



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

**TUESDAY 28 SEPTEMBER 2010
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

Councillor N Rankin (Convener)
Councillor J Caldwell
Councillor A Forrest
Councillor D Grant
Councillor J Williamson

Council Officials Present:

Mr A Blackie, Chief Executive
Mr A McCrorie, Executive Director of Corporate Resources
Mr J Lamond, Head of Governance and Performance Management
Mr K MacConnachie, Head of Law and Licensing
Ms S Saunders, Head of Human Resources
Mr P Vestri, Corporate Policy Manager
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr R Sinclair, Communications Officer
Ms C Dora, Administration Research Assistant

Clerk:

Ms A Smith

Visitors Present:

Ms G Woolman, Audit Scotland
Mr A Perston, Audit Scotland

Apologies:

Councillor J McNeil
Councillor T Trotter

The Convener welcomed everyone to the first meeting of the Audit and Governance Committee.

1. MATTERS ARISING

Audit of Best Value and Community Planning

The Convener requested an update on this audit, scheduled for 2011. The Head of Governance and Performance Management advised that the Council was carrying out preparatory work in advance of the audit. The Chief Executive referred to the Best Value 2 audit, to ongoing work which would contribute to the 2011 audit, to HGIOC and also to the number of other inspections which were taking place over the next 6 to 12 months. He indicated that as the audit would also cover community planning it would involve our community planning partners. Ms Woolman referred to the National Scrutiny Plan published in June 2010; she also referred to the substantial amount of work being carried out by East Lothian Council. She indicated that she would be meeting with officers in connection with the 2011 audit.

2. GUIDE TO SCRUTINY AND REVIEW

A report was submitted by the Chief Executive providing the Committee with the opportunity to comment on the final draft Guide to Scrutiny and Review.

The Corporate Policy Manager spoke to the report. He referred to the Scrutiny Workshop for Elected Members held in September where a draft of the Guide had been presented; comments made at the Workshop had been taken on board in the preparation of this final draft of the Guide. The draft Guide would be going to Council in October for approval. He highlighted to the key issues in the draft Guide, including the work programme, conducting a policy review, scrutiny techniques and making sense of performance data; he advised that a draft work programme would be brought to the next meeting. He drew attention to the insertion of an additional paragraph on page 11 of the draft Guide. He indicated that the Guide would assist Members in carrying out their scrutiny and review roles.

The Convener referred to page 3 of the draft Guide and to the last paragraph within the PPRC section relating to the power to comment and make recommendations, which should be equally applicable to this Committee. The Corporate Policy Manager referred to changes to Standing Orders following the review report to Council but indicated that this would be checked. The Head of Governance and Performance Management referred to Sections 7 (Reporting) and 8 (Monitoring) of the draft Guide, advising that these related to both scrutiny committees.

The Convener requested a number of amendments to the draft Guide:

Page 1 – the reference to (*Overview and scrutiny in local government, Centre for Public Scrutiny*) should be amended to a footnote

Page 3 – amendments as required to correctly reflect the remit of the Audit and Governance Committee

Page 5 – the presentation of the table should be amended (the presentation currently implies a relationship between the 2 sets of criteria)

Page 7 – alteration of any reference of PPRPs to PPRC

Ms Woolman made several observations on the draft Guide. She welcomed the intent in relation to Financial Matters as outlined in Appendix 2 and made reference to the importance of timing of the Draft Financial Statement being brought to Committee.

Decision

The Committee agreed, with inclusion of the amendments as outlined above, to approve the final draft Guide to Scrutiny and Review.

3. REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE AUDIT OF THE 2009/10 FINANCIAL STATEMENTS

Audit Scotland submitted the report to those charged with governance on the audit of the 2009/10 Financial Statements.

Ms Woolman spoke to the report, informing Members that the report set out the relevant matters arising from the audit of East Lothian Council's financial statements for 2009/10 that required reporting under ISA 260. She stated that the full Report to Members would be brought to the next meeting. She referred to the status, conduct and scope of the audit, audit opinion and representations and accounting and internal control systems. She drew attention to several issues and the associated resolutions within matters arising including movement in the pension liability, general fund reserves, Musselburgh Joint Racing Committee, the annual governance statement, land and building valuations and Enjoy East Lothian Ltd. She also made reference to the appendices to the report. She concluded that in Audit Scotland's opinion the financial statements gave a true and fair view of the financial position of East Lothian Council as at 31 March 2010 and thanked officers for their assistance.

Ms Woolman, and officers, responded to questions and clarified issues raised by Members regarding the pension liability, general fund reserves, Musselburgh Joint Racing Committee, the annual governance statement and Enjoy East Lothian Ltd.

Decision

The Committee noted the report.

4. NATIONAL FRAUD INITIATIVE IN SCOTLAND: MAKING AN IMPACT

Audit Scotland submitted a report on the National Fraud Initiative in Scotland: making an impact.

Ms Woolman spoke to the report, informing the Committee that the National Fraud Initiative (NFI) was a counter-fraud exercise currently undertaken in Scotland as part of statutory audits. In 2008/09, 74 public bodies had taken part in NFI. Scottish public bodies had recorded a further £21.1 million of outcomes since Audit Scotland last reported to Committee on the NFI in May 2008. This had been the most successful period since the introduction of NFI in Scotland. She highlighted some of the key messages in the report and drew attention

to exhibit 5 on page 60, which detailed NFI in Scotland 2008/09 matches and summarised the main outcomes. She referred to the case studies mentioned throughout the report. She reported that payroll details for all public sector employees, including Audit Scotland, were now subject to this data matching exercise.

The Convener queried the Council's position in relation to this national report. Ms Woolman advised that this report highlighted those bodies that needed to improve; East Lothian Council was not included, the Council had participated well and nothing further was required. She also clarified matters in relation to data from the electoral register, in response to questions from Councillor Grant.

Decision

The Committee noted the report.

5. APPLICATION SERVICES REVIEW – REPLACEMENT REVENUES IT SYSTEMS (CAPITA)

Audit Scotland submitted a report on Application Services Review – replacement Revenues IT systems (Capita).

Mr Perston spoke to the report, informing Members that Audit Scotland had completed an application services review of the replacement Revenues IT systems. He advised that changing a complex application such as Revenues and Benefits was not a straightforward undertaking. Using a project management methodology such as PRINCE2, which the Council had done, could help deliver a successful outcome, identifying and managing issues as they arose and reducing the risk of project failure. However, it did not eliminate risk altogether and the Project Board had to deal with any significant problems as they were identified. He advised that significant issues had arisen during the project and were dealt with through a change control mechanism and a Lessons Learnt Report produced at the end of the project to improve the management of future projects. The Lessons Learned Report acknowledged that this project turned out to be larger and more complex than originally envisaged.

He commended the good piece of work, stating that it had been well planned, handled and implemented. He recommended producing a Lessons Learned Report for any other work.

Decision

The Committee noted the report.

6. HOW COUNCILS WORK: AN IMPROVEMENT SERIES FOR COUNCILLORS AND OFFICERS – ROLES AND WORKING RELATIONSHIPS: ARE YOU GETTING IT RIGHT?

Audit Scotland submitted a report on how councils work: an improvement series for councillors and officers – roles and working relationships: are you getting it right?

Mr Perston spoke to the report, advising the Committee that the Accounts Commission sought to support improvement in best value and resource management, recognising these as two key components vital to the successful delivery of council services. The purpose of this new *how councils work* series of reports was to stimulate change and improve performance. Clarity about governance arrangements, people's roles and responsibilities and good working relationships were central to the success of any organisation. It concerned councillors and officers working together and councillors from different parties working together. He drew attention to the key messages within the report and to particular findings of the auditors. Councillors had a complex and demanding role; they had to ensure they had the skills and tools to carry out their role. He commended East Lothian Council's extensive efforts with regard to training for councillors. He drew attention to the key points for action and discussed in detail the action for councillors and officers. He referred to multi-member wards, the annual governance statement and responsibilities of the Chief Financial Officer. He also drew attention to the appendices to the report, including at appendix 2 questions for councillors, which he suggested should be considered and assessed.

The Convener stated that this was an interesting document; he asked who took ownership and disseminated the information. The Chief Executive advised that the document was applicable to both councillors and officers; Audit Scotland had sent a copy to every councillor in Scotland. He stated that the report aligned with work currently being undertaken in relation to last year's Annual Report to Members on multi-member wards. The Head of Government and Performance Management acknowledged the value of this report and welcomed its dissemination to this Committee. He tabled a paper detailing the Council's actions to date and suggested actions in response to Audit Scotland's report. With regard to the review of multi-member wards he advised that it was the intention to extend the scope of the work taking into account the key issues identified in the Roles and Working Relationships Report. The scoping document had recently been completed, work should be concluded by November and a report would be brought to Council in December.

Mr Perston remarked that he was very pleased at the actions being taken; East Lothian Council had made some very substantial improvements since the last Best Value review. In response to a question from the Convener regarding measuring improvement, the Chief Executive advised that senior officers were working on this; the intention was to have internal working groups, including a cross party Budget Working Group. The Convener indicated that he appreciated the Council's response to the document.

Decision

The Committee noted the report.

7. AUDIT PLAN 2010/11

A report was submitted by the Chief Executive informing the Audit and Governance Committee of Internal Audit's work plan for 2010/11.

The Internal Audit Manager spoke to the report, informing the Committee that the audit plan had been adopted as a standard approach for ensuring that the internal audit service was delivered to the Council in line with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The audit plan for 2010/11 had been produced

following consultation with External Audit, the Chief Executive and Executive Directors. She referred to Main Systems, Statutory Audits, Other Audits and Investigations. She drew attention to the Audit Plan for 2010/11, which detailed auditable areas, scope of the audit and timescales.

In response to questions from Councillor Grant, the Internal Audit Manager outlined Internal Audit's work programme, how topics for audit were selected, the consultation involved, the different types of audit and how they dealt with unplanned issues.

The Convener indicated that if any Member wished to raise a topic for Internal Audit to review they were entitled to do so.

Decision

The Committee approved the Audit Plan for 2010/11.

8. CONTROLS ASSURANCE STATEMENT 2009/10

A report was submitted by the Internal Audit Manager outlining the Controls Assurance Statement for 2009/2010.

The Internal Audit Manager spoke to the report, informing Members that the Council's senior management had responsibility for establishing a sound system of internal control and for monitoring the continuing effectiveness of these controls. She referred to the four main objectives of the Council's internal control systems. She outlined the work of Internal Audit, the basis of opinion and the sources that informed her evaluation of the control environment. She then drew attention to the areas with scope for improvement, referring to weaknesses identified and to Declarations of Assurance. She concluded that it was her opinion, subject to the weaknesses outlined in section 3.4 of the report, that reasonable assurance could be placed on the adequacy and effectiveness of East Lothian Council's internal control systems for the year to 31 March 2010.

The Convener asked if the same weaknesses identified were likely to appear in next year's Controls Assurance Statement. The Internal Audit Manager replied that management should have taken on board her comments and any weaknesses should be strengthened by next year. Councillor Forrest queried if some of the weaknesses identified were due to managers not adhering to Internal Audit's advice. The Internal Audit Manager stated that there was a lack of an audit trail in some areas examined and she gave examples where it had not been possible to carry out specific checks due to an adequate audit trail not being in place - it was an important control. The Chief Executive stated that identifying weaknesses within the Council's systems was very important; these were reported to the Board of Directors and, if appropriate, to the Corporate Management Team. He indicated that there was a lack of adherence to the Council's policies and procedures, which at times could result in investigations.

Decision

The Committee noted that the Controls Assurance Statement was a formal confirmation of Internal Audit's opinion on the Council's control environment for the year ended 31 March 2010.

9. INTERNAL AUDIT: PAYROLL OVERTIME AND TRADING STANDARDS

A report was submitted by the Chief Executive informing the Committee of the recently issued audit report on Payroll Overtime and the follow-up report on Trading Standards.

The Internal Audit Manager spoke to the report, stating that the reviews had been undertaken as part of the 2009/10 Audit Plan - an Executive Summary and Action Plan was included for Payroll Overtime and a follow-up report as included for Trading Standards.

Payroll Overtime

The Internal Audit Manager gave details of the areas where expected controls had been met and drew attention to 3 areas with scope for improvement. She advised that Internal Audit's review of Payroll Overtime had identified a number of areas with scope for improvement; detailed recommendations and opportunities for improvement were contained in the main Audit Report. She responded to questions from Members on timescales and financial implications.

Trading Standards – follow-up

The Internal Audit Manager reported that in March 2009 Internal Audit had issued a report to management following a review of Trading Standards. A number of areas with scope for improvement had been identified and detailed recommendations to address these were contained in the audit report. She advised that of the 12 recommendations agreed by management, action had been taken in fully implementing 2 recommendations. Of the 10 outstanding recommendations, management had advised that one was no longer relevant and would not be implemented. Internal Audit had found that some progress had been made towards implementing the remaining 9 recommendations; however they had not yet been fully implemented. Management responses to the outstanding recommendations were detailed in the action plan.

The Convener remarked that management seemed to be delaying taking remedial action. The Internal Audit Manager advised that it was a non-financial audit; the Executive Director of Environment had asked Internal Audit to look at this area due to concerns at the reliability of information required for SPI purposes. Recommendations had been made and management had to decide how to take these forward. In response to further questions she stated that in Internal Audit's opinion the recommendations were very relevant and should be implemented; she referred to the Controls Assurance Statement, which highlighted securing the relevance, reliability and integrity of information as one of the main objectives of a system of internal control. The Chief Executive stated that the recommendations proposed by Internal Audit were reasonable. He agreed that some of the timescales detailed in the Action Plan were too distant and not acceptable; he would expect any recommendations to be implemented as soon as they could be and certainly by the end of the current financial year.

Decision

The Committee noted:

- i. the contents of the Executive Summary and Action Plan for the Payroll Overtime audit; and
- ii. the contents of the follow-up report on Trading Standards.

10. ACTION SHEET

Fixed Asset Register

The Chief Executive indicated that this should be altered to Asset Management Strategy and Plan. He reported that this document was now in draft and would be brought to Council later this year.

Environmental and Sustainability Initiatives

The Convener requested that the Senior Environmental and Consumer Services Manager be asked to confirm a date for an update report to be brought forward.

Multi-member wards

The Head of Governance and Performance Management advised that work was ongoing on and a report would be brought to the December Council meeting.

PPP facilities - income due to the Council

The Internal Audit Manager stated that this report would be brought to the November Audit and Governance Committee.

Enjoyleisure – finance

The Executive Director of Corporate Resources indicated that a report could be brought to Committee by the **Enjoyleisure** accountant; officers would assist with that process.

11. AUDIT AND GOVERNANCE COMMITTEE – LAY MEMBERSHIP

The Convener referred to the recent review of committees, which had included consideration of lay members. He suggested that lay members could make a significant contribution to a forum such as this, commenting that this Committee, when discussing significant financial issues, did not necessarily have the appropriate expertise. If a lay member were to be involved he would prefer this to be done on a permanent, rather than ad-hoc, basis. He would see how the Committee progressed but if Members felt they did not have a broader understanding of the business then further debate may be required. He asked for other councillors' views.

Councillor Grant indicated that a fresh voice could be useful when required; however he did not agree that someone should be appointed on a fixed basis.

Councillor Williamson commented that if a decision was taken to appoint a lay member it would be better to have someone on a permanent basis.

The Chief Executive referred to the pros and cons of appointing a lay member: the key question to be asked was what would such a person add to the Committee function and remit; how would they be selected, the selection process would have to be open and transparent and ensure adherence to standards and principles of good governance. He advised Members that there were many issues to be considered.

The Convener asked Ms Woolman if she was aware of the position in other local authorities. She indicated that there was a variety of practice; 2 local authorities had carried out reviews and appointed lay members, who participated in all meetings.

The Executive Director of Corporate Resources expressed some concern, commenting that he was not sure what a lay member could offer that officers could not provide.

Councillor Caldwell agreed with the Executive Director. He added that the emphasis for the Members of this Committee should be on training and obtaining the required knowledge.

The Convener thanked everyone for their comments, indicating that the discussion had been helpful.

Signed

Councillor Neil Rankin
Convener of the Audit and Governance Committee