

# SCOTTISH BORDERS COUNCIL AUDIT AND RISK COMMITTEE

MINUTE of Meeting of the AUDIT AND RISK COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St Boswells on Monday, 18 January, 2016 at 10.15 am

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- Present:- Councillors M. Ballantyne (Chair), I. Gillespie, S. Scott and B White (Vice-Chairman); Mr P. McGinley, Mr M. Middlemiss
- Also present:- Councillor J. Fullarton
- Apologies:- Councillors J. Campbell , A. J. Nicol; Mr H. Walpole
- In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Service Director Neighbourhood Services (for Items 5 & 8), Clerk to the Council, Democratic Services Officer (F Walling); Mr H. Harvie, Mr M. Swann – KPMG.

## 1. ORDER OF BUSINESS

The Chairman varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

## 2. MINUTE

- 2.1 There had been circulated copies of the Minute of 23 November 2015.

### DECISION

**APPROVED for signature by the Chairman.**

- 2.2 With reference to paragraph 3.2 of the Minute, the Chief Financial Officer tabled at the meeting a document summarising grants and contributions to third parties paid by the Council during 2013/14, 2014/15 and 2015/16 to date. These were grouped according to category and gave the scale of grants available. Loans made by the Council, such as those available through Business Gateway, were not included on the list. The Chief Financial Officer highlighted the main categories and schemes under which the grants were made and answered Members' questions. He advised that further detail could be provided to the Committee if required from the comprehensive database within which grants and loans were recorded.

### DECISION

**NOTED.**

- 2.3 With reference to paragraph 6.3 (b) (ii) of the Minute, the Chief Financial Officer advised that the Internal Audit Manager would report directly to the Service Director Regulatory Services during the period in which he would be fulfilling the Chief Audit Executive role, carrying out the planned Audit Reviews for Risk Management and Counter Fraud.

### DECISION

**NOTED.**

## 3. RISK MANAGEMENT IN SERVICES

The Service Director Neighbourhood Services, Mrs Jenni Craig, was in attendance to brief the Committee on the strategic risks facing Neighbourhood Services and to explain the internal controls and governance in place to manage and mitigate those risks. Mrs Craig provided hand-outs to supplement her presentation. She explained that she currently

managed four areas of service, namely Waste Services; Neighbourhood Operations; Customer Services; and Safer Communities. The approach to risk was to have a Risk Register for each of these services, developed through the Business and Financial Planning Processes. Registers were set up and owned by Service Managers and reviewed by the Service Director and Management team which then escalated risks to the Corporate Management Team if considered necessary. Mrs Craig referred to the key factors/major changes facing Neighbourhood Services. These were categorised as: financial pressures; unpredictability of markets; changing service delivery models; increasing demand and requirement for IT; government policies/legislation; welfare reform; economic/environmental change; and health and safety. She gave specific examples within each category and explained how risk was managed through effective project/programme and change management. Risk workshops were used as a key part of the Business Planning process with self-evaluation, inspections and scrutiny playing an important role. In addition to the provision of effective and appropriate training for staff there was regular monitoring of operational risks, with key measures of performance monitored on a regular basis. With regard to welfare reform, Mrs Craig explained that governance was on a partnership basis which included organisations such as Housing Associations and Citizens Advice Bureaux. In this connection an Impacts Group had been set up to anticipate risks in terms of the impact of changes to the provision of welfare benefits. Mrs Craig answered Members' questions on specific areas of risk facing Neighbourhood Services. She confirmed that action plans were informed by previous events, with the response to recent flooding in Hawick and Peebles being a prime example. With regard to Health and Safety considerations, it was accepted that there could occasionally be unintended consequences of a blanket decision made by the Council which affected the way operations were carried out. However Mrs Craig gave an assurance that staff were trained to make an individual risk assessment on site and to make decisions as appropriate. Questions were asked about the measures taken by the Council in response to the recent amber warning for snow. Although the cancellation of school transport, whilst schools remained open, could be seen as transferring a level of risk from the Council to parents, it was stressed that this was not the intention. The decision to cancel transport had not been a unilateral one by the Council but was part of an emergency response based on the amber weather warning in place for that time of day and police advice. Early cancellation of transport allowed parents to make alternative arrangements for child care. Discussion continued about the need for risk assessment of companies with which the Council did business. Members were given assurance that for all projects, including those involving external contractors, risk analysis was routinely carried out at every stage and shared with decision makers at the time. Mrs Craig was thanked for her attendance and presentation.

## **DECISION**

**NOTED the presentation.**

### **4. INTERNAL AUDIT WORK 2015/16 TO DECEMBER 2015**

- 4.1 With reference to paragraph 11 of the Minute of 23 March 2015, 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 with the recommended audit actions agreed by management to improve internal controls and governance arrangements; and internal audit work currently in progress. During the period 1 November to 31 December 2015 a total of seven final internal audit reports had been issued. There were 11 recommendations made (0 Priority 1 High Risk, 4 Priority 2 Medium Risk, and 7 Priority 3 Low Risk) specific to four of the reports. Management had agreed to implement the recommendations 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 the Appendix to the report.

4.2 With regard to the report on Waste and Recycling Services – Trade Waste, Internal Audit considered that the level of assurance able to be given was substantial for Trade Waste legislative compliance, customer contracts, income collection and budgetary control. However Internal Audit only provided limited assurance for the stock control of Trade Waste assets and consumables. There were three recommendations which related to a need to review the Trade Waste Management and Administration database system, the introduction of Stock Control processes, and the need for performance reports regarding contracts, numbers of customers, etc. Mrs Craig, Service Director Neighbourhood Services, advised that discussions had already taken place around Stock Control processes to address the Priority 2 recommendation. She accepted the risks around the old unsupported database currently being used. However work on this was on hold at present due to the fact that IT provision across the whole of the Council was currently being looked at. Consideration would be given by the management team as to whether the risks around the existing database were so significant as to require a short term solution in the meantime. With regard to the report on Homelessness – Rent Accounting System where Internal Audit only provided limited assurance, with the exception of rental charges applied where assurance was substantial, the Group Manager (Housing Strategy and Services), Cathie Fancy, advised that the new Rent Accounting System had been welcomed by her team although the action plan to address gaps and risks in the service's utilisation of the system, which had required a cultural shift, had not progressed as far as had been hoped. With a recent restructure within the Homelessness service and the recruitment to vacant posts it was expected that the implementation of the action plan would be further progressed to address areas of improvement. Ms Fancy welcomed the report from Internal Audit and was confident that the service was on track to deliver on the three Priority 2 recommendations relating to the rent setting policy, sharing information on tenants' change in circumstances, and segregation of duties. She answered Members' questions specific to the Homelessness service. Referring to the internal report on Grants and Following the Public Pound, the Chief Financial Officer advised that management were happy to move forward on the report's findings and had agreed to implement the four Priority 3 audit recommendations within an appropriate timescale. He reiterated that a detailed register of grants was held and that further information could be brought forward if required. However there was no audit evidence that there were any gaps or missed opportunities in terms of income or distribution. It was accepted that behind the recommendations there should be standardisation of the way grants were distributed. In response to a general question on follow-up activity relating to recommendations from internal audit reports, the Chief Officer Audit and Risk confirmed that audit actions were monitored through the Council's performance management system, Covalent. Following presentation of the Internal Audit Annual Report scheduled to be presented in May 2016 Members would have an opportunity of questioning managers on any actions arising from internal audit recommendations which were overdue.

## **DECISION**

- (a) **NOTED the final reports issued in the period from 1 November to 31 December 2015 to deliver the Internal Audit Annual Plan 2015/16; and**
- (b) **ACKNOWLEDGED that it was satisfied with the recommended audit actions agreed by management.**

## **5. TREASURY MANAGEMENT STRATEGY 2016/17**

5.1 There had been circulated copies of a report by the Chief Financial Officer presenting the proposed Treasury Management Strategy 2016/17 for consideration by the Audit and Risk Committee prior to Council approval. The report explained that the Treasury Management Strategy was the framework which ensured that the Council operated within prudent, affordable limits in compliance with the CIPFA (Chartered Institute of Public Finance and Accountancy) Code. The Strategy, which would be submitted to Council on 11 February 2016, was included as an Appendix to the report. It reflected the impact of

the Administration's draft Financial Plans for 2016/17 onwards on the prudential and treasury indicators for the Council. As the Administration's current draft Financial Capital Plans for 2016/17 to 2025/26 would not be presented to Council for approval until 11 February 2016 the Strategy was subject to change.

- 5.2 The report contained a summary of the proposed indicators within the Strategy in Annex A to the Appendix. The Chief Financial Officer outlined the significant changes from the 2015/16 Strategy. There was an increase in the Capital Financing Requirement (CFR) for 2016/17 due to increased capital expenditure in 2016/17 resulting from new projects and from acceleration of a number of projects such as Broomlands PS, Langlee PS and 3G sports pitches. There were additional borrowing requirements associated with the re-phasing of projects from 2015-16 into 2016-17 and future years had impacted on the total CFR. There would also be an increase in the Authorised Limit in 2017/18 associated with the completion of Kelso High School and the resulting Long Term liability and the increase in external borrowing resulting from the capital plan. A table within the report, showing projected external debt over the next four years, indicated that the Council's external debt would become closer to the prudent affordability limit as defined by the Operational Boundary. In response to a question, the Corporate Finance Manager gave an explanation of the principles of financing local authority debt over a 50 year timescale. She explained that the calculation and consequent movement of the Operational Boundary was related to the asset base and was not related to the revenue ability to service the capital spend. However in this respect Members were referred to the Prudential Indicators shown in a table within the Appendix which showed the ratio of Financing Costs to Net Revenue Stream. The Committee was in general agreement with the Chief Financial Officer that it would not be prudent to take decisions that would allow this ratio to increase beyond 10%, although it was suggested that there should be some flexibility around this value to allow the Council to respond if necessary to an unexpected event in terms of capital expenditure. It was recognised, however, that in terms of this ratio the Council would have limited ability to bring forward new capital projects over the next five years; as more capital would be needed to sustain the asset base and extend asset life.

## **DECISION**

- \* **AGREED to RECOMMEND to Council that:-**

- (a) **Council reviews its capital expenditure plans going forward to ensure they remain realistic, affordable and sustainable; and**
- (b) **in all future capital projects, the revenue consequences of such projects be fully considered in arriving at investment decisions.**

## **6. EXTERNAL AUDIT SCOTTISH BORDERS COUNCIL AUDIT STRATEGY AND PLAN OVERVIEW 2015/16**

There had been circulated a strategy and plan overview report by KPMG indicating how the external audit would be delivered for Scottish Borders Council for the year ending 31 March 2016. The Chairman welcomed Mr Harvie and Mr Swann, from KPMG, to present the report. Mr Swann referred to three main areas of the report, namely materiality; significant risks and audit areas; and a summary of the group structure in terms of the scope of the council audit appointment of KPMG. He explained that materiality was considered by reference to the Council's total expenditure. For 2015-16 individual or aggregated financial statement errors of over £6.4 million were considered to be material. With regard to the reporting threshold, KPMG would identify misstatements above £250,000, would report these to the Audit and Risk Committee and assess whether they were indicative of a significantly deficient or materially weak control environment. Mr Swann went on to summarise the significant risks identified, some of these being obligatory under the International Standard on Auditing (UK and Ireland) 315 and some being specific to Scottish Borders Council. He made reference to the Council's intention to make a claim for Bellwin funding to support recovery efforts in the aftermath of the

flooding affecting Hawick and Peebles. Within other focus audit areas Mr Swann highlighted transport infrastructure assets and the fact that local authorities were advised to have implemented a robust project plan through 2015-16 to ensure preparedness for the requirements of the 2016-17 code. The new transport code required measurement of assets on a depreciated replacement cost basis. This would represent a change in accounting policy from 1 April 2016 and require full retrospective restatement. However it was noted that the framework for measurement of the assets was not yet in place. Members expressed concern that this situation presented a risk to officers in terms of compliance with the code. With regard to the scope of the audit Mr Swann explained the diagram of the group structure for the Group financial statements and clarified the scope of the council audit appointment of KPMG. With regard to the integration of health and social care, the report explained that KPMG would consider the date that the Scottish Borders Health and Social Care Integration Joint Board became operational, review financial plans and comment on progress towards establishing effective governance arrangements for the new partnership. There was discussion on the process and factors to be considered for agreeing fees. The Chairman thanked Mr Harvie and Mr Swann for their attendance.

**MEMBER**

Councillor White left the meeting.

**DECISION**

- (a) **NOTED the strategy and plan overview report by KPMG;**
- (b) **AGREED to request KPMG to pass the Committee's concern to Audit Scotland that the fact that the framework for measurement of transport infrastructure assets under the new transport code was not yet in place presented a risk to officers in terms of non-compliance.**

*The meeting concluded at 1.15 pm*