

SCOTTISH BORDERS COUNCIL AUDIT AND RISK COMMITTEE

MINUTE of Meeting of the AUDIT AND RISK COMMITTEE held in Council Headquarters, Council Headquarters, Newtown St Boswells on Tuesday, 28 June, 2016 at 10.15 am

- Present:- Councillors M. Ballantyne (Chair), I. Gillespie, A. J. Nicol (from para 2), S. Scott and B White (Vice-Chairman). Mr M. Middlemiss.
- Also present:- Councillor S. Aitchison (para 2)
Apologies:- Mr H. Walpole.
- In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Service Director Children & Young People (for Item 5), Democratic Services Officer (F Walling); Mr M. Swann – KPMG.

EXTERNAL MEMBER

The Chief Officer Audit and Risk informed the Committee that Mr Paul McGinley had resigned from the Committee due to an unforeseen commitment. Mr McGinley was thanked for his attendance at the previous meetings.

1. **MINUTE.**

There had been circulated copies of the Minute of 9 May 2016.

DECISION

APPROVED for signature by the Chairman.

MEMBER

Councillor Nicol joined the meeting during the discussion below.

2. **RISK MANAGEMENT IN SERVICES.**

The Service Director Children & Young People, Donna Manson, was in attendance to brief the Committee on the strategic risks facing the service, to explain the internal controls and governance in place to manage and mitigate those risks and to demonstrate how risk management was embedded within services. Ms Manson provided hand-outs to supplement her presentation. She explained that Risk Registers were held for each of the following services: Early Years; Schools; Additional Support Needs; Community Learning & Development; Children & Families Social Work; and Business Support. Service Risk Registers were developed through the Business Planning Process and were owned by Service Managers. The Registers were reviewed by the Service Director and Management team with risks being escalated to the Corporate Management Team if considered necessary. Ms Manson referred to the key overarching issues facing her service. With regard to Financial Pressures the challenge was to contribute to savings whilst delivering outcomes but she stressed that the savings identified were deliverable. Within Health and Wellbeing of Children and Families mental health was a growing issue. In this respect the Council was working with partners to improve universal provision and strategies were being developed with young people through the curriculum. With regard to Government policies and legislation, the service had to face increasing demands and expectations of key stakeholders and address any changes. The Service Director highlighted the key risks and challenges as follows: balancing the needs of all families when implementing changes required by new legislation; identifying and adequately

supporting young people with mental and emotional wellbeing issues; ensuring all parts of the service were fully integrated; managing pressures in external placements for care or education which may impact on budget and may not sufficiently meet needs; and failing to achieve attainment targets and positive outcomes for young people through a lack of focus on quality improvement. Ms Manson went on to explain how the management of risk was embedded into the Business Planning Process to ensure risks were reflected in strategic plans and action plans. Partnership working with the NHS was critical. Areas for Improvement and key actions were identified and agreed for each service area. Critical dependencies were also identified such as the School Estate which was currently subject to a review. Risks were further managed through Quality Improvement Frameworks and by developing a culture of self-evaluation, ambition and improvement whilst regularly monitoring risks. In this respect Ms Manson welcomed inspections and both internal and external scrutiny. Key measures of performance arising from effective data capture, analysis and target setting indicated that standards were being raised. Within the National Improvement Framework the Borders were in the top quartile in many areas. Ms Manson answered Members' questions on specific areas of risk facing her service. She confirmed that work had been carried out in advance of the proposed 'Named Person' legislation and that although guidance from Scottish Government was awaited the Council was in a position to implement this. She advised that there was no financial risk associated with this legislation. In response to a question about school buildings and in particular Howdenburn School, Ms Manson referred to the extreme circumstances that caused the storm damage at Howdenburn. She gave assurance that all school buildings in the Scottish Borders had been inspected as part of the National Review of school buildings. The Chairman thanked the Service Director for her attendance and presentation.

DECISION

NOTED the presentation.

3. RISK MANAGEMENT ANNUAL REPORT 2015/16.

With reference to paragraph 14 of the Minute of 19 January 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk. The report provided Members with an overview of Scottish Borders Council's responsibilities in respect of risk management and the progress made to deliver the Council's Risk Management Strategy 2015 including an update on improvement actions to refine the arrangements to managing risk at the Council. The report explained that the Risk Management review was undertaken during 2014, the findings of which were presented to Audit and Risk Committee in January 2015 along with recommended improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness. The status of the corporate risk management improvement actions as at 17 March 2016 were shown in Appendix 1 to the report. The report set out examples of specific work carried out by the Corporate Risk Officer with relevant managers in 2015/16 and the associated positive outcomes and working relationships that had been established. The Appendix outlined actions which had been completed and those due for completion by the end of 2016. Work in progress included a programme of risk management training for relevant managers on the revised policy and process which had been launched during 2015. Workshops in 2015/16, led by the Corporate Risk Officer, had resulted in the development of Risk Registers for the majority of service areas. A Risk Register review process was underway for 2016/17. In response to a question the Chief Officer Audit and Risk, confirmed that there had been appropriate levels of engagement from Departments but that, for reassurance, an update on attendance at training and workshops would be fed back to the Committee. With regard to the improvement action to standardise Risk Reporting reports from Covalent, Members agreed that it would be helpful to have a briefing regarding Management's utilisation of Covalent as a tool in respect of Risk Management, but that this should be part of an informal session.

DECISION

- (a) **ACKNOWLEDGED that it was satisfied with the progress of the risk management improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness; and**
- (b) **AGREED to receive an informal briefing on Management's utilisation of Covalent as a tool in respect of Risk Management.**

4. **COUNTER FRAUD ANNUAL REPORT 2015/16.**

With reference to paragraph 4 of the Minute of 30 June 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk. The report provided an overview of the Council's responsibilities in respect of fraud prevention, detection and action and the progress made to deliver the Council's Counter Fraud Strategy 2015 including an update on improvement actions to refine the arrangements to tackling fraud at the Council and the Annual Fraud Report 2015/16. The report explained that during 2015 the Council refreshed its approach to tackling fraud with a refocus on prevention and detection using fraud risk assessment at its core. There was a 3-year counter fraud strategy and associated improvement plan to embed anti-fraud culture across the Council, taking account of reducing resources. The current position of improvement actions arising from that review were shown in Appendix 1 to the report. The current requirement for reporting frauds and irregularities to Audit Scotland was the reporting of all frauds and irregularities greater than £5,000 where frauds had been perpetrated due to weaknesses in internal controls. There were no frauds greater than £5,000 during 2015/16. Though these are an important performance indicator of how effective the Council's fraud prevention and detection measures were, the Annual Fraud Report to the Audit and Risk Committee included all known frauds. In response to a question the Chief Officer Audit and Risk explained that the 'red' grading from KPMG in June 2015, which was given in the Annual Audit Report 2014/15 on behalf of Audit Scotland, in relation to the Council's participation in the National Fraud Initiative (NFI), was due to a capacity issue within the Council which resulted in no match investigation work having been started. Mr Swann, of KPMG, confirmed that during 2015/16 significant work had been carried out and that the Council's overall participation had been assessed as 'green' (satisfactory) in February 2016, which was given in the Interim Management Report 2015/16. The Chief Officer Audit and Risk advised she would continue to engage with Audit Scotland in respect of this NFI work. In response to further questions Members were advised of the most vulnerable areas for fraud.. In summary the Chairman indicated that the Committee would be concerned to look at any trends if these were to develop.

DECISION

NOTED:-

- (a) **the counter fraud work undertaken to deliver the Council's Counter Fraud Strategy 2015; and**
- (b) **the content of the Annual Fraud Report 2015/16.**

5. **AUDIT AND RISK COMMITTEE ANNUAL REPORT 2015/16 AND ANNUAL SELF EVALUATION.**

With reference to paragraph 5 of the Minute of 30 June 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval of the Audit and Risk Committee Annual Report 2015/16, incorporating its annual self-assessment using the CIPFA Audit Committees Guidance. The Audit and Risk Committee Annual Report 2015/16 was appended as Appendix 1 to the report. The Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 9 May 2016, facilitated by the Chief Officer Audit & Risk. The self-assessments were appended to the report as Appendix 2 (Good Practice Principles) and

Appendix 3 (Effectiveness) for consideration. The outcome of the self-assessments was a high degree of performance against the good practice principles though some areas of improvement were identified to enhance the effectiveness of the Committee. Members discussed the report and agreed that the tables detailed in Appendices 2 and 3 accurately represented the results of the self-assessment exercise completed on 9 May 2016.

DECISION

- (a) **APPROVED the Audit and Risk Committee Annual Report 2015/16 (Appendix 1 to the report) which incorporated its self-assessments (Appendices 2 and 3 to the report), using the CIPFA Audit Committees Guidance; and**
- (b) **AGREED to present the Audit and Risk Committee Annual Report 2015/16 to Council on 25 August 2016 and then publish it on the Council's website.**

6. FINANCIAL REPORTING & SCRUTINY: WHY THE ACCOUNTS MATTER.

There had been circulated for information copies of the Audit Scotland publication entitled 'Financial Reporting and Scrutiny: Why the Accounts Matter'. The document outlined the role of financial reporting, emphasising that effective planning, management and scrutiny of the use of public funds were a key part of a local authority's responsibility. The document outlined the role of the s95 officer, Elected Members and Auditor in the accounts process. With regard to developments in financial reporting in 2014/15 and the challenge faced by Councils to produce the accounts to tighter timescales external auditors had said that Councils generally met this challenge well. They also commented on some areas for improvement. In light of the key messages a list of questions were compiled and presented in an Appendix to the paper which were for Elected Members to consider as part of the accounts scrutiny and approval process. The expectation was that Audit and Risk Committee Members could use the questions in considering the accounts and annual audit report at their meetings. Members agreed that the publication was useful as a reference document for future use.

DECISION NOTED

7. SCOTTISH BORDERS COUNCIL DRAFT REPORTS AND ACCOUNTS 2015/16.

- 7.1 There had been circulated copies of reports by the Chief Financial Officer on the draft Annual Reports and Accounts for Scottish Borders Council, Common Good Funds and Charitable Trusts, and Bridge Homes LLP. The report provided the Audit and Risk Committee with an opportunity to scrutinise the draft Annual Reports and Accounts 2015/16 for Scottish Borders Council and associated Group Accounts prior to submission for External Audit Inspection by the statutory deadline of 30 June 2016. A summary of the draft Annual Reports and Accounts was given at the meeting by the Chief Financial Officer, David Robertson. Handouts were also provided to draw attention to the key highlights. Mr Robertson referred to the protocols and timeline associated with the overview of accounts as set out in the Local Authority Accounts (Scotland) Regulations 2014. This indicated that, following audit and a public inspection period the finalised Audit report and Audited Accounts would be presented to the Audit and Risk Committee for approval on 26 September 2016 before going to Council on 29 September 2016 and subsequent publication.
- 7.2 The draft Annual Report and Accounts 2015/16 for Scottish Borders Council was attached as Appendix 1 to the report. Members were advised that the revenue out-turn from Departmental Activity showed £1.284m underspend which would return to Reserves. Savings achieved of £7.8m represented 85% on a permanent basis indicating that the Council was on track to deliver the savings required. An analysis of the sources of revenue funding and revenue expenditure by Department was provided. With regard to Significant Trading Operations it was noted that SBc Contracts had achieved a cumulative

net surplus over 3 years of £1.510m. Mr Robertson explained that in 2015/16 46.6% of total turnover was generated by external work which was 38% down on the previous year, when a number of significant projects connected to the Borders Railway were completed. The best operating model for SBC Contracts was being looked at as part of the Roads Review currently being carried out. Mr Robertson's summary went on to refer to key changes within the General Fund balances and he answered questions in relation to these. The Balance sheet showed that the net assets of the Council excluding Pensions Liabilities were £208.5m at 31 March 2016. Including Pensions Liabilities the figure was £66m showing an increase of £48.6m from the previous year. Included in the current liabilities was a provision of £4m for decommissioning of the landfill sites. With regard to the 2015/16 capital outturns there had been a total expenditure of £45m with timing movement of £2.2m and underspend of £0.8m. In concluding discussion on the Scottish Borders Council Annual Report and Accounts the Chairman complemented officers on the clear presentation of the Report and Accounts and the way in which these were linked to performance-related information.

- 7.3 Mr Robertson went on to highlight key points within the Group Accounts. Senior Finance Officer, John Yallop, was also in attendance to answer questions. Attached as Appendices to the report were the 2015/16 draft Reports and Accounts for the SBC Common Good Funds; Education Trust; Welfare Trust; Community Enhancement Trust; 77 Charity Funds; Ormiston Trust; Thomas Howden Wildlife Trust; and 174 non-registered trusts. Mr Yallop explained that work was ongoing to attempt to amalgamate the 174 non-registered trusts although some were geographically restricted. With regard to the nine Common Good Funds total net assets were £13.9m (£11.0m fixed assets). Also circulated were the unaudited annual report and financial statements for Bridge Homes LLP for the year ended 31 March 2016. Property value of £2.7m (23 units) was funded by £2.3m SBC loan and £0.4m Affordable Housing contribution. There had been a small 2nd year trading loss of £0.008m. Members discussed the accounts and received clarification from officers where requested.

DECISION

- (a) **NOTED the Draft Annual Report and Accounts 2015/16 for Scottish Borders Council and associated Group Accounts; and**
- (b) **AGREED to support their submission for review by the External Auditors.**

- 7.4 **Draft SB Cares Annual Report and Accounts 2015/16**
There had also been circulated copies of a report by SB Cares Finance and Commercial Director on the Reports and Accounts for Scottish Borders Supports LLP and Scottish Borders Cares LLP. The Finance and Commercial Director, Debbie Collins, was in attendance to present the report and answer questions. The report explained that the External Auditors KPMG carried out the audit of SB Cares accounts in June 2016 to provide support to the new organisation, launched on 1 April 2015, to compile its first set of draft reports and accounts. Minor recommended changes by KPMG had been incorporated in the reports being provided for scrutiny by the Audit and Risk Committee. A final review of the Report and Annual accounts would be completed by KPMG in August 2016 where any final adjustments would be agreed before signed accounts were submitted to Scottish Borders Council. The Reports and Accounts for Scottish Borders Supports LLP and Scottish Borders Cares LLP were attached to the covering report as Appendices 1 and 2 respectively. In the period ended 31 March 2016 SB Supports LLP generated a loss of £25k. Overall SB Supports performed as expected for its first year of trading in being able to deliver a contribution to Scottish Borders Council of £480k. SB Cares had generated a loss of £1.294m. Ms Collins confirmed that this loss was connected to pension liability which was guaranteed by Scottish Borders Council. Overall SB Cares LLP had performed as expected for its first year of trading, delivering services through its contract with SB Supports LLP.

**DECISION
NOTED:-**

- (a) the Draft Annual Report and Accounts 2015/16 for SB Cares LLP; and**
- (b) that External Auditors had completed an initial audit of SB Cares Annual Report and Accounts.**

8. PENSION FUND ANNUAL REPORT AND ACCOUNTS 2015/16.

There had been circulated copies of a report by the Chief Financial Officer providing an opportunity for the Audit and Risk Committee to scrutinise the draft Scottish Borders Council Pension Fund Annual Report and Accounts for the year ended 31 March 2016 prior to its submission to the External Auditors. The list of elements that must be contained within the Annual Report and Accounts, according to the Local Government Pension Scheme Amendment (Scotland) Regulations was provided within the report. The Report and Accounts, which met these requirements, was attached as an Appendix to the report. Following Audit sign-off the final Report and Accounts would be circulated to the joint Pension Fund Committee and Board. The Annual Report would also be made available for public inspection for a 3 week period commencing 30 June 2016. Councillor White, Chairman of the Pension Fund Committee, highlighted the main points of the Report. He confirmed that the new governance arrangements which commenced from 1 April 2015 had settled in and that joint meetings of the Committee and Board had been productive and informative due to the positive engagement of all members. Also during the past year the Procurement Sub Group had been fully engaged in the key procurement of a new Investment Advisor. Despite the level of volatility across markets during 2015 the Fund had managed to remain broadly at the 31 March 2015 level with only a small decrease of £2.8m. The overall performance of the Fund was 7.1% based on a 3 year rolling average basis, outperforming the benchmark and the local authority weighted average return over the period.

DECISION

- (a) NOTED the Draft Annual Report and Accounts 2015/16 for Scottish Borders Council Pension Fund; and**
- (b) AGREED to support its submission for review by the External Auditors.**

MEMBERS

Due to a commitment to attend another meeting Councillors Gillespie, Nicol and White left the meeting leaving the Committee without a quorum. Discussion continued on an informal basis, about the first year of operation of SB Cares, between the remaining members and officers until the Chairman closed the meeting.

The meeting concluded at 1.05 pm