



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

**TUESDAY 30 NOVEMBER 2021  
VIA DIGITAL MEETINGS SYSTEM**

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### **Committee Members Present:**

|                                   |                                     |
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| Councillor J Henderson (Convener) | Councillor A Forrest                |
| Councillor C Hoy (Items 5-10)     | Councillor Mackett (Items 1-9 & 11) |
| Councillor K Mackie               | Councillor K McLeod                 |
| Councillor J Williamson           |                                     |

### **Other Councillors Present:**

|                         |                      |
|-------------------------|----------------------|
| Councillor J Goodfellow | Councillor J Findlay |
| Councillor N Hampshire  |                      |

### **Council Officials Present:**

Ms S Fortune, Executive Director for Council Resources  
Mr D Proudfoot, Executive Director for Place  
Ms L Brown, Executive Director for Education and Children's Services  
Mr T Reid, Head of Infrastructure  
Ms S Saunders, Head of Communities  
Ms N McDowell, Head of Education  
Ms M Sullivan, Head of Development  
Ms W McGuire, Head of Housing  
Ms M Ferguson – Head of Council Support  
Mr D Stainbank, Service Manager – Internal Audit  
Mr P Vestri, Service Manager – Corporate Policy & Improvement  
Mr E John, Service Manager – Sport, Countryside & Leisure  
Mr C Grilli, Service Manager - Legal  
Mr R Baty, Companies Manager (ELL & ELI)  
Ms A Glancy, Finance Manager – Corporate Accounting  
Mr S Kennedy, Emergency Planning, Risk and Resilience Officer  
Mr B Axon, Chief Executive - Enjoyleisure  
Ms S Mills, Financial Controller - Enjoyleisure  
Miss R Crichton, Committees Officer

### **Clerk:**

Miss F Currie

### **Visitors Present:**

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

### **Apologies:**

Councillor S Currie

**Declarations of Interest:**

Item 10 – Cllr Mackett advised that as a member of the Enjoyleisure Board he would withdraw during this item.

**1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 21 SEPTEMBER 2021**

The minutes of the Audit and Governance Committee meeting held on 21<sup>st</sup> September 2021 were approved.

**2. INTERNAL AUDIT REPORT – NOVEMBER 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 ‘limited assurance’ had been given on East Lothian Mid-Market Homes LLP; and an assessment of ‘reasonable assurance’ had been given on Corporate Appointeeship. In addition, since the last meeting of the Committee an assurance review on School Excursions has been completed. As the assurance exercise was not a complete audit of this emerging process it had not been assessed with an assurance level. However a conclusion on the appropriateness of the internal control processes had been provided. He summarised the main findings of the audits and the assurance review, highlighting areas where controls were met and those with scope for improvement. Officers then responded to questions from Members.

**Corporate Appointeeship**

Mr Stainbank advised that full cost recovery was not anticipated from all clients and it was for Council officers to make a judgement on when recovery action was appropriate.

**East Lothian Mid-Market Homes LLP**

Mr Stainbank, Douglas Proudfoot, Executive Director for Place and Sarah Fortune, Executive Director for Council Resources, responded to questions on segregation of duties, the responsibility for maintenance of those houses leased by the company, the importance of modelling when developing policies around property rental and the benefits of leasing homes when compared with the costs of building homes. Ms Fortune underlined the key benefit of being able to deliver affordable housing without the need for grant subsidy or other recourse to the public purse.

Mr Proudfoot reminded members that this was a very new company based on an innovative model to provide medium tenure, mid-market rented homes. He explained that the governance structure within the company was changing from a management committee to a Board and that a range of policies were being developed to support and deliver the company’s vision. He welcomed the internal audit report which he said had been helpful in developing appropriate control measures to provide the necessary levels of assurance.

Wendy McGuire, Head of Housing, responded to a further question stating that it was still very early days but the ambition of the company was to expand using additional sites and further modelling work.

Mr Stainbank outlined the findings from Internal Audit's follow up work on the Section 75 Developer Contributions audit and the Treasury Management audit. He also updated Members on progress against the 2021/22 Internal Audit Plan.

The Convener thanked Mr Stainbank for his comprehensive report and for confirming that his team were on track to complete all audits within the timescales outlined in the 2021/22 Plan.

### **Decision**

The Committee agreed to note:

- i. the main findings and recommendations from the Internal Audit reports issued during the period from September to November 2021;
- ii. the findings from Internal Audit's follow up work; and
- iii. Internal Audit's progress against the annual audit plan for 2021/22.

### **3. INTERNAL AUDIT CHARTER & INTERNAL AUDIT FLEXIBLE RESOURCING**

A report was submitted by the Service Manager – Internal Audit presenting to the Committee the updated East Lothian Internal Audit Charter for approval.

Mr Stainbank presented the report outlining the background to the Charter and reminding Members of the previous iterations of the document and timelines for review and updating. He added that the most recent updates took account of the impact of the pandemic, the contingency measures put in place and the Council's continuing focus on business critical activities.

In response to a question from Councillor McLeod, Mr Stainbank provided examples of the minor amendments made to the Charter since its last presentation to the Committee.

The Convener observed that the work of Internal Audit was usually in the background but that during the pandemic both the Council and the external auditors had been able to place reliance on the audit and assurance work undertaken by the Internal Audit Team. On behalf of the whole Committee, she thanked Mr Stainbank and his officers for their hard work and dedication.

Councillor Mackett added his thanks to Mr Stainbank for a very positive report and commended the significant work and effort undertaken by the Internal Audit Team. He said that the report demonstrated that the Team was in a good position to deal with future challenges.

The vote was taken by roll call and the recommendations were approved unanimously.

## **Decision**

The Committee agreed to:

- i. approve the updated Internal Audit Charter; and
- ii. noted the flexible resourcing approach taken by Internal Audit staff to meet the Assurance needs of the Council during 2020/21 and 2021/22.

## **4. INTERNAL AUDIT REPORT – NATIONAL FRAUD INITIATIVE**

A report was submitted by the Service Manager – Internal Audit informing the Committee of the work undertaken on the 2020/21 National Fraud Initiative (NFI).

Mr Stainbank presented the report outlining the background to the exercise and the areas on which the Council submitted data. He provided a summary of the outcome of the investigations undertaken for the 2020/21 NFI matches. A total of 82 reports were received in respect of East Lothian Council – the reports contained 3,104 individual matches, of which Internal Audit have reviewed 906 of the matches considered high risk, using a risk based approach. Of the matches identified, 577 had been fully investigated and closed and a further 329 matches are currently in progress. He outlined some of the findings of the investigations and advised that a separate report on Council Tax matches had been provided to the Council's Revenues Team which had resulted in the identification of 2 cases of fraud and 3 cases where errors had occurred.

Mr Stainbank responded to questions from Members providing further detail on the number of investigations still outstanding, the areas to which these related, the likelihood of the NFI exercise identifying underpayments rather than overpayments and the processes for Council Tax debt recovery.

Gillian Woolman, Audit Director at Audit Scotland, advised Members that Audit Scotland collated all NFI results from public sector organisations every two years and provided a report which was published online and presented to the Scottish Parliament. In relation to debt recovery, she indicated that this happened more commonly in local authorities, due to the types of services they provided, and less so in the NHS.

Councillor Forrest welcomed the detailed report and said it was clear to see the amount of work that had gone into this exercise and the level of assurance that it provided to the Council that instances of fraud were being addressed. He offered his thanks to all officers across the Council who had been involved in this exercise.

## **Decision**

The Committee agreed to note the contents of the report.

*Sederunt: Councillor Hoy joined the meeting during Item 5.*

## **5. ANNUAL ACCOUNTS 2020/21**

A report was submitted by the Executive Director for Council Resources providing the Committee with an update on the main changes arising during the audit of the draft

financial statements, and asking the Committee to approve the now audited accounts for 2020-21.

Anne-Marie Glancy, Finance Manager – Corporate Accounting, presented the report outlining the main changes made to the accounts as a result of the audit. She also advised that further detail on the common good fund review would be presented to Members in due course. Ms Glancy also offered her thanks to the external audit team for their assistance throughout the process.

Ms Fortune added her thanks to the external audit team and her own officers for their dedication and diligence during an incredibly challenging time. She observed that 2021 had been a year like no other and that putting together the annual accounts had been a very difficult process. However, getting to this stage was a significant achievement and would provide an important platform for looking ahead.

Ms Glancy and Ms Fortune responded to a question from Councillor Williamson on the common good fund review. They advised that there was no firm timescale at present for the conclusion of the review and outlined a number of factors which had and continued to have an impact on the review timeline. Ms Fortune acknowledged that the review had been ongoing for some time and said she was committed to concluding the process and reporting back to Members as soon as possible.

Councillor Forrest thanked the staff involved and noted that the additional funds coming through during the year from Scottish Government had made the preparation of the accounts a very difficult task.

The Convener added her thanks to all staff involved in this task which she acknowledged was a significant achievement in such challenging times. She added that the accounts demonstrated that East Lothian had a very well-run Council and she hoped that the residents of the county recognised this fact.

The vote was taken by roll call and the recommendations were approved unanimously.

## **Decision**

The Committee agreed to:

- i. Note the main changes arising during the course of the audit; and
- ii. Approve the 2020-21 audited accounts for the Council and its group components.

## **6. ISA 260 LETTERS FROM AUDIT SCOTLAND TO THOSE CHARGED WITH GOVERNANCE:**

### **A. EAST LOTHIAN COUNCIL AUDIT OF ANNUAL ACCOUNTS 2020/21**

Ms Woolman presented the ISA 260 letter to those charged with governance, prepared following the audit of the Council's annual accounts for 2020/21. She highlighted some of the key points including the draft letter of representation from the Council's Section 95 Officer. She confirmed that there were no areas to draw attention to by exception and that Audit Scotland would be issuing an unmodified audit opinion.

## **B. DR BRUCE FUND AUDIT OF ANNUAL ACCOUNTS 2020/21**

Esther Scoburgh, Senior Audit Manager - Audit Scotland, presented the ISA 260 letter and appendices prepared following the audit of the Dr Bruce Fund annual accounts for 2020/21. She explained that this was required for all registered charities and that the Council was sole trustee of the Dr Bruce Fund. She outlined the purpose of the Fund and confirmed that she would be issuing an unmodified audit opinion. She also referred to the recommendation in the previous year's audit regarding the Dr Bruce Fund and that further work was required to ensure that the Fund was being managed as originally intended.

Ms Scoburgh also offered her own thanks to all Council staff involved in the audit work.

### **Decision**

The Committee agreed to note the contents of the letters.

## **7. EAST LOTHIAN COUNCIL 2020/21 ANNUAL AUDIT REPORT**

Ms Woolman presented the annual audit report for 2020/21, prepared by Audit Scotland.

She outlined the key messages in the report including financial management and sustainability, governance and transparency and value for money. She then provided a detailed summary of the findings from the audit of the annual accounts drawing attention to areas of particular interest. She confirmed that she would be issuing an unqualified audit opinion, she thanked Council staff for their support in the audit and she noted that the annual accounts had been prepared to pre-pandemic timescales which was a significant achievement in such challenging circumstances.

Ms Woolman referred to the ongoing impact of COVID-19 on audit timescales, the Council's own financial management and capital spending and on its ability to make progress on the recommendations from last year's audit. She highlighted the review of common good assets and further recommendations made as a result of this year's audit.

The Convener thanked Ms Woolman for her report and thanked her staff and Council staff for their hard work and diligence in producing the annual accounts and completing the audit work in such difficult circumstances.

Ms Woolman responded to questions from Members expanding on the impact of COVID-19 on the delivery of efficiency savings, the Council's ability to distribute additional government funding within very tight timescales and the ongoing impact of the pandemic on audit standards and timescales. She assured Members that there had been no diminution in the standard of work undertaken despite the challenges of working remotely. She highlighted that the planning guidance and proposed timescales for the 2021/22 audit had recently been published and the deadline for completion of next year's audit was 31 October 2022.

### **Decision**

The Committee agreed to note the annual audit report.

## **8. TREASURY MANAGEMENT – MID YEAR REVIEW 2021/22**

A report was submitted by the Executive Director for Council Resources updating the Committee on Treasury Management activity during the first half of 2021-22.

Ms Glancy presented the report highlighting key aspects of treasury management activity during the first half of the current financial year. She confirmed that forecasts were consistent with the strategy and within approved limits, and that the Council was currently in an under-borrowed position. She advised that investment returns were likely to remain low in the near and that projected interest rate rises had been included in the budget planning. There had been few opportunities for debt rescheduling during the year due to the current financial climate but this would be kept under review. She reminded Members that the Council could only borrow for capital purposes and not for specific projects. Ms Glancy also advised that work was underway on the implementation of the new International Financial Reporting Standard (IFRS 16) and the likely implications would be included in future reporting and the 2022-23 treasury management strategy.

Ms Glancy and Ms Fortune responded to questions from Councillor McLeod on the type and purpose of recent PWLB loans. Ms Glancy provided some examples of uses for this borrowing and Ms Fortune reiterated Ms Glancy's earlier comments that the Council could not borrow for specific capital projects but could borrow on a short-term basis for cash-flow purposes in line with its treasury management strategy. In reply to a further question, both Ms Glancy and Ms Fortune also provided clarification on the recent borrowing from Renfrewshire Council and funding associated with the Wallyford project.

Ms Glancy responded to a question from the Convener outlining the likely impacts of the new IFRS 16 and how this would alter the recording of assets within the Council's balance sheets. She confirmed that this change would bring local authorities into line with other organisations and that Members would receive further information on this issue in due course.

### **Decision**

The Committee agreed to note the content of the report.

## **9. SERVICE RISK REGISTERS**

A report was submitted by the Chief Executive present to the Audit and Governance Committee the Infrastructure, Communities, Corporate Support and Finance Service Risk Registers for discussion, comment and noting.

Scott Kennedy, Emergency Planning Risk and Resilience Officer, presented the report outlining the background to and process for preparation and review of the risk registers. He highlighted the number and level of risks for each Service Risk Register and reminded Members that, in line with the Risk Management Strategy, only High and Very High risks were being reported to the Committee. He confirmed that any applicable COVID-19 elements had been included and that changes to the risk management system were underway over the next year and further information would be given to Members during this period. Officers then responded to questions from Members.

Tom Reid, Head of Infrastructure, confirmed that the recent roll-out of new waste and recycling processes had been very successful overall and recycling had now moved to a weekly collection service. It would take some time before it would be possible to make meaningful comparisons between the range and tonnage collected using the old and new recycling systems but, so far, the quality was very high and the companies who bought waste from the Council had expressed significant interest in the new products. A report providing comparison information would be brought forward to Members in the New Year.

Mr Reid responded to further questions on the performance of the new white recycling bags in the recent high winds, the possibility of a delay in the delivery of the Musselburgh Flood Prevention Scheme and the performance on contingency plans before during and after the recent Storm Arwen. He advised that these well-rehearsed plans had been thoroughly tested by the adverse weather but that they had allowed the Council to be prepared and to respond well to the challenges of the situation. A 'lessons learned' exercise would take place in due course and would identify if any changes needed to be made to the contingency plans.

Mr Kennedy confirmed that staff across the Council took part in regular training exercises for severe weather response and other scenarios, to prepare services as well as possible to respond to such incidents.

Mr Reid also responded to a question on maintenance and capacity at Inveresk Cemetery and the impact of the pandemic on the delivery of the normal maintenance schedule. Eamon John, Service Manager – Sport, Countryside and Leisure, confirmed that while resource had been moved to Penston, staff were still working on site at Inveresk and he expected maintenance levels to improve in 2022.

Councillor McLeod thanked Mr Kennedy and acknowledged the reassurance provided by the commentary within the documents and the responses of officers indicating that issues were being identified and would be addressed going forward.

The Convener added her thanks to Mr Kennedy for preparing the report and the registers which covered such a huge range of information.

## **Decision**

The Committee agreed to note the Service Risk Registers and that:

- the relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk.
- the total profile of the Infrastructure, Communities, Corporate Support and Finance risks could be borne by the Council at this time in relation to the Council's appetite for risk.
- although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer-term risks for the services and were likely to be a feature of the risk registers over a number of years.

*Sederunt: Councillor Mackett left the meeting.*



## **10. ENJOYLEISURE REPORT (FOR THE PERIOD MARCH 2020 TO OCTOBER 2021)**

A report was submitted by Enjoyleisure outlining the organisation's activities and financial position during the period March 2020 to October 2021.

Bill Axon, General Manager of Enjoyleisure, gave a detailed summary of the position between March 2020 and October 2021 and the ongoing impact of COVID-19. He referred to loss of income resulting from the closure of all facilities between March and September 2020 and confirmed that the company had taken advantage of the furlough scheme during this period. He also acknowledged the support of the Council which had allowed the company to move forward with its re-opening plans. He outlined some challenges associated with the re-opening and reported on the range of facilities now available to support individual and community health and wellbeing as they dealt with the ongoing impact of the pandemic. He referred to positive figures for returning members – a membership retention rate of 80% - one of the highest in the country. He wished to record his own thanks to all of the staff who had gone above and beyond in ensuring facilities could re-open safely and deliver as broad a range of services as possible. He concluded that, in his view, the relationship and partnership between the senior management team at the Council and Enjoy had strengthened during the period and he commended the Councillors who sat on the board of Enjoy for their diligence during this time.

Suzanne Mills, Financial Controller, reported on the Enjoyleisure accounts for 2020/21, drawing attention to the key income and expenditure figures and confirming that the external auditors had issued an unqualified audit opinion. She commented on the impact of closure, furlough and limited re-opening of services but pointed to positive numbers of members returning to facilities and high retention levels in memberships. She indicated that the projected year-end financial position of a £600,000 overspend was better than anticipated and further mitigation measures were being considered to address rising costs and other potential risks in the coming year.

Councillor McLeod welcomed the report and commentary from Mr Axon. He said that this was an excellent report and he hoped that Enjoy would continue to make good progress in its recovery from the impact of the pandemic.

Councillor Forrest echoed his colleague's remarks and added his thanks Mr Axon and his team, especially in Musselburgh, for their hard work in ensuring the wellbeing of customers returning to facilities. He noted the increased interest in fitness since the pandemic began and he wished Mr Axon and his team well for the future.

Councillor Mackie also offered her thanks, as a Councillor and member of Enjoy, and welcomed some of the new practices such as online booking and lane swimming.

The Convener also welcomed the report and acknowledged the efforts of Mr Axon and his team. She noted that Enjoy was a particularly visible service and it was heartening to see that the organisation was in a better position than might have been expected.

### **Decision**

The Committee agreed to note the contents of the report.

*Sederunt: Councillor Mackett re-joined the meeting. Councillor Hoy left the meeting.*

**11. EAST LoTHIAN LAND LTD 2020/21**

A report was submitted by the Companies Manager informing the Committee of the work undertaken by East Lothian Land Ltd (ELL Ltd) in 2020/21.

Richard Baty, Companies Manager, presented the report outlining the work undertaken during 2020/21. He summarised activity in relation to a number of sites, including High Street projects, the implications of the Estates review and unsuccessful bids for properties. He also provided Members with an update on the development of Tyne Close in Haddington.

In response to questions from Members, Mr Baty provided further details the development of sites to support business start-ups, such as Brewery Park; the frustrations associated with competing against residential developers for commercial sites; the criteria used when assessing potential projects; and arrangements for filling the vacancy on the ELL Ltd Board following the retirement of Alex McCrorie.

The Convener thanked Mr Baty for his report and the work being undertaken by East Lothian Land Ltd.

**Decision**

The Committee agreed to note the contents of the report.

Signed .....

Councillor Jane Henderson  
Convener of the Audit and Governance Committee