

SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Chamber, Council Headquarters, Newtown St Boswells on Monday, 25 September 2017 at 10.15 am

Present:- Councillors S Bell (Chairman), H Anderson, K Chapman, J A Fullarton, S Hamilton (Vice-Chairman), N Richards, H Scott, R Tatler and E Thornton-Nicol.

Apologies:- Chief Executive, Mr Middlemiss.

In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Capital and Investments Manager, Democratic Services Officer (J Turnbull).
Ms G Woolman, Mr A Haseeb and Mr G Samson - Audit Scotland.

1. WELCOME AND INTRODUCTIONS

The Chairman welcomed those present to the meeting and introduced Ms G Woolman, Mr A Haseeb, Mr G Samson from Audit Scotland, the Council's external auditors.

**DECISION
NOTED.**

2. MINUTE.

There had been circulated copies of the Minute of 28 June 2017.

**DECISION
APPROVED for signature by the Chairman.**

3. RISK MANAGEMENT IN SERVICES.

- 3.1 The Chairman welcomed Mr Philip Barr, Scottish Borders Council Executive Director and SB Cares Managing Director. Mr Barr was in attendance to give a presentation on Risk Management in Arms' Length External Organisations (ALEOs). Mr Barr explained that the presentation would detail the internal controls and governance in place to manage risk within SB Cares and LIVE Borders. He highlighted that it was important that there was clarity as to roles and responsibilities, to manage operational risk and maintain a level of service.
- 3.2 Mr Barr advised that LIVE Borders was an integrated trust for leisure, culture and sports, established in April 2016. The governance arrangements between LIVE Borders and the Council comprised a Management Team, Board of Trustees, Member-Trustee Liaison Group and Joint Officer Group. The LIVE Borders Management Team was responsible for the organisation's business plan and operational delivery and reported to the Board of Trustees, which in turn fed into the Member-Trustee Liaison Group. This Group met three times a year and was responsible for ensuring ongoing delivery of strategic goals, future priorities and commissioning. The Joint Officer Group liaised with the Member-Trustee Liaison Group and monitored the provision of the full service. The Joint Officer Group reported performance to the Council's Executive Committee and Corporate Management Team.
- 3.3 Mr Barr went on to discuss SB Cares, a Limited Liability Partnership (LLP) established in April 2015, delivering adult social care services. With regard to governance, SB Cares' Managing Director met weekly with the Finance & Commercial Director and Head of Operations to discuss delivery of the service, operational audit assurance and risk

management support. The Managing Director then reported to the SB Cares Board, which met monthly. The Board monitored progress and performance on service delivery including managing risks and internal audit updates. The Board then reported to quarterly meetings of the Strategic Governance Group. The Strategic Governance Group was responsible for ensuring that service objectives were met, and had strategic oversight of internal audit and risk management arrangements. Finally, the Strategic Governance Group reported to full Council.

- 3.4 Mr Barr then highlighted key risk considerations for both ALEOs including: alignment to corporate vision and strategic priorities, financial pressures, unpredictability of market, technological change, demand for service and changes to government legislation. Mr Barr concluded his presentation by referring to the tools and techniques used to manage risk, which included key performance measures which were monitored on a regular basis, self-evaluation, inspections, external scrutiny, regular monitoring of strategic service, operational risk and regular reporting.
- 3.5 In response to questions Mr Barr advised that SB Cares' monthly, quarterly and annual reports were overseen by Internal Audit. With respect to the function of the three councillors on the LIVE Borders Board of Trustees, he explained that their role was to ensure LIVE Borders met the goals and aspirations of the Council. The role of executive and non-executive directors was then discussed and in particular the importance of the non-executive role to hold the Board to account. With reference to the effectiveness of LIVE Borders Member-Trustee Liaison Group, Mr Barr advised that the Group could influence service delivery on a locality basis. The Chairman thanked Mr Barr for his attendance and presentation.
- 3.6 The Chief Officer Audit and Risk, Ms Stacey, advised that one of the Audit functions of the Committee was to ensure that risk management mechanisms were working across the entire business. The previous Audit and Risk Committee had introduced a call-back programme and Members had welcomed its continuance. The next Committee would receive a presentation from the Service Director Assets and Infrastructure on managing risks in his directorate including those relating to the capital programme. It was agreed that Ms Stacey circulate the schedule for presentations in order that the Committee could communicate the level of detail required from each presentation.

DECISION

(a) NOTED the presentation.

(b) AGREED to request the Chief Officer Audit and Risk circulate the schedule of forthcoming presentation to Members.

4. ANNUAL TREASURY MANAGEMENT REPORT 2016/17.

- 4.1 With reference to paragraph 8 of the Minute of 26 September 2016, there had been circulated copies of a report by the Chief Financial Officer presenting the annual report of treasury management activities undertaken during the 2016/17 financial year. The report was presented to Audit and Scrutiny Committee for review as part of their scrutiny role in relation to treasury management activities in the Council. The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) required an annual report on treasury management to be submitted to Council following the end of each financial year. This report highlighted the Council's treasury activity in the year ended 31 March 2017 and the performance of the Treasury function. Appendix 1 to the report comprised the annual treasury management activities for 2016/17 and contained an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. All of the performance comparisons reported upon were based on the revised indicators agreed as part of the mid-year report approved on 15 December 2016.
- 4.2 The Appendix also showed the Council's borrowing requirement to fund the capital investment undertaken during 2016/17, how much the Council actually borrowed against

the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits. The Council had, whenever possible, deferred borrowing and used surplus cash rather than undertaking additional long term borrowing during the year. However, the Council had undertaken short term borrowing for cash flow purposes and long term borrowing for capital purposes during the year, amounting to £9m and £12m respectively. Treasury management activity had been undertaken in compliance with approved policy and the Code and the Council remained under-borrowed against its Capital Financing Requirement (CFR) as at 31 March 2017. Reference was also made to the Treasury Management Training session delivered by Mr Richard Dunlop of Capita Asset Services to Members immediately prior to the meeting to facilitate consideration of this report.

- 4.3 In response to questions, Mr Robertson, acknowledged that although capital expansion plans were ambitious and subject to a variety of factors outwith the Council's control, these would be delivered in line with the Council's objectives. There were regular monitoring reports to the Executive Committee and the Service Director of Assets and Infrastructure would report on the risks to the November meeting of Audit and Scrutiny. Mr Robertson highlighted that the Council's actual capital expenditure for 2016/17 was £51.8m which was £15.7m less than projected as a result of delays to projects including Broomlands Primary School and the Great Tapestry of Scotland. With regard to a prospective interest rate increase, Mr Robertson advised that indications were that any future interest rate rises were likely to be gradual. A rise of ¼% would not give undue concern. He reassured Members that officers monitored rates on a daily basis and that the Council could borrow at a variety of fixed interest rates with different durations from the Public Works Loans Board at very short notice, to protect the Council against future interest rate rises if required. The prevailing interest rate environment supported the current policy of deferring fixed rate long term borrowing by utilising council cash balances. It was noted that Standard & Poor had downgraded the Council's bank, Bank of Scotland, from a stable to a negative outlook, with a long and short term outlook grading of A and A-1 respectively. The position was being closely monitored, with a review of the Council's banking service scheduled for 2018.

DECISION

- (a) **NOTED that treasury management activity in the year to 31 March 2017 was carried out in compliance with the approved Treasury Management Strategy and Policy.**
- (b) **AGREED that the Annual Treasury Management Report 2016/17, as detailed in Appendix 1 to the report, be presented to Council.**

5. ANNUAL REPORTS AND ACCOUNTS

5.1 (i) Scottish Borders Council Annual Reports and Accounts 2016/17

With reference to paragraph 6 of the Minute of 28 June 2017, there had been circulated copies of a report by Audit Scotland, the Council's external auditors. The report explained that Audit Scotland had now completed the audit of the Council's Annual Accounts for 2016/17 and had given an unqualified audit opinion in all cases. In addition, Audit Scotland concurred with management's accounting treatment and judgements; and had reached positive conclusions in respect of financial sustainability, financial management, governance, transparency and value for money. Ms Woolman, Audit Scotland was in attendance and summarised the report, in addition she advised that there were no material adjustments or unadjusted errors arising from the audit.

- 5.2 In response to questions, Mr Robertson advised that the £0.5m overspend noted with regard to the Scottish Wide Area Network (SWAN) was due to slippage in the project caused by the failure of an external partner to migrate sites. An action to recover this cost was ongoing in conjunction with Dumfries and Galloway Council and progress would be reported to the Executive Committee. Mr Robertson highlighted that further improvements would be made to the information Members received as part of budgetary

monitoring process including regular review of Strategic Asset Management Plans being developed for all asset classes. These would include information regarding quality, risk and delivery of benefits. With regard to the 46 outstanding equal pay claims, Mr Robertson advised that HR were progressing these as quickly as possible. Mr Robertson then referred to Bridge Homes LLP and explained that the project had been established to deliver 200 affordable housing across the Scottish Borders. Following a detailed analysis of available sites, the project had developed where possible. However, there was now likely to be limited opportunity for further development.

5.3 (ii) Scottish Borders Council Pension Fund Annual Audit Report 2016/17 and Statement of Accounts 2016/17

With reference to paragraph 7 of the Minute of 28 June 2017 there had been circulated copies of the above reports by Audit Scotland in respect of Scottish Borders Council Pension Fund. Ms Woolman advised there were no material adjustments to the unaudited financial statement arising from the audit. The only misstatement identified related to an overstated debtor with the Council of £168k. This had been adjusted by finance officers. Mrs Woolman highlighted the key message from the report was the benefits going out during 2016/17 exceeded the contributions coming in. However, it was noted that the Investment Strategy had been revised to reflect this, with a move away from growth generating assets such as equities to income generating assets which would positively impact on cash flow.

5.4 In response to questions, Mr Robertson advised that the Pension Fund assets were sufficient at the 2014 triennial valuation to meet 101% of its liabilities. The Council's Actuary, Barnett Waddingham, would present the 2017 Triennial valuation in December 2017 and this would set contribution rates for the following three years. Mrs Robb reiterated that the Fund's investment strategy had been revised to fulfil cash flow obligations and that instead of reinvesting annual dividends these were being drawn down to fulfil cash flow obligations. With regard to early retirement payments, Mr Robertson explained that this did not adversely affect the Fund as the Council compensated the Fund for all employee contributions that were lost through early retirement via the strain on the fund calculation undertaken for all approved early retirees.

DECISION

AGREED:

- (a) **the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2017 (Appendix 1);**
- (b) **the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2017 (Appendix 2);**
- (c) **the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2017 (Appendix 3);**
- (d) **the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(i));**
- (e) **the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(ii));**
- (f) **the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(iii));**
- (g) **the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(iv));**
- (h) **the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(v));**

- (i) **the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(vi));**
- (j) **the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2017 (Appendix 5);**
- (k) **the SB Supports audited Annual Accounts for the year to 31 March 2017 (Appendix 6 (i); and**
- (l) **the SB Cares audited Annual Accounts for the year to the 31 March 2017 (Appendix 6 (ii).**

MEMBER

Councillor Tatler left the meeting during consideration of the above report.

6. INTERNAL AUDIT WORK TO AUGUST 2017.

- 6.1 With reference to paragraph 9 of the Minute of 28 June 2017, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit and the recommended audit actions agreed by management to improve internal controls and governance arrangements. The work Internal Audit had carried out during the period 10 June to 31 August 2017 was detailed in the report attached to the Agenda. It was noted that during the period, a total of five final Internal Audit reports have been issued. There were eight recommendations made relating to two of the reports which have been accepted by Management for implementation. An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was included in Appendix 1 to the report. The SBC Internal Audit function conformed to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.
- 6.2 Reference was made to paragraphs 3.6 and 3.7 of the report in respect of the Internal Audit Assurance work in progress. It was noted that Internal Audit staff had been involved in the independent validation of revenue budget data migrated to the new Business World ERP system. They had also provided a 'critical friend' role on the "How Good is Your Council" assessment. Discussion followed in respect of Fleet Management and the recommendations detailed in the report. It was agreed that the Service Director Assets and Infrastructure be requested to present a report to the Committee on the corrective actions in place to address the issues identified in the Fleet Management workforce plan.

DECISION:

- (a) **NOTED:**
 - (i) **The final assurance reports issued in the period from 10 June to 31 August 2017 associated with the delivery of the approved Internal Audit Annual Plan 2017/18;**
 - (ii) **The Internal Audit consultancy and other work undertaken in this period; and**
 - (iii) **The assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

- (b) **AGREED to request the Service Director Assets and Infrastructure present a report to the Audit and Scrutiny Committee advising the corrective action in place to address the issues identified in the Fleet Management workforce plan.**

7. **SCRUTINY REVIEW PROGRAMME.**

The Chairman advised that the Scrutiny Review item had been withdrawn. A report and the review program would be presented at the next meeting.

DECISION

NOTED that a report on the Scrutiny Review Program would be presented at the next Audit and Scrutiny meeting.

8. **THANKS**

The Chairman thanked Audit Scotland and officers for their attendance and comprehensive reports.

The meeting concluded at 1.05 pm