



MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

**TUESDAY 21 JUNE 2022
VIA DIGITAL MEETINGS SYSTEM**

Committee Members Present:

Councillor L Menzies (Convener)
Councillor L Bruce (from item 7)
Councillor C McFarlane
Councillor K McLeod

Councillor T Trotter (Depute Convener)
Councillor L Jardine
Councillor G McGuire (from Item 2)
Councillor B Ritchie

Council Officials Present:

Ms M Patterson, Chief Executive
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 – Policy, Improvement & Partnerships
Mr R Parker, Service Manager – Education (Strategy and Operations)
Mr P Grant, Service Manager – Property Maintenance
Mr D Henderson, Interim Head of Finance
Mr D Ogilvie, Service Manager – Housing Strategy & Development
Ms A Glancy, Service Manager – Corporate Accounting
Ms L Gillingwater, Team Manager, Democratic and Licensing
Ms M Coyle, Service Manager, Procurement
Mr S Allan, Senior Auditor
Mr P Moore, Senior Auditor
Mr S Kennedy, Emergency Planning, Risk and Resilience Officer

Clerk:

Ms S Birrell

Visitors Present:

Mr J Rundell, Audit Scotland
Ms E Scoburgh, Audit Scotland

Apologies:

There were no apologies recorded for the meeting.

Declarations of Interest:

There were no declarations of interest recorded at the meeting.

1. ELECTION OF CONVENER AND DEPUTE CONVENER

Ms Gillingwater, Team Manager, Democratic and Licensing, reported that the election of a Convener for Audit & Governance Committee had been delegated to opposition groups at the meeting of East Lothian Council held on 24 May 2022. The SNP Group had nominated Councillor Menzies, and there had been no nomination received from the Conservative Group. Accordingly, Councillor Menzies was confirmed as the Convener of the Audit & Governance Committee.

The Clerk asked for nominations for a Depute Convener. Councillor Trotter was proposed by Councillor Jardine and seconded by Councillor McLeod. As there were no other nominations, Councillor Trotter was confirmed as Depute Convener of the Audit & Governance Committee.

2. GUIDE TO SCRUTINY AND REVIEW

A report was submitted by the Executive Director for Place to provide the Committee with a guide to scrutiny and review.

Paolo Vestri, Service Manager for Policy, Improvement and Partnerships, presented the report, which had been designed to support the work of, and provide information on, the operation of scrutiny Committees of the Council. He drew the Committee's attention to the sections on Work Programming and how to conduct a Policy Review.

In response to a question from Councillor McLeod, Mr Vestri confirmed that the regularity of reports would depend on their nature, but that ultimately it was the responsibility of Members to decide which items they wished to discuss at Audit & Governance Committee.

Decision

The Committee agreed to note the Guide.

3. INTERNAL AUDIT REPORT: JUNE 2022

A report was submitted by the Service Manager for 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 for Internal Audit, spoke to internal audit reviews that had been carried out since the last meeting of the Audit & Governance Committee in detail. These were:

- i) Low Value Purchasing
- ii) Property Maintenance Stores
- iii) COVID-19 Grants
- iv) the Scottish Welfare Fund, and
- v) Risk Management.

For each internal audit, Mr Stainbank took the Committee through the executive summary, findings and recommendations, and areas where expected controls were met/good practice, pausing after these reports for Member questions.

In response to questions from Councillor McLeod, Mr Stainbank provided examples of items costing in excess of £50,000, such as new school builds and payments for rented spaces. He explained that market testing had not taken place on a contract agreed in 2007 as its value had not exceeded £50,000, adding that there had been regular conversations between the contractor and the relevant Council's employee.

Mr Stainbank continued his report, referring to East Lothian Council's Assurance Review on the Digital Learning and Teaching Strategy, which had followed on from the Scottish Government's Digital Learning and Teaching Strategy, which identified three key educational outcomes:

- i) enhancing learning and teaching;
- ii) improving educational outcomes; and
- iii) building digital skills,

Turning to the Internal Audit Progress Report, Mr Stainbank announced that 14 out of 16 planned Internal Audits for the period ending June 2022 were complete, and outlined the reasons behind delays to the remaining two Audits.

In response to a question from Councillor Ritchie, Mr Stainbank confirmed that the fieldwork for the audit of Waste Management would be completed by July 2022, and would be reported to the Audit & Governance Committee in September 2022.

Decision

The Committee agreed to note:

- i) the main findings and recommendations from the Internal Audit reports issued during the period from February to June 2022;
- ii) the main findings and recommendations from the Internal Audit Assurance review undertaken in the period from February 2022 to June 2022; and
- iii) Internal Audit's progress against the annual audit plan for 2021/22.

4. ANNUAL INTERNAL REPORT 2021/22

A report was submitted by the Service Manager for Internal Audit as the Public Sector Internal Audit Standards (PSIAS) required that Internal Audit prepared an annual internal audit opinion and report it to support the Council's Annual Governance Statement, to provide a summary of the work undertaken by East Lothian Council's Internal Audit team in 2021/22 and to support both the Council's Annual Governance Statement and Internal Audit Controls Assurance Statement.

Mr Stainbank, Service Manager for Internal Audit, presented the report, outlining that the Internal Audit Plan for 2021/22, approved in February 2021, had been revised in September 2021 as a result of the continued changing risk environment of East Lothian Council. He explained that of 14 Reviews, those completed after November 2021 had been subject to an alteration of grading as recommended by CIPFA, and emphasised

that there had been no instances where the service had been required to declare a conflict of interest.

In response to a question from Councillor Jardine, Mr Stainbank explained that the Audit for Scottish Housing Regulator Annual Assurance had not been graded as this was an assurance review rather than a full audit exercise but that this item would remain on the Audit Plan.

Decision

The Committee agreed to note the contents of the report.

5. CONTROLS ASSURANCE STATEMENT 2021/22

A report was submitted by the Service Manager for Internal Audit, on the Controls Assurance Statement 2021/22. Internal Audit were responsible for independent review of the internal control framework within East Lothian Council, and were required to make an assessment of the control environment, reporting annually on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Mr Stainbank, Service Manager for Internal Audit, presented the report. Subject to the areas of improvement outlined in the report, and the unprecedented length of time East Lothian Council had operated under business continuity measures, there was reasonable assurance on the overall adequacy and effectiveness of its frameworks, governance, risk management and control.

In response to a question from Councillor Jardine, Mr Stainbank confirmed that follow up reports would be brought to the Audit & Governance Committee on all the areas of improvement that had been recommended within the report.

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.

6. ANNUAL TREASURY MANAGEMENT REVIEW 2021/22

A report was submitted by the Executive Director for Council Resources to update the Committee on Treasury Management Activity during 2021/22.

Ann-Marie Glancy, Service Manager - Corporate Accounting, spoke to the report, highlighting that it was a requirement under the Local Government Scotland Act 2003 to produce this review for the year ending 31 March 2022, and that the contents of the report should be held as draft until the accounts had been fully audited. Any major changes required as a result of auditing would be reported back to the Audit & Governance Committee.

She summarised the review, attached as Appendix 1 of the report, briefing the Committee on East Lothian Council's Capital and Expenditure and Financing, their overall borrowing need, and the Treasury position as at 31 March 2022, commenting that a decision to borrow £30 million on a long-term basis was still within the agreed

limit of long-term borrowing. She cited the strategy outlined within the report, and detailed borrowing activity, maintaining that positive returns had been made through investment during the year.

In response to a question from Councillor McLeod, Ms Glancy confirmed that East Lothian Council had not borrowed from any Local Authority, in Scotland or elsewhere in the UK.

Decision

The Committee agreed to note the report.

7. EAST LOTHIAN MID-MARKET HOMES LLP

A report was submitted by the Executive Director for Place to inform the Audit and Governance Committee of the 2021/22 accounts and the progress made towards the recommendations made by Internal Audit reported to Audit and Governance Committee in June 2021.

Wendy McGuire, Head of Housing, spoke to the report, explaining that East Lothian Mid-Market Homes LLP had been set up as an opportunity to provide a different affordable housing option had presented itself in the Dunbar area, where 50 units were built as mid-market homes. After 40 years, the Council would be given the option to repurchase these homes for £1. As the LLP was a subsidiary of East Lothian Council, they were obliged to report to the Audit & Governance Committee. The houses were rented at 65% of the current Local Housing Allowance (LHA), whereas other mid-market housing association rentals in the area were priced at 70-80% of the LHA. Ms McGuire spoke in detail regarding the Governance of the LLP, highlighting that all of the recommendations provided by a recent Internal Audit review had been completed or were in progress. She concluded by advising that the LLP were keen to expand this successful project.

In response to questions from Councillors McGuire, Jardine and McLeod, Ms McGuire stated that there were currently no plans to add 1-2 bedroom homes to the LLP's properties, but other providers would be adding 1-2 bedroom units to the area in the near future. The figure of £60,000 for anticipated repairs had been based on a number of factors including the management agreement and the original financial model: it was also confirmed that this sum was only intended to cover the first 15 years of the lease, and not the full 40 year tenure. Repairs would be carried out by East Lothian Council on a contracted basis: Ms McGuire emphasised that the houses were subject to a two year guarantee and a 10 year National House Building Council (NHBC) warranty or equivalent. The housing had been delivered without the need for subsidies or government grants, as East Lothian Council had utilised their second home council tax income. It would be difficult to compare the costs of these houses with the cost to the Council of building new affordable mid-market housing without detailed financial modelling. The LLP would continue to explore further opportunities to provide more mid-market homes.

Councillors Menzies and Jardine congratulated staff on this exciting project and welcomed the rigour of reporting the work of the LLP to the Audit & Governance Committee.

Decision

The Committee agreed to note the contents of the report and the progress made in relation to the audit report present at June 2021's Audit and Governance Committee.

8. COUNCIL IMPROVEMENT PLAN 2021-2022 AND CORPORATE GOVERNANCE SELF-EVALUATION UPDATE

A report was submitted by the Executive Director for Council Resources to present an update on the Council Improvement Plan 2021-2022 and Corporate Governance Self-Evaluation.

Mr Vestri presented the report in detail, highlighting that the Audit & Governance Committee had been asked to approve the draft Annual Governance Statement included in the report, so that it could be included in East Lothian Council's 2021/22 Accounts.

In response to a question from Councillor Trotter, Sarah Fortune, Executive Director for Council Resources, explained that approval of the statement was time critical as submission of the Accounts was required by 30 June 2022.

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

Decision

The Committee agreed:

- i) to note the progress in achieving the Council Improvement Plan 2021-2022 as detailed in the report; and
- ii) to note the update on Corporate Governance Self-Evaluation; and
- iii) to approve the Annual Governance Statement which would be included in the Council's 2021/22 Annual Accounts.

9. CORPORATE RISK REGISTER

A report was submitted by the Chief Executive to present to the Audit and Governance Committee the Corporate Risk Register, which had been developed in keeping with the Council's Risk Management Strategy and was a live document, reviewed and refreshed on a regular basis, led by the Corporate Risk Working Group (RWG).

Sharon Saunders, Head of Communities, provided some background on the Corporate Risk Register for new members. Risk management arrangements were overseen by the RWG which was made up of Service Managers and included staff with expertise in finance, internal audit, risk management, IT, information governance, insurance and health and safety. The Corporate Risk Register (CRR) formed a key assessment tool for the Council's overarching Risk Strategy, which was reported to East Lothian Council once every 3 years, and the CRR was reported annually to Cabinet and the Audit & Governance Committee. Accordingly, the register had been taken to the meeting of the Cabinet on 14 June 2022. The register reflected global, national and local risks. The CRR was additionally reported to Council in December 2021 and March

2022. Today's report had taken the continuing impact of COVID-19, Brexit, the war in Ukraine and rises in the cost of living into account. To supplement this Corporate Risk Register, each service also held their own Service Risk Register, each of which would be brought to Audit & Governance Committee in three sets of three, planned for September 2022, November 2022 and February 2023. A close eye was kept on risk, whether it was global, national or local, and the register was considered a 'live' document with regular updating: an example of this was the inclusion of avian flu into the Communities Risk Register, which had recently broken out amongst wild birds in the area.

Scott Kennedy, Emergency Planning Risk and Resilience Officer, presented the report, highlighting its recommendations, the matrix used by the RWG, which was included at Appendix 2; the levels of risk from very high to low; drawing the Committee's attention to a correction to the circulated report. It had been inaccurate to state that only High or Very High risks on the CRR were reported to Committee, this only applied to other Service Risk Registers. All of the risks at all levels on the CRR were reported to Audit & Governance Committee.

Councillor McLeod thanked officers for the report, and commented that future reports that were impacted by the increase in fuel costs would be useful for the Audit & Governance Committee. Councillors Jardine and Menzies praised the 'live' nature of the document, which had been updated in the past few weeks.

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 Corporate risk 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 and were likely to be a feature of the risk register over a number of years.
- note that the Council Management Team would review all risks in the Corporate Risk Register on a regular basis.

Signed

Councillor Lee-Anne Menzies
Convener of the Audit and Governance Committee