

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, 28th September, 2015 at 10.00 am

Present: - Councillors M Ballantyne (Chairman), J Campbell, A Nicol, S Scott, B White; Mr D Gwyther.
Apology:- Councillor W Archibald.
In Attendance:- Chief Financial Officer, Corporate Transformation and Services Director, Senior Internal Auditor, Clerk to the Council, Democratic Services Officer (F. Henderson); Mr H Harvie – KPMG, Mr M Swan - KPMG.

1. WELCOME

The Chairman welcomed to the meeting Mr Hugh Harvie and Matt Swan from KPMG. The Chairman further advised that the vacancy for an external member of the Audit and Risk Committee was currently being advertised and interviews would be held in the near future. Mr Gwyther had agreed to continue as one of the external members of the Audit and Risk Committee.

**DECISION
NOTED.**

2. MINUTE

2.1 There had been circulated copies of the Minute of 30 June 2015.

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

2.2 With reference to the decision at paragraph 1.3 of the Minute of 30 June 2015 regarding the informal briefing on Treasury Management/Capital for Elected Members, it was confirmed that this was now in the diary.

**DECISION
NOTED.**

2.3 With reference to the decision at paragraph 4.3(c) and (d) of the Minute of 30 June 2015 regarding the inclusion in the Corporate Counter Fraud Strategy of the timescales for the presentation of reports to the Audit and Risk Committee, and the recommendation of the revised Corporate Counter Fraud Policy and Strategy to Council, the Chief Financial Officer confirmed that these had been actioned.

**DECISION
NOTED.**

2.4 With reference to the decision at paragraph 5(b) of the Minute of 30 June 2015 regarding the publication of the Audit and Risk Committee Annual Report 204/15 on the Council's website, the Chief Financial Officer confirmed that this had been published.

**DECISION
NOTED.**

3. **SCOTTISH BORDERS COUNCIL ANNUAL AUDIT REPORT 2014/15**

There had been circulated copies of the draft Annual Audit report from the Council's External Auditors, KPMG. The report summarised the findings of KPMG in relation to the audit of Scottish Borders Council for the year ended 31 March 2015, highlighting the key issues and financial position. KPMG had issued an unqualified audit opinion on the 2014/15 financial statements. Mr Harvie of KPMG presented information on the strategic overview and use of resources; financial statements and accounting; corporate governance; and performance management arrangements. Members asked Mr Harvie about the Council's approach to reserves, which was risk rather than percentage based, and Mr Harvie judged that although this differed from the approach used by other Councils, he considered the Council's approach reasonable. The Chief Financial Officer confirmed that in terms of payments for the Borders Railway, the Council was liable to pay £8.5m over 30 years, which was anticipated to be funded from developer contributions. At the present time, £1m was due to be paid and this had been funded from developer contributions so there was no need to make provision within the Council's accounts, although this would be kept under review throughout the payment period. Mr Harvie spoke of the governance arrangements; the waste contract termination, and the External Auditors satisfaction that the Council had followed appropriate procedures in relation to its decision; and the action plan for the Council, which contained four Grade 3 (minor) observations. Members also received information on bank reconciliations and the Chief Financial Officer confirmed that the Council's Corporate Management Team had been discussed updating the staff survey.

DECISION

NOTED the draft Annual Report from the Council's External Auditors.

4. **SCOTTISH BORDERS COUNCIL FINAL REPORTS AND ACCOUNTS 2014/15**

- 4.1 With reference to paragraph 6 of the Minute of 30 June 2015, there had been circulated copies of a report by the Chief Financial Officer presenting the Committee with the audited Annual Reports and Financial Statements for 2014/15 for Scottish Borders Council, the Scottish Borders Council Common Good Funds, the Scottish Borders Council Charitable Trusts, and Bridge Homes LLP. The report on the Council's Annual Accounts explained that the Council's External Auditors, KPMG, had completed the audit of the Council's 2014/15 Annual Accounts and had provided an unqualified independent audit opinion. The report further explained that KPMG had identified four Grade 3 (minor) recommendations requiring action and these had been accepted by management and would be enacted within the agreed timescales. As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Common Good Funds, the SBC Charitable Trusts and Bridge Homes LLP as contained in Appendices 1-4 of the report were presented to the Audit and Risk Committee prior to signature. The Chief Financial Officer advised that the regulations governing the presentation of annual accounts had changed significantly this year and a related change in the sign-off process for this year only to comply with the new statutory reporting deadline of 30 September, with the accounts being submitted to the Executive Committee for approval in the absence of a Council meeting within the required timescales. Members commended the improvements made to the presentation of the accounts.
- 4.2 Members asked about particular aspects of the accounts. With regard to the amount spent on roads maintenance it was confirmed that an additional £1m would be spent in 2015/16. The cost of utilities had increased due to a price increase per kwh and the inclusion of street lighting in the calculation of the Council's carbon tax liability for the first time. The switching off of the three biomass boilers in schools had increased energy usage but overall consumption was down by 2.5%. The cost of responding to FOI requests was not recorded but was thought to be fairly high. In terms of the total number of complaints received (excluding those classed as invalid), the Chief Financial Officer advised that the level of complaints was not out of line with other public bodies. The

Council had a robust procedure in place and often managed to resolve complaints at Stage 1. The Corporate Management Team reviewed complaints closely including an analysis of 'lessons learned' to try to reduce any future complaints. The Chief Financial Officer referred to the Council's Annual Accounts, highlighting the main points for 2014/15 and plans for 2015/16; the management commentary; financial position at 31 March 2015, with the delivery of targeted savings; capital financing requirement and reserves, along with Group accounts; and performance priorities. In response to a question, Members were advised that it would be difficult to make comparison with other organisations across Scotland as data was collected differently in each organisation so like for like comparison could not be made. There had been an increase in remuneration but the current senior management structure was an interim one and the Chief Executive was reviewing this. Outstanding PPP debt was reflected in the SBC balance sheet and with regard to finance for the proposed new Kelso High School, there was ongoing debate at national level on how the current impasse regarding ESA10 would be resolved. This potentially could impact on the Council's capital programme if funding was not structured through revenue. Any loans/grants paid to 3rd parties by the Council were included on the debtors balance. No analytical information on these was provided in the accounts but this could be brought separately to the Audit and Risk Committee. Members then discussed the worth of renegotiating existing loan terms under PPP and PFI, and the Chief Financial Officer advised that there was provision within these contracts to allow re-financing under certain circumstances. This was kept under review but at the moment there was no benefit to the Council in pursuing this option under the current interest rate environment.

DECISION

AGREED:

(a) to approve the following for signature by the appropriate individuals:-

- (i) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 1 to the report;**
- (ii) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 2 to the report;**
- (iii) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(i) to the report;**
- (iv) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(ii) to the report;**
- (v) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(iii) to the report;**
- (vi) the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(iv) to the report;**
- (vii) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(v) to the report;**
- (viii) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(vi) to the report; and**

(ix) **the Bridge Homes LLP audited Annual Accounts for the period 7 February 2014 to 31 March 2015, as detailed in Appendix 4 to the report.**

(b) **that the Chief Financial Officer provide a report to a future meeting of the Audit and Risk Committee with a high level analysis of the grants and loans given by the Council to 3rd Parties.**

5. **SCOTTISH BORDERS COUNCIL PENSION FUND ANNUAL AUDIT REPORT 2014/15**

With reference to paragraph 7 of the Minute of 20 June 2015, there had been circulated copies of the draft Annual Audit Report by the Council's External Auditors, KPMG, for Scottish Borders Council Pension Fund for the year to 31 March 2015. Mr Matt Swan of KPMG presented the headlines from the report and advised that the audit of the Pension Fund was now complete and that an unqualified audit opinion on the 2014/15 financial statements had been given. KPMG reported that the Annual Report and Accounts had been prepared to a high standard and that there had been a relatively static position in relation to active contributing membership and a continuing rise in the number of pensioners. Total contributions had increased by £0.7m and benefits payable had increased by £1.3m during the year. The net return on investment had increased to £60.4m in 2015-15 (2013/14 £40.1m) primarily due to the positive change in market value of investments in line with the investment review performed by the Fund's investment consultants, Aon Hewitt, although it was noted that the stock market had fallen in recent weeks. Members confirmed that the Annual Audit report reflected what had been reported to the Audit and Risk Committee throughout the year.

DECISION

NOTED the Pension Fund Annual Audit Report 2014/15.

6. **SCOTTISH BORDERS COUNCIL PENSION FUND ANNUAL REPORT AND ACCOUNTS 2014/15**

With reference to paragraph 7 of the Minute of 30 June 2015, there had been circulated copies of a report by the Chief Financial Officer presenting to Members the Scottish Borders Council Pension Fund's audited Annual Accounts for 2014/15. The report explained that the Council's External Auditors, KPMG had completed the audit of the Council's 2014/15 Annual Accounts. The Annual Audit Report summarised KPMG's conclusions, including an unqualified independent audit opinion; the Accounts having been prepared in accordance with the relevant legislation, Codes of Practice and accounting requirements; and the provision of high quality working papers. Councillor White, Chairman of the Pension Fund Committee, advised that going forward it was hoped to make the report more user friendly and provide help for individuals to plan for their future pension. The Corporate Finance Manager confirmed that a full review of the investment strategy for the Fund was planned over the next 12 months, although there would need to be empirical evidence before making any changes and also to bear in mind the members of the Fund.

DECISION

APPROVED the audited Scottish Borders Council Pension Fund Annual Report and Accounts 2014/15 for signature by the Chair of the Pension Fund Committee and the Chief Financial Officer.

7. **ANNUAL TREASURY MANAGEMENT REPORT 2014/15**

7.1 With reference to paragraph 6 of the Minute of Scottish Borders Council of 20 November 2014, there had been circulated copies of a report by the Chief Financial Officer presenting the annual report of treasury management activities undertaken during 2014/15 financial year to the Audit and Risk 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 required an annual report on treasury management to be submitted to Council following the end of the financial year.

Appendix 1 to the report comprised the annual treasury management report for 2014/15 and contained an analysis of performance against target 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 20 November 2014. The report advised that the Council's capital expenditure for 2014/15 was £31.4m which was £14.4m less than estimated. The Corporate Finance Manager advised that the tables in the report had inadvertently not been updated and those in paragraph 1.3 of the Appendix were the correct ones, and they showed that the Council had not borrowed ahead of need. The Appendix highlighted activity in relation to the treasury management function during 2014/15, the Council's strategy with regard to interest rates and future expectations and how the capital expenditure incurred by the Council in 2014/15 was funded. In terms of the Capital Financing Requirement (CFR), Table 5 contained in the Appendix showed that the Council was not borrowing to support revenue expenditure and had under borrowed by £40.2m. The report explained that the expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk. The actual movement in gilt yields meant that Public Works and Loans Board rates saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February.

- 7.2 In response to questions the Corporate Finance Manager confirmed that the Council had some debt which did not mature until 2060, but these were hard to reschedule to a lower rate without penalty due to the terms of the original agreements. The Chief Financial Officer explained that the Council looked to manage the cost of borrowing to around 10% of revenue. Members discussed the Council's relationship with Scottish Enterprise and the South of Scotland Alliance, with a recent report to the Executive Committee in relation to Business Gateway for support for businesses. In terms of economic development, it was necessary to link to the national agenda to be in a position to maximise funding and inward investment.

DECISION

- (a) **NOTED that treasury management activity in the year 31 March 2015 was carried out in compliance with the approved Treasury Management Strategy and Policy.**
- (b) **AGREED that the Annual Treasury Management Report Year to 31 March 2015, as detailed in Appendix 1 to the report, be presented to Council.**

8. ACCOUNTS COMMISSION ANNUAL REPORT 2014/15

There had been circulated copies of the Accounts Commission Annual Report for 2014/15. The Senior Internal Auditor presented the report and explained the financial context, with 4 specific pieces of work covering procurement in Councils; Borrowing and Treasury Management; Self-Directed Support; and School education. The Annual Overview report published in March 2015 concluded that Councils had managed financial pressures well to date largely by cutting staff numbers, but this alone was not sustainable in the longer term. It was confirmed that all of the Accounts Commission reports were examined by officers and those requiring actions brought either to the attention of the Corporate Management Team and/or to the relevant Committee for consideration.

DECISION

NOTED the report.

9. CORPORATE RISK REGISTER

- 9.1 There were circulated at the meeting copies of the current Corporate Risk Register along with the Risk Identification Prompt List and Categories document. The Corporate Transformation and Services Director, Mr Dickson, explained how the Corporate Risk Register was used in the operational work of the Council, with officers considering the inherent risk and then the controls to be put in place to mitigate these, leading to a residual risk remaining. There were 7 risks, with 3 in particular highlighted at the meeting. The only risk in red at present was the Technology category, which involved the ICT Review and reports to Council on the work which was being carried out with City of Edinburgh Council. This had been highlighted as a red risk as at the time (June 2015) there had been some uncertainty whether Edinburgh would be in a position to award their ICT contract. If this was to be scored again, the risk would be lower as additional resources had been brought in and Edinburgh had now awarded the contract to CGI. Officers were currently working on outline business cases for the provision of various ICT services for Scottish Borders Council and a report was planned to come to Council on 17 December 2015. It was hoped to have information from CGI within the next 3 weeks to allow the Members Working Group to meet initially and then it was planned for that Group to meet on an increasing basis up until the report to Council in December. Mr Dickson confirmed that while officers were in discussion with CGI, no commitment had been made and this would be the case until Council had made its decision in December. At the moment the Council was still in the due diligence phase. The prior information documents were on the procurement portal, but not an invitation to tender.
- 9.2 In relation to Reputational category risk to the Council for externally organised events, Mr Dickson referred to the tragic events of the Jim Clark Rally of the previous year and advised that the inherent risk scored 20. Although the Safety Advisory Group was reviewing events safety processes and procedures, the risks could not be removed entirely. The risk for the Council rested on the wider legal responsibility of set up and planning of an event in terms of general public safety (i.e. members of the public going about their daily lives), with spectators at events the responsibility of the event organisers. Handling of risk was about striking a balance and Mr Dickson mentioned the Tour of the Borders cycle race as a good example. It was acknowledged that Summer Festivals found it challenging to meet the risk management requirements. Mr Dickson highlighted the value of having clear roles and responsibilities within an event's management, and that the Council facilitated and supported events but did not carry the risk/liability, as that remained with the event organisers. All Events and Festivals were assessed by the Safety Advisory Group which enabled a clear understanding of what was required i.e. road closures.
- 9.3 In terms of the Environment category risk, Mr Dickson advised that this related to major incidents, adverse weather events, etc. The list of controls was large as it was necessary to have effective control across all Council Services to ensure the Council was prepared for major incidents, with a huge volume of work carried out on a day to day basis to ensure this happened. As the Council carried significant risks at any given time, this was closely monitored by the Council's Corporate Management Team on a regular basis. In terms of waste management, Mr Dickson advised that this was contained within the Place Department Risk Register, rather than the Corporate Risk Register. The Chief Financial Officer further confirmed that by the very nature of services provided by the Council, there were a number of risk issues, but as long as there were processes in place to manage each of these risks and identify them appropriately within the relevant Department, then this was appropriate. Members then discussed the way risk was identified within committee reports and were advised that should Members have any concerns about any of the content of a particular report, then they should approach the author and/or relevant Director directly before the report was considered at Committee. It was highlighted that communication was not mentioned as a control for the Life and Limb category and Mr Dickson advised that he saw accident reporting information on a monthly basis, with incidents reported to the Wellbeing and Safety Committee on a quarterly basis, which included summaries of the Wellbeing and Safety team's communications to Management

Teams. Individual Health and Safety Advisers also worked with the Departmental Management Teams, with the Council having a good track record due to the effort taken to ensure training and rules were followed.

DECISION

NOTED the update.

10. **INTERNAL AUDIT WORK 2015/16 TO AUGUST 2015**

There had been circulated copies of a report by the Chief Officer Audit and Risk which provided the Audit and Risk Committee with 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; Internal Audit work in progress and the work of Scottish Local Authorities Chief Internal Auditors Group. The work Internal Audit had carried out in the period from 4 April to 28 August 2015 to deliver the Internal Audit Annual Plan 2015/16 was detailed in the report. During the reporting period 5 final internal audit reports had been issued. There was one recommendation made (0 Priority 1 High Risk, 0 Priority 2 Medium Risk, and 1 Priority 3 Low Risk) specific to one of the reports. Management had agreed to implement the recommendation to improve internal controls and governance arrangements. An executive summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations 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 detailed in Appendix 1 to the report. Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), the professional networking group for Heads of Internal Audit, was detailed in Appendix 2 to the report.

DECISION

- (a) **NOTED the final reports issued in the period from 4 April to 28 August 2015 to deliver the Internal Audit Annual Plan 2015/16.**
- (b) **AGREED that the Committee was satisfied with the recommended audit actions agreed by Management.**
- (c) **ACKNOWLEDGED the benefits to Scottish Borders Council Internal Audit function arising from its participation in the SLACIAG national forum for heads of internal audit.**

The meeting concluded at 1.20 p.m.