

SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE

MINUTES of Meeting of the AUDIT AND RISK held in Council Headquarters, Council Headquarters, Newtown St Boswells on Monday, 23rd March, 2015 at 10.15 am

Present:- Councillors M Ballantyne (Chair), J Campbell, A J Nicol and B White (Vice-Chairman)
Mr D Gwyther.

Apologies:- Councillors W Archibald and S Scott; Mr G Tait.

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

1. **MINUTE**

There had been circulated copies of the Minute of 19 January 2015.

DECISION

APPROVED for signature by the Chairman.

With reference to paragraph 9(b)(ii) of the Minute of 19 January 2015, regarding a report to the Audit and Risk Committee on the schedule of loans outstanding over the last 50 years, there were circulated prior to the end of the meeting a list of SBC Loans & Advanced Summary Principal Outstanding as at 23 March 2015 which amounted to £170m over 50 years. A spike for repayment was expected in 2052/53 which reflected previous rescheduling of Public Works Loan Board debt to take up more favourable interest rates at that time. The Council currently had long term assets of £421m at 31 March 2014, including PPP assets. PPP debt of £56m was not included in the aforementioned £170m figure.

With reference to paragraph 9(b)(iii) of the Minute of 19 January 2015, regarding a report updating Members on the current position in terms of the Council's policy on housing development and building programme, the Service Director Strategy and Policy advised that he would check on the status of this report.

With reference to paragraph 15(c) of the Minute of 19 January 2015, regarding the Revised Risk Management Policy Statement, this had been approved at the meeting of Scottish Borders Council held on 19 February 2015.

DECISION

NOTED.

2. **EXTERNAL AUDIT INTERIM MANAGEMENT REPORT 2014/15**

There had been circulated copies of an Interim Management Report and Audit Status Summary by KPMG, the Council's External Auditors. Mr Hugh Harvie of KPMG presented the report which gave an update on significant risks and other focus areas which included the revenue and capital financial positions; efficiency savings; reserve levels; valuation of property, plant and equipment; accounting for landfill sites; and pensions. Interim audit fieldwork had looked at the control framework for governance arrangements, including some of the significant changes occurring at the Council and the results of KPMG's consideration of these from an audit perspective; and in a similar way, systems controls had also been tested. Details were given of the audit timeline and

communications, and data analytics. Finally an action plan gave details of the four Grade-3 (minor) recommendations on organisational policies, bank reconciliations, journal authorisation and password policy. In response to a question about the % of savings achieved in line with the Council's Financial Plan, the Chief Financial Officer advised that CMT received a regular update on such performance, with quarterly reports to the Executive Committee. At the end of February 2015, just less than 90% of savings had been achieved in line with the Financial Plan and the Chief Financial Officer confirmed he was comfortable with progress and the way savings were being tracked.

**DECISION
NOTED.**

3. EXTERNAL AUDIT SCOTTISH BORDERS PENSION FUND AUDIT STRATEGY 2014/15

There had been circulated copies of a report by KPMG, the Council's external auditors, on Scottish Borders Council's Pension Fund Audit Strategy Review and Plan for year ending 31 March 2015. Mr Hugh Harvie of KPMG presented the report which gave details of the financial context and audit focus areas, including significant risks, and also considered KPMG benchmarking analysis, the presentation of financial statements, and mandatory communications in setting audit materiality. In this latter respect there was an error in the figure within the narrative on page 8 of the report, which should have read £21,000 and not £37,500. The Chief Financial Officer confirmed that the diagrams on pages 6 and 7 of the report were theoretical examples and did not reflect the actual position of the Council's Pension Fund.

**DECISION
NOTED.**

4. PENSION FUND REFORMS

There were issued at the meeting, copies of slides on new governance arrangements for the Council's Pension Fund. Mrs Lynn Mirley, Corporate Finance Manager, advised Members that legislation was introducing a National Scheme Advisory Board to advise Scottish Ministers and Scheme Managers/Pension Boards. A new Pension Board needed to be set up with equal number of employer and employee representatives (min of 4 each), whose members could not also be a member of the Pensions Committee. A copy of the proposed constitution of the Pension Board was also issued at the meeting. The Chair of the Pension Board would rotate between the Trade Unions and the Council as employer; and the primary responsibility of the Board was to assist the Scheme Manager in securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme, as well as requirements imposed in relation to the Scheme by the Pensions Regulator. It was intended that the Board would meet at the same time as the Pension Fund Committee on a quarterly basis. The Pension Board could determine the areas it wished to consider, including – reports produced for the Pensions Committee; requisition reports from the Scheme Managers on any aspect of the Fund; monitor investments and the investment principles/strategy/ guidance; the Fund annual report; external voting and engagement provisions; Fund administrative performance; actuarial reports and valuations; Funding policy; and any other matters that the Pensions Board deemed appropriate. The Pension Fund Committee currently had 12 members: 7 Elected Members; and 5 non-voting members appointed from a Scheduled Body, an Active Admitted Body, and each of the 3 recognised Trade Unions. The proposal was that the 5 non-voting members of the Pension Fund Committee be removed as they would be represented on the new Pension Board, thus avoiding the joint meeting of the 2 bodies becoming too large and unwieldy. It was further intended that a new Investment and Performance Sub-Committee of the Pension Fund Committee be set up which would meet with the Individual Fund Managers and make recommendations to the joint meeting of the Pension Fund Board and Pension Fund Committee. The proposals would be considered by Scottish Borders Council at its meeting on 2 April 2015.

DECISION

NOTED.

5. INTERNAL AUDIT WORK 2014/15 TO FEBRUARY 2015

With reference to paragraph 13 of the Minute of 19 January 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk providing details of the work carried out by Internal Audit from 20 December 2014 to 27 February 2015 along with the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and internal audit work currently in progress. During this period a total of 6 final internal audit reports had been issued. There were 8 recommendations made (0 Priority 1 High Risk, 0 Priority 2 Medium Risk, and 8 Priority 3 Low Risk) specific to 3 of the reports. Management have agreed to implement the recommendations in all cases to improve internal controls and governance arrangements. The report went on to detail current work in progress to deliver the Internal Audit Annual Plan 2014/15 and other productive work relevant to the Internal Audit function fulfilling its remit as set out in its approved Charter. An executive summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations and the Chief Officer Audit & Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was shown in Appendix 1 to the report. A position statement on Management's Progress with implementation of Improvement Actions within the Annual Governance Statement 2013/14 was shown in Appendix 2 to the report.

Members asked specific questions around the audits on Income Charging, Billing and Collection; Criminal Justice; Neighbourhood Management; and Health and Social Care Integration. The Chief Financial Officer confirmed that the Council policy was to minimise the level of debt outstanding as far as practicable while recognising that some debt was covered as "charging orders" against property for clients currently residing in care homes. With regard to Criminal Justice, the Service Director Policy and Strategy confirmed that where someone had been on a previous Community Payback Order and moved on to a new one, they would need a further assessment. In terms of fault reporting via the website for Neighbourhood Management issues, officers undertook to bring information back to the Committee on the numbers of faults, complaints, etc reported through the website. It was subsequently agreed that this information could best be provided in the form of a presentation by the Service Director Neighbourhood Services to the next Audit and Risk Committee. Members also considered the different elements of risks associated with outsourcing services and Health and Social Care Integration. The risk of delivering statutory services remained with the Council, but with a different set of governance requirements and service delivery now delivered and managed through a contract with SBCares rather than direct service provision by the Social Work Department. With respect to Health and Social Care integration, Audit Scotland was seeking an assurance from Internal Audit that they had been appropriately engaged and consulted in the development of Health and Social Care Integration Schemes. This assurance was provided verbally by the Chief Officer Audit & Risk at the meeting as follows: The Health and Social Care Integration Scheme for the Scottish Borders has been developed with the full involvement of the Council's Internal Audit section. The Chief Officer Audit & Risk confirmed she has been fully involved in developing the governance scheme for the Partnership as a member of the Integration & Governance working group, and has been consulted on the draft Scheme of Integration. Councillor Nicol asked for clarification concerning the current status of the Kelso High School replacement project and received an update from the Chief Financial Officer, with the assurance that a report would be considered by the relevant Committee at the appropriate time.

DECISION

- (a) **NOTED the final reports issued in the period from 20 December 2014 to 27 February 2015.**

- (b) AGREED to acknowledge satisfaction with the recommended audit actions agreed by Management to improve internal controls and governance arrangements.**

6. INTERNAL AUDIT CHARTER

With reference to paragraph 6 of the Audit Committee Minute of 11 March 2013, there had been circulated copies of a report by the Chief Officer Audit and Risk providing the Audit and Risk Committee with the updated Internal Audit Charter – which defined the terms of reference for the Internal Audit function to carry out its role - for approval. Internal Audit was an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examined, evaluated and reported on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk. In terms of the Public Sector Internal Audit Standards (PSIAS), the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. The authority for Internal Audit to operate in Scottish Borders Council was contained in the Local Code of Corporate Governance and in the Financial Regulations. The Internal Audit Charter expanded upon that framework: defining the detailed arrangements and setting out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit and Risk was the Head of Internal Audit at Scottish Borders Council. The Internal Audit Charter was attached as Appendix 1 to the report and would ensure that Internal Audit was tasked to carry out its role in accordance with best Corporate Governance practice.

DECISION

AGREED to approve the updated Internal Audit Charter as detailed in Appendix 1 to the report.

7. INTERNAL AUDIT ANNUAL PLAN 2015/16

With reference to paragraph 9 of the Minute of 10 March 2014, there had been circulated copies of a report by the Chief Officer Audit and Risk providing details of the proposed Internal Audit programme of work 2015/16, which would enable the Chief Officer Audit and Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment and to gain approval of the Internal Audit Annual Plan 2015/16 for Scottish Borders Council. The SBC Internal Audit function followed the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 which requires the chief audit executive to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. This plan also required to be sufficiently flexible to reflect the changing risks and priorities of the organisation. A fundamental role of the Council's Internal Audit function was to provide senior management and Members with independent and objective assurance which was designed to add value and improve the Council's operation. In addition, the Chief Officer Audit and Risk was also required to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. The proposed Internal Audit Annual Plan 2015/16, detailed in Appendix 1 to the report, set out the programme of work necessary to enable the Chief Officer Audit & Risk to prepare such an opinion. Key components of the audit planning process included a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. There were staff and other resources in place to achieve the Internal Audit Annual Plan 2015/16 and to meet its objectives. The Chief Financial Officer confirmed that the relationship between spend and outcomes was audited through the Best Value Review and reviewed through the quarterly performance monitoring reports considered by the Executive Committee. The Service Director Strategy and Policy further confirmed that the Council's Corporate Management Team met regularly to consider finance, performance and corporate transformation at the same time and, through transformation, services had now been base-lined.

DECISION

AGREED to approve the Internal Audit Annual Plan 2015/16.

The meeting concluded at 12.30 pm