATE GOVERNANCE SELF-EVALUATION/ANNUAL GOVERNANCE STATEMENT 2021

A report was submitted by the Chief Executive advising the Committee of the results of the Corporate Governance Self-evaluation 2021 and the proposed Annual Governance Statement to be included in the 2020/21 Annual Accounts

Paolo 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 advised that many of the actions from last year had been delayed due to COVID-19 and that this was reflected in the recently adopted, revised Council Improvement Plan (CIP). This year's self-evaluation exercise had not identified any new improvement actions but CMT would

be carrying out a structured de-brief of the Council's COVID-19 response and a briefing for Members would follow later in the year. Any actions identified during the de-brief would be added to the CIP.

Mr Vestri also drew Members' attention to the proposed Annual Governance Statement for inclusion in the 2020/21 annual accounts.

Mr Vesrti replied to a question from the Convener outlining the process of continuous improvement which had been adopted by the Council over the past 8 years and he referred to the findings and assurance provided from the Best Value audit. While he acknowledged that self-evaluation could be subjective, he believed that the Council's process was fair and the findings identified were assiduously followed up through the Council Improvement Plan.

The vote on the recommendation iii was taken by roll call:

Councillor J Henderson	Agreed
Councillor S Currie	Agreed
Councillor A Forrest	Agreed
Councillor C Hoy	Agreed
Councillor K Mackie	Agreed
Councillor G Mackett	Agreed
Councillor K McLeod	Agreed
Councillor J Williamson	Agreed

Decision

The Committee agreed:

- i. To note the results of the self-evaluation carried out using the Framework and consider whether any additional improvement actions should be added.
- ii. To note the progress made with the actions included in the 2021-2022 Council Improvement Plan.
- iii. The Annual Governance Statement to be included in the 2020/21 Annual Accounts, as set out in the report.

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.

Scott Kennedy, Emergency Planning, Risk and Resilience Officer, presented the report outlining the background to the register and the arrangements for assessment and review of ongoing risks. He informed Members that the register included 1 Very High, 8 High, 9 Medium and 1 Low Risk. As per the Council's Risk Strategy, only the Very High and High risks were being reported to the Committee.

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.
- iii. although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer term risks 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.

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 14 (any action taken or to be taken in connection with the prevention, investigation or prosecution of crime) of Schedule 7A of the Local Government (Scotland) Act 1973.

Internal Audit Report on Cybersecurity

A report was submitted by the Service Manager – Internal Audit informing the Committee of the recently issued audit report on cybersecurity. The Committee agreed to note the contents of the report.