SCOTTISH BORDERS COUNCIL

MINUTES of Meeting of the AUDIT AND RISK held in Council Chamber, Council Headquarters, Council Headquarters, Newtown St Boswells on Monday, 19th January, 2015 at 10.15 am

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Present:- Councillors M Ballantyne (Chair), W Archibald, A J Nicol, S Scott and B White (Vice-Chairman)

Apologies:- Councillors J Campbell

In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Service Director Strategy and Policy, Clerk to the Council, Democratic Services Officer (P Bolson); Mr H. Harvie – KPMG, Mr M. Swann – KPMG.

WELCOME

1. The Chairman welcomed Mr Hugh Harvie and Mr Matthew Swann from KPMG to the meeting.

MINUTE

2. There had been circulated copies of the Minute of 10 November 2014. With reference to paragraph 6, line 25, the text should have read ". . . representing a 12% gross return."

DECISION
APPROVED for signature by the Chairman subject to the above amendment.

3. With reference to paragraphs 6 and 7 of the Minute of 10 November 2014, Members requested that a report updating the Committee on the sale of surplus buildings and the use of capital receipts would be presented at its meeting in May 2015.

DECISION
AGREED that the Service Director Commercial Services provide a report updating the Committee on the sale of surplus buildings and the use of capital receipts to its meeting in May 2015.

4. With reference to the decision at paragraph 10(b) of the Minute of 10 November 2014 regarding the business case for a new finance system, Members were advised that the recommendation was agreed by Council as part of the wider budget process and financial planning.

5. With reference to the decision at paragraph 10(c) of the Minute of 10 November 2014, Members were advised that a report by the Chief Officer Audit and Risk on monitoring progress in line with the revised target completion dates would be presented to the Committee in May 2015.

6. With reference to the decision at paragraph 12(b) of the Minute of 10 November 2014 regarding the Treasury Mid-Year Report 2014/15, Members were advised that the report was presented to Council on 20 November 2014 and revised indicators were approved.

DECISION
NOTED.

DRAFT TREASURY MANAGEMENT STRATEGY 2015/16

7. There had been circulated copies of a report by the Chief Financial Officer on the Treasury Management Strategy for 2015/16. Mr Robertson, Chief Financial Officer, explained that the report was to enable the Audit and Risk Committee to fulfil its scrutiny role in relation to Treasury Management activities and to present the proposed Strategy as attached at Appendix 1 to the report to the Audit and Risk Committee prior to Council approval. The report explained that the Strategy was the framework which ensured the Council operated within prudent and affordable limits in compliance with the CIPFA Code. Members noted that the Strategy was based on the Administration’s draft Financial Plans for 2015/16 onwards. Mr Robertson detailed a number of significant changes from the 2014/15 Strategy, namely the removal of an allocation of £13m for Registered Social Landlord (RSL) on-lending within the other relevant capital expenditure amounts following the publication of new guidance relating to on-lending; the cross-referencing to the Council's overall Financial Strategy; the incorporation of reference to the Treasury Management Earmark Balance; and the ability to undertake treasury management for subsidiary companies. Mr Robertson made reference to the Council’s involvement with Bridge Homes LLP, a Council-led affordable house building National Housing Trust Limited Liability Partnership with the Scottish Future’s Trust. He further advised that a mid-year treasury management report and an annual treasury report, which also formed part of the overall treasury activity, would be presented separately to Council for monitoring purposes. The Strategy listed the Treasury Management issues which were covered within the document and Members noted that Capita Asset Services continued to act as the Council's external Treasury Management advisors. Mr Robertson further explained that the Council was required to operate a balanced budget, ensuring that money was available when required, including the funding of its Capital Plans and that as part of achieving these aims, the Financial Strategy set out the financing arrangements necessary to continue to invest in infrastructure through a sustainable Capital Programme. This would be financed by £20.7m of loans charges per annum, reducing to £19.9m per annum from 2017/18. The report explained how capital expenditure plans were financed by capital and revenue resources and that any shortfall in available resources resulted in a net financing need - the amount of money the Council would need to borrow to achieve the expenditure plans. The figures for 2014/15 through to 2017/18 were detailed in the report. Members noted the significant increase in the Capital Financing Requirement from 2014/15 to 2015/16 and were advised that this was driven by the shift in the estimated net financing need for the year mainly for the school building replacements. Further details of this shift were contained in the report and were explained by the Chief Financial Officer.

8. Members requested further information regarding the schedule of loans and it was agreed that the Chief Financial Officer would bring a report to the Audit and Risk Committee on capital debt to be financed over a period extending up to 50 years Members were advised of the Council's policy on borrowing in advance of need and the Chief Financial Officer explained that such borrowing would only be considered when a significant increase in borrowing rates was anticipated. With regard to the Council's investment strategy, Members were advised of the primary investment objectives, namely the safeguarding or security of the repayment of principal and interest of investments on a timely basis; and the liquidity of its investments. Members were informed that under the Local Government Investments (Scotland) Regulations 2010, the Council was required to give approval for all types of investments to be used and to set appropriate limits for the amounts to be held within each type. These investments were entitled Permitted Investments and the report listed the cash type instruments and other investments that could be used by the Council and its subsidiary organisations. Members were advised that the HubCo model had been set up to include the Scottish Futures Trust, Scottish Borders Council and a number of other partners. This allowed the investment in the subordinated debt by the Council in HubCo for projects such as the New Kelso High School and the treasury strategy had previously been amended to permit this investment. The report also explained the Council's creditworthiness policy and detailed the colour banding used to categorise the maximum investment duration for each.

9. Officers responded to a number of requests for clarification raised by Members. In response to a question regarding the figure available for investment, the Chief Financial Officer advised Members that £30m was the maximum but that this could vary. Members were also advised that with regard to Capital Expenditure estimates, optimism bias was applied in terms of individual projects but was not then applied to the overall project. Discussion followed regarding housing development and the building programme for 2015/16 within the Scottish Borders. Members were advised that development was based on housing need, value for money and opportunity, and that a report would be brought forward to the Audit and Risk Committee in due course, updating the Members on the current position.

DECISION

(a) NOTED the report and Treasury Management Strategy.

(b) AGREED that:

(i) the Draft Treasury Management Strategy 2015/16 be presented to Council for approval; and

(ii) a report be brought to the Audit and Risk Committee on the schedule of loans outstanding over the last 50 years; and

(iii) a report be brought to the Audit and Risk Committee updating Members on the current position in terms of the Council's policy on housing development and building programme.

<u>EXTERNAL AUDIT SCOTTISH BORDERS COUNCIL AUDIT STRATEGY AND PLAN OVERVIEW 2014/15</u>

10. There had been circulated copies of a report by KPMG, the Council's external auditors, on the Audit Strategy Review and Plan for year ending 31 March 2015. Mr Harvie explained that KPMG's audit took into account the broad risk profile of Scottish Borders Council and included consideration of other areas of assurance such as Shared Risk Assessment (SRA). The approach was risk-based and focussed on an understanding of the Council and the wider environment within which it operated and also reflected the expectations of Audit Scotland and its Code of Audit Practice, as detailed in the report. Mr Harvie explained that the Council was responsible for financial statements which showed a true and fair view of its affairs and for establishing arrangements which ensured that fraud and other irregularity were prevented and detected; affairs were managed in accordance with proper standards of conduct; and that Best Value was achieved. In terms of Revenue, the report noted that the financial outturn for 2013/14 showed an underspend of £451,000 against the final revised budget which was, in part, due to staff cost savings as a result of the interim management structure in place prior to the implementation of the new corporate management arrangements in April 2014. Members noted that following appropriate action to deliver efficiency savings during the year, performance to date in 2014/15 indicated that the majority of savings were being delivered in line with the financial plan. The Capital expenditure for 2013/14 showed an underspend of £2.3m due mainly to re-profiling of a number of projects amounting to £2.2m and project underspend of £100,000.

11. With regard to significant risks, KPMG had identified two areas in the initial risk assessment for 2014/15, namely fraud risk from management override of controls and fraud risk from income recognition. The report provided further details on how KPMG would continue to monitor these risks within its audit. Other focus areas identified in the report included accounting for landfill sites and noted that there was a requirement for local authorities to adhere to IAS 37 *Provisions.* The report noted that the Council had considered the future costs of landfill sites and relevant capital costs for their decommissioning of £1.2m at 31 March 2014. The Council's future strategy in relation to landfill was still being determined therefore the costs of ongoing aftercare and monitoring costs following decommissioning had still to be identified. Mr Harvie advised Members

that although there were some changes to the Code of Practice which determined the way in which financial statements were prepared by the Council, he was of the opinion that the underlying accounting policies were expected to remain substantially consistent with the previous year. With regard to the financial reporting for Charitable Trusts, it was noted that three new charitable entities had been registered and that they would be subject to audit along with existing Common Good Funds. The report went on to detail the management responsibilities and actions in relation to a number of mandatory communications required by Auditing Standards covering the areas of fraud, related party transactions and independence. With regard to materiality, the report explained that this was based on total expenditure and took into account the low risk nature of the Council. Mr Harvie informed Members that there was no materiality level attached to fraud. Mr Harvie explained that governance and scrutiny arrangements were reviewed taking into account the Shared Risk Assessment (SRA), Best Value and the Single Outcome Agreement (SOA) and that through the SRA process one area had been identified for follow-up in 2014/15 relating to the Council's review of governance and accountability. The report detailed KPMG's general administrative arrangements and the timeline for reports being presented to the Audit and Risk Committee in 2014/15.

12. Discussion followed and Members requested clarification in relation to some aspects of fraud and its management within the Council. With regard to the risk of fraud, Members were advised that fraud tended to involve cash and that it was essential for there to be clear definitions of roles and responsibilities with fraud risk procedures being kept up to date and opportunities for staff to report any suspicion of fraud within the organisation. External fraud was addressed within assessment of risk and it was further noted that it would be Best Practice for anti-bribery procedures to be included as part of the Governance of the Council.

DECISION
NOTED the report.

INTERNAL AUDIT WORK 2014/15

13. With reference to paragraph 17 of the Minute of 23 September 2014, there had been circulated copies of a report by the Chief Officer Audit and Risk providing the Audit and Risk Committee with details of the recent work carried out by Internal Audit, the recommended audit actions agreed by Management to improve internal controls and governance arrangements and other internal audit work currently in progress. The work Internal Audit had carried out in the period from 30 August to 19 December 2014 was detailed in the report. During that period, a total of 10 final internal audit reports had been issued on Communications; Overtime; Earlston High School; Eyemouth High School; Hawick High School; LEADER Grant Funding Compliance; European Fisheries Fund Grant Funding Compliance; Homecare; St Ronan's Residential Home and Tweeddale Day Service; and Flood Risk and Coastal Management. There were 11 recommendations made (no Priority 1 [High Risk], 1 Priority 2 [Medium Risk] and 10 Priority 3 [Low Risk]) specific to 4 of the reports and management had agreed to implement the recommendations in all cases. The report detailed the work in progress to deliver the Internal Audit Annual Plan for 2014/15. Members noted that there were a further 20 audits which had been assigned or were at various stages of completion and that the findings from these would be reported at a future meeting. The Chief Officer Audit and Risk confirmed that findings from recent audits would be taken into account to inform future audit plans. Members requested clarification on a number of points and officers provided additional detail. In respect of Arm's Length External Organisations (ALEOs), Members were advised that it was likely that an ALEO's governance arrangements would be included as part of work carried out by Audit and Risk but that no details had yet been determined for the Care Company ALEO. Mr Robertson advised that Scottish Borders Council would provide services such as Finance, Payroll, HR, IT, Audit and Risk for a transitional 2 year period to the Care Company ALEO and thereafter, any arrangements would be part of a contract. Mr Harvie, KPMG, confirmed that ALEOs would also be covered in reports by the external auditors. Members were advised that ALEOs would be

responsible for establishing their own governance arrangements including audit and that the Council would be responsible for monitoring the service provision. It was further noted that, in terms of the Care Company ALEO, the Care Inspectorate also had an external scrutiny and inspection role.

DECISION
NOTED the final reports issued in the period from 30 August to 19 December 2014 and acknowledged satisfaction with the recommended audit actions agreed by Management to improve internal controls and governance arrangements.

RISK MANAGEMENT REVIEW AND REVISED POLICY STATEMENT

14. There had been circulated copies of a report by the Chief Officer Audit and Risk providing the Audit and Risk Committee with details of the outcomes from the Risk Management Review and seeking agreement to recommend the revised Risk Management Policy to Council for approval. The report explained that the previous review of the Council's management of risk arrangements had been undertaken in 2011 and that the Risk Management Policy had been in operation since September of that year. Good practice determined a need for a review of the current policy, processes and strategy that underpinned the Council's risk management arrangements and this work commenced in March 2014. The report detailed the outcomes of that review as well as recommending improvements to refine the risk management arrangements to ensure their ongoing effectiveness. These improvement actions covered areas such as Policy; Procedures and Strategy; Alignment with Business Planning process; Training; Facilitated workshops; Future use of Covalent; Roles and Responsibilities; and Reporting. The Appendix to the report laid out the Risk Management Policy Statement and Members noted that this would be supported by the revised Strategy, processes and training programme. Discussion followed regarding the Council's Waste Management process and any potential financial risk to the Council under the present scheme. Mr Robertson explained that the commercial contract had been agreed according to the Council's Waste Management Strategy. Further negotiations for financial closure of the project would be presented to Council for agreement or, if so determined, the Waste Management Strategy would be revisited. The project was part of the Council's Risk Register and the risks were therefore set out at each stage of development. In terms of the Risk Management Policy Statement, Members requested that two amendments were made to this document. These were that the words " . . . and will report to Elected Members on these risks." be added at the end of the paragraph entitled Roles and Responsibilities – Corporate Management Team; and that the process by which risk management would be applied within programme and project management be more explicitly included in the Statement within the first paragraph on page 3. It was agreed that the revised Statement be circulated to the Audit and Risk Committee prior to it being presented to Council.

15. Members discussed Covalent and the way in which it was used by officers to assist in risk management and reporting within departments and services. Following discussion, it was agreed that the Chief Executive, Depute Chief Executive People, Depute Chief Executive Place, Service Director Strategy and Policy, Corporate Transformation and Services Director and the Chief Financial Officer attend the next meeting of the Audit and Risk Committee in order to provide Members with information on the use of Covalent and the Corporate Risk Register and also to identify senior officers to attend future Audit and Risk Committee meetings as determined by the Members to outline the risks within their departments/ services.

DECISION

(a) ACKNOWLEDGED that it was satisfied with the outcomes of the risk management review and endorsed the recommendations for improvement to refine the risk management arrangements at the Council to ensure their ongoing effectiveness;

(b) AGREED that:-

(i) **within the Risk Management Policy Statement, the words " . . . and will report to Elected Members on these risks" be added at the end of the paragraph entitled Roles and Responsibilities – Corporate Management Team;**

(ii) **the process by which risk management would be applied within programme and project management be more explicitly included in the Risk Management Policy Statement within the first paragraph on page 3;**

(iii) **the revised Risk Management Policy Statement be circulated to the Audit and Risk Committee prior to it being presented to Council for approval; and**

(iv) **the Chief Executive, Depute Chief Executive People, Depute Executive Place, Service Director Strategy and Policy, Corporate Transformation and Services Director, and the Chief Financial Officer attend future meetings of the Audit and Risk Committee in order to provide Members with information firstly on the Corporate Risk Register and then how risk management (including the use of Covalent) was embedded within their departments/services;**

(v) **thereafter, Members would identify which senior officers they would wish to attend future Audit and Risk Committee meetings to outline the risks within their departments/services.**

* (c) **AGREED TO RECOMMEND that the revised Risk Management Policy Statement at Appendix 1 be approved.**

The meeting concluded at 12.25pm.

Appendix 1

RISK MANAGEMENT POLICY STATEMENT

Introduction

Scottish Borders Council (SBC), like all organisations, faces a wide range of risks at all levels of the organisation. The aim of this policy is to communicate why risk management should be undertaken, provide a common risk management language and a description of the approach that will be adopted by SBC to manage its risks. This policy is supported by the Risk Management Process Guide and Risk Management Strategy which is underpinned by the Management of Risk (M_o_R) Guide and its associated framework, principles, approach and processes.

SBC understands that effective Risk Management is one of the foundations of effective Corporate Governance which has been adopted in its Local Code of Corporate Governance. Compliance with the principles of sound corporate governance requires SBC to adopt a coherent approach to the identification and effective management of the risks with the outcome that better and more assured risk management will bring many benefits to SBC and the people it serves.

SBC recognise that risk management should be aligned with corporate objectives and will therefore be considered within the business planning process. This ensures that the risks to achieving these objectives are identified and prioritised. The risk management landscape is dynamic and, as local authorities increasingly move towards arms-length delivery of essential services and partnership arrangements, the spectrum of risks that SBC is exposed to also increases.

Therefore, SBC will continue to systematically identify, analyse, evaluate, control and monitor those risks that potentially endanger or have a detrimental effect upon its people, property, reputation and financial stability whether through core service delivery or through a programme of change.

Risk appetite and capacity

Risk appetite is how much risk SBC is willing to seek, accept or tolerate. This will differ dependent on the Perspective being assessed (Strategic long term, whether at Directorate or Corporate level; Programme/Project/Service level medium term or Operational short term). A consistent approach to identifying and analysing risk will therefore be followed, which will be consistent and compatible with SBC's capacity to bear and manage risk. This will be supported by the Risk Management Process Guide and Risk Management Strategy, to ensure that SBC, nor its stakeholders, are exposed to an unknown, unmanaged or unacceptable degree of risk.

Risk tolerance and thresholds

Risk tolerance will be determined by using a combination of the Risk Impact and Likelihood / Probability Matrix, as detailed in the Risk Management Process Guide; by the proximity of the risk; by considering the level of insurance cover in place (if applicable); and by determining whether a risk needs to be managed at a higher level because of the impact if the risk materialises.

Procedure for escalation and delegation

Escalation is the process whereby a risk has exceeded tolerance thresholds at the perspective in question and action or oversight is required at a more senior level. This could be because the impact if the risk materialises is too great to be managed at that level or because the risk is corporate wide. All managers have the responsibility to ensure that risks escalated to them are considered by following the Risk Escalation Procedure detailed in the Risk Management Process Guide. Escalated risks may be overseen at a higher level and actions to mitigate them delegated to another level within SBC or partner organisation.

Project level – Following discussion at project meeting, an Exception Report will be raised to the Project Executive. The risk will then be passed to the Programme Manager to escalate and/or manage appropriately.
Programme level – The Programme Manager will escalate the risk to the appropriate Service Director who will then make a decision on where the risk should be managed and/or what actions are to be taken.
Operational level – Every member of staff has a responsibility to report a risk to their line manager. The line manager must then decide at what level the risk should be managed and/or what actions are to be taken.

Roles and responsibilities

The Council will continue to support its people to develop the appropriate skills and competencies so as to enable them to manage risk effectively and will recognise risk management as a core management competency.

Corporate Management Team (CMT)

CMT will act as risk champions, driving risk from the top down, ensuring all major decisions are subject to a risk assessment and fostering a supportive culture where all members of staff are openly able to discuss and escalate risks to the appropriate level. CMT will regularly review the most serious risks threatening strategic objectives and will report to elected members on these risks.

Audit & Risk Committee

The Audit & Risk Committee will oversee the adequacy and effectiveness of the Council's risk management arrangements.

Senior Management

Senior management will ensure that they understand the risk policy, process and reporting requirements; ensure risk registers are compiled and maintained for each Service, Programme or Project; escalate risks as required by this policy; support internal and external audits; and carry out the complete risk management process on all major activities.

Chief Officer Audit & Risk

The Chief Officer Audit & Risk will develop and maintain corporate risk management strategy, policy and procedures and ensure these are communicated effectively throughout the Council and that processes are in place to embed this in the Council's culture and working practices.

Senior Risk Officer

The Senior Risk Officer will support the management of risk by: monitoring that the processes and procedures are followed; monitoring that risk registers are in place and reviewed, aligned with the business planning process; preparing management reports; offering advice, guidance, training and support; and facilitating risk workshops.

Risk management process

Risk management is not a one-off exercise. It is a continuous process because the decision making processes it underpins are continuous. Risk management must become an integrated part of good management within SBC, but not be over bureaucratic and a process for its own justification. To these ends it will be aligned with the business planning process and reporting schedule. The process to be adopted is described in the document Risk Management Process Guide.

Key performance indicators and early warning indicators

Key performance indicators (KPIs) and early warning indicators (EWIs) will be regularly monitored as part of the business planning and performance management process. As risk management is inextricably linked to this process, monitoring of the KPI's and EWI's will ensure that potential areas of risk are identified and checked.

Scope

Risk management will be applied to every level within SBC, including transformation and change programmes underpinned by robust programme and project management e.g. MSP and PRINCE2.

It will be part of the decision making process when developing and reviewing business plans (core business, transformation and change) whether services are directly or externally delivered and when considering alternative service delivery arrangements including partnership, arm's length external organisations and outsourcing.

Reporting

Reporting will be in line with the business planning process and include:

- ☐ Quarterly report to CMT and Bi-annual report to the Audit & Risk Committee on the status of key risks and risk management actions.
- ☐ Monthly report to the departmental management teams on the status of key risks and risk management actions.
- ☐ Services will submit monthly key performance indicator reports in line with the business planning process.
- ☐ Individual risk reports will be prepared prior to each partnership, contract or outsourcing decision.

Budget

All the costs involved are contained within the central Risk Management or departmental budgets. Any additional costs arising from enhanced risk mitigation will have to be considered and prioritised against other pressures in the revenue budget. Integration of Risk Management activity within the business planning process should assist in supporting specific business cases for appropriate budget allocations.

Quality Assurance

This policy will be subject to document control, version control, be reviewed at least annually, and be revised to reflect changes in legislation, risk management best practice, and significant changes in corporate governance.

Annual Review

Risk management procedures will be reviewed annually to ensure their continued relevance and effectiveness.

Glossary of terms

For risk management to be effective all participants must speak the same language. A detailed glossary of terms is included in the Risk Management Process Guide.

10. **ANY OTHER ITEMS PREVIOUSLY CIRCULATED.**

11. **ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT.**

The meeting concluded at 12.25 pm