



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

**TUESDAY 25 SEPTEMBER 2018
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

Councillor J Henderson (Convener)
Councillor J Findlay
Councillor K Mackie
Councillor K McLeod
Councillor B Small

Council Officials Present:

Mrs A Leitch, Chief Executive
Mr D Proudfoot, Head of Development
Mr J Lamond, Head of Council Resources
Ms S Saunders, Head of Communities & Partnerships
Mr T Reid, Head of Infrastructure
Mr P Vestri, Service Manager – Corporate Policy & Improvement
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr A Steven, Senior Auditor
Ms S Fortune, Service Manager – Business Finance
Mrs L Denovan, Corporate Finance Manager
Mr R Parker, Service Manager – Education (Strategy & Operations)
Mr P Grant, Service Manager – Property Maintenance

Clerk:

Ms F Currie

Visitors Present:

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

Apologies:

Councillor S Currie
Councillor F Dugdale
Councillor J Williamson

Declarations of Interest:

None

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 12 JUNE 2018

The minutes of the Audit and Governance Committee meeting held on 12 June 2018 were approved as a true record.

2. INTERNAL AUDIT REPORT – SEPTEMBER 2018

The Convener advised Members that the reporting of Internal Audit's work had been brought forward to the beginning of the agenda to ensure that the Committee could give the appropriate level of scrutiny to this area of its remit. She indicated that this new arrangement would continue for future meetings and she welcomed Members' feedback on this change and the revised report template.

A report was submitted by the Depute Chief Executive (Resources & People Services) informing the Committee of Internal Audit reports issued since the last meeting of the Committee and providing an update on the progress against the 2018/19 annual audit plan.

Mala Garden, Internal Audit Manager, presented the report outlining the purpose of each audit report, highlighting some of the key findings and drawing Members' attention to the level of assurance provided to Management as a result of this audit work.

Debtors

Councillor Small queried the agreed completion date for one of the recommendations which had been graded as 'high'. Liz Denovan, Corporate Finance Manager, explained that the next round of exception reporting/monitoring would take place in October, at which point a review would take place, and therefore a completion date of December 2018 was not unreasonable.

Councillor McLeod asked for clarification of two of the areas with scope for improvement which were highlighted in the report. Stuart Allan, Senior Auditor, provided further information on the delays in invoices being raised and the implications for the Council. Mrs Denovan responded to questions on the costs of legal action and the segregation of duties.

In response to a question from Councillor Findlay, Ms Garden advised that Internal Audit had last reviewed this area of work in 2011 and that they covered all of the main systems as part of their ongoing programme of work. She said she was content with the current timescale for reviewing sundry debtors and reminded Members that the moderate level of assurance meant that although there were areas for improvement, the audit had not identified any significant concerns.

The Convener asked if it would be possible to quantify the levels of assurance in numerical terms. Ms Garden suggested that it may be difficult to do but she referred Members to the definitions of the levels of assurance contained at the end of each audit report.

Councillor Small welcomed the inclusion of a 'level of assurance' for each audit but said that it would be helpful to have numbers attached to each categorisation.

Gillian Woolman, Audit Director, Audit Scotland, also welcomed this additional information in the reports adding that she considered the definitions of each level of

assurance provided by Internal Audit as adequate and in line with good practice. She further advised Members that Audit Scotland placed significant reliance on the work of Internal Audit. She added that while efforts were made to avoid any duplication between the work of the internal and external audit teams, Members could be assured that substantial work had been undertaken on debtors.

Procurement of Goods and Services (Property Maintenance)

In response to questions from Councillor Small, Douglas Proudfoot, Head of Development, acknowledged that there was work to be done to ensure that the Scotland Excel framework was applied appropriately to both core and non-core items. He said that failures to correctly apply procedures could result in the Council losing out on discounts or failing to achieve best value.

Mr Lamond added that the necessary procurement processes were in place and that the issues highlighted by Internal Audit were more about failures to apply these processes.

Responding to further questions from Councillor Findlay and Councillor McLeod, Mr Proudfoot and Paul Grant, Service Manager – Property Maintenance, outlined the different processes required for large scale construction projects and those for goods and services. Mr Grant clarified the distinction between core and non-core items. He also recognised the point made by Councillor McLeod on the benefits of using better quality items but accepted that it was important to ensure that the correct procurement procedures were followed for all suppliers.

Mr Proudfoot advised Members that the logic of the framework approach did work – economies of scale securing better price being one benefit – but that his officers needed to ensure that quality standards were maintained and that the items that were purchased were compatible with existing installations in a property repairs context.

In reply to a question from Councillor Mackie, Mr Proudfoot acknowledged that a national framework meant that the Council was buying in bulk from national rather than local suppliers. However, the procurement arrangement did try to encourage suppliers to have local points of delivery to boost local employment and the potential for a local supply chain.

VAT

In response to questions from Councillor Small, Mrs Denovan explained that HMRC made ad hoc or unannounced visits to monitor the Council's compliance with VAT requirements. No areas of concern had been raised during these visits.

Residential Charging

Ms Garden and Mr Allan responded to questions relating to the lack of independent checking of some financial assessments outlining the key concerns and actions agreed with Management. Mr Lamond added that resource constraints and small teams were factors and ideally, from a control perspective, there would be independent checks undertaken on all assessments. However, this was not possible and the decision had been taken to adopt a more proportionate approach that would focus on new assessments, as the potential risk of error was greater than for reassessments.

Mr Allan also responded to a question on the payment of rates for one client, which were in excess of the agreed rates. He confirmed that this issue had been highlighted to the service area and a review of this case would be concluded shortly. Any overpayments would be recovered from the provider and he agreed to report back to the Committee once the review was complete.

Decision

The Committee agreed to note:

- (i) The main findings and recommendations from Internal Audit reports issued during the period July to September 2018; and
- (ii) Internal Audit's progress against the annual audit plan for 2018/19.

3. ISA 260 LETTER FROM AUDIT SCOTLAND

Audit Scotland submitted their ISA 260 letter to East Lothian Council which included their proposed unqualified auditor's report and a draft letter of representation under ISA 580.

Ms Woolman presented the document to Members outlining the purpose and content and highlighting key issues. She then proceeded directly to the annual audit report.

4. EAST LoTHIAN COUNCIL 2017/18 ANNUAL AUDIT REPORT

Ms Woolman presented Audit Scotland's annual audit report to Members for 2017/18 confirming that they intended to issue an unqualified audit opinion. She summarised the key messages in parts 1 - 3 of the report including the significant findings from the audit of the accounts and reviews of financial management and sustainability. Ms Woolman indicated that the unaudited accounts were of a good standard and she acknowledged the level of support and access provided by finance staff during the audit process. She said that this was by no means the case with all local authorities. She informed Members that overall the financial statements provided positive assurance and there were no issues of materiality to be reported.

Esther Scoburgh outlined parts 4 - 5 of the report relating to governance, transparency and value for money, and drew Members' attention to the appendices which included the action plan of recommendations for improvement and a summary of significant audit risks identified during the planning stage.

In response to questions from Members, Ms Woolman provided further information on the factors taken into account when assessing a council's financial sustainability. Referring to the rating used in appendix 2 of the report, she advised Members that public sector organisations had to work hard to achieve a rating of 'satisfactory' and, along with the unqualified audit opinion, it formed part of a positive report card for the Council.

Ms Woolman also responded to questions relating to the Council's use of reserves, the importance of understanding whether such use was planned or unplanned and the need for Council's to maintain a healthy level of reserves year on year. Mr Lamond provided clarification of the term 'uncommitted reserves' and outlined the potential uses of such funds.

Mrs Leitch referred to the work undertaken on the Council's Local Development Plan (LDP) and asked about the extent to which this and the associated capital programme might feature in future audits.

Ms Woolman explained that the audit report was a building block to the annual local government financial overview report which identified areas of best practice across the country. She added that this area of work could appear in local audit plans in due course.

Responding to a question on Britain's withdrawal from the EU and the possibility of no deal being agreed, Ms Woolman indicated that Audit Scotland had no plans to issue any publications or advice to Councils at this stage.

Councillor Small thanked Ms Woolman and her team for their diligence and professional approach. He welcomed the report's findings and acknowledged that the Council's financial position remained challenging and continued to require close monitoring.

Decision

The Committee agreed to note the contents of the report.

5. ANNUAL ACCOUNTS 2017-18

A report was submitted by the Depute Chief Executive (Resources & People Services) providing the Committee with an update on the main changes arising during the audit of the draft financial statements 2017-18, and to ask the Committee to approve the now audited accounts for 2017-18.

Sarah Fortune, Service Manager – Business Finance, presented the report outlining the key steps in the process of preparation and approval of the accounts and she summarised the adjustments made as a result of the audit. She confirmed that, once approved, the accounts would be signed and published on the Council's website.

Decision

The Committee agreed to:

- (i) Note the main changes arising during the course of the audit; and
- (ii) Approve the 2017-18 audited accounts for the Council and its group components.

6. 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 & Partnerships, presented the report outlining the background to the preparation and review of the risk register. She reminded Members of the formula for assessing risk and advised that the current document contained 8 High risks, 9 Medium risks and 2 Low risks.

Ms Saunders also referred to the new format of the risk register which would shortly come into use. She indicated that a development session for Councillors would take place at 2.00pm on Tuesday 22 January 2019 which would provide further details of the changes, including the revised procedures for reporting to the Committee.

Councillor Findlay noted that the expansion of early learning and childcare to 1140 hours included the potential reputational risk to the Council. He asked whether this issue might not also present a financial risk. Ms Saunders acknowledged this point and Richard Parker, Service Manager – Education, confirmed that any potential financial risks would be looked at as part of the Council's implementation strategy. Mrs Leitch added that talks were progressing with providers on the basis of proposals already considered by Council and funding provided by the Scottish Government.

In response to questions from Councillor Mackie regarding funding for coastal flood prevention in Musselburgh, Tom Reid, Head of Infrastructure, advised that the proposals were at an early stage and would be subject to public consultation in due course. Mr Lamond said that he was not aware of any Common Good funding contribution towards the project.

In response to questions from the Convener on the risks associated with workforce planning and public sector reforms, Paolo Vestri, Service Manager – Corporate Policy & Improvement, advised on the mitigation measures which had been put in place. These included the Council's recently approved Workforce Plan and preparation for the coming into force of the Community Empowerment Act. Mrs Leitch added that the Council continued to work with the Scottish Government on shaping major reforms to the Education system.

Mr Lamond responded to further questions on business continuity outlining the work undertaken in relation to IT infrastructure and improving the resilience of critical systems.

The Convener also raised the issue of the LDP and when the register should begin to reflect the risks associated with the preparation of the next plan. Mrs Leitch indicated that the recently approved LDP, and the delivery of the work and projects associated with it, was still the main focus of the Council's work.

Councillor McLeod welcomed the fact that there were no 'red' risks contained in the register and he congratulated staff on their continuing efforts to mitigate risks as far as possible. He singled out the Welfare Rights Team for particular praise in dealing with the challenges associated with the roll-out of Universal Credit.

Decision

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

- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk
- the total profile of the Corporate risk can be borne by the Council at this time in relation to the Council's appetite for risk
- although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Corporate and are likely to be a feature of the risk register over a number of years
- the Council Management Team will review all risks in the Corporate Risk Register on a regular basis.

7. COMMUNITIES & PARTNERSHIPS RISK REGISTER

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

Ms Saunders presented the report outlining the background to the preparation and review of the risk register and advising Members that the current document contained 1 High risk, 30 Medium risks and 16 Low risks. She explained that although Medium risks would not usually be reported to the Committee, as there was only 1 High risk, the decision had been taken to include those Medium risks scoring 8 or 9.

In response to questions from Members, Ms Saunders and Mr Lamond provided further information in relation to mitigation measures put in place to manage the risks associated with IT systems. Ms Saunders also drew Members' attention to the correlation between the risks outlined in this Service Risk Register and the Corporate Risk Register reviewed earlier.

Councillor Small welcomed the investment being made in the customer-facing service area and said he looked forward to seeing the continuing impact of the mitigation measures on the future risk rating.

Decision

The Committee agreed to note the Communities & Partnerships Risk Register and, in doing so, that:

- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk
- the total profile of the Communities & Partnerships risk can be borne by the Council at this time in relation to the Council's appetite for risk
- although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Communities & Partnerships and are likely to be a feature of the risk register over a number of years.

8. COUNCILS' USE OF ARM'S-LENGTH ORGANISATIONS (ACCOUNTS COMMISSION, MAY 2018)

A report was submitted by the Depute Chief Executive (Partnerships & Community Services) reviewing East Lothian Council's position in relation to the findings of the Accounts Commission report, '*Councils' use of arm's-length organisations*'.

Mr Vestri presented the report summarising the main findings and the key points of East Lothian Council's response to the messages in the Accounts Commission report and the recommendations for action. He advised Members that the definition of 'arm's length external organisation' (ALEO) used in the report was quite broad and included joint boards set up by legislation. He also pointed out that his covering report had been prepared before the external auditors' report had been finalised and he reminded Members that the Council had accepted the auditors' recommendation in relation to scrutiny of ALEOs and regular reporting to the Audit & Governance Committee.

Mr Vestri and Mr Lamond responded to questions from Members and provided additional information on the issues to be considered should the Council wish to extend

its use of ALEOs, the governance arrangements for joint boards which involve representatives from different local authority areas, and improving procedures to achieve a more proportionate level of governance and scrutiny.

The Convener thanked officers for their input and suggested that the Accounts Commission report, and the covering report, be circulated to all Councillors for information.

Decision

The Committee agreed to:

- (i) note the position of East Lothian Council in regard to the key messages in the Accounts Commission report, *'Councils' use of arm's-length organisations'*; and
- (ii) use the recommendations in the Accounts Commission report to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit & Governance Committee.

Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee