

SCOTTISH BORDERS COUNCIL AUDIT AND RISK COMMITTEE

MINUTES of Meeting of the AUDIT AND RISK COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St Boswells on Monday, 9th May, 2016 at 10.15 am.

Present:- Councillors M. Ballantyne (Chair), J. Campbell, I. Gillespie, A. J. Nicol, S. Scott and B White (Vice-Chairman). Mr M. Middlemiss and Mr H. Walpole.
Apologies:- Mr P. McGinley.
In Attendance:- Chief Executive, Depute Chief Executive People, Chief Financial Officer, Chief Officer Audit and Risk, Democratic Services Officer (P Bolson); 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.

**DECISION
NOTED.**

2. MINUTE

There had been circulated copies of the Minute of 29 March 2016.

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

- 2.2 With reference to paragraph 1.2 of the Minute, Mr Swann advised that the matter was still ongoing and he hoped to be able to report to the next meeting of the Audit and Risk Committee.

**DECISION
NOTED.**

3. SCOTTISH BORDERS COUNCIL LOCAL SCRUTINY PLAN 2016/17

- 3.1 There had been circulated copies of a report by Audit Scotland setting out its Local Scrutiny Plan 2016/17 for Scottish Borders Council. The Plan was based on a shared risk assessment undertaken by a Local Area Network (LAN) comprising representatives of all the main scrutiny bodies that engaged with the Council. The report only identified risks within the Council which had been identified by the LAN or where scrutiny was planned as part of a national programme. The National Scrutiny Plan for 2016/17 was available on the Audit Scotland website.

- 3.2 It was reported that satisfactory progress had been made since the report for 2015/16. With regard to Health and Social Care Integration, the building blocks were now in place, providing a solid base for moving forward and undertaking the further work still required. The report explained that Community Planning Partnerships (CPP) follow-up work by Audit Scotland had been carried out in the Scottish Borders. Progress by the CPP had continued towards its priorities which included: Grow the Economy; Reduce Inequalities; and Maximise the Impact from the Low Carbon Agenda. Progress included the development of a Performance Management Framework for all three priority areas and streamlining and rationalising the groups and subgroups which fed into the CCP. Areas for further improvement had been identified and these were detailed in the Plan. The Community Empowerment (Scotland) Act 2015 had placed new requirements on the CPP which would require further development of its improvement agenda throughout 2016.

During 2015/16, a joint inspection of services for children and young people had been undertaken and led by the Care Inspectorate. The findings of this inspection would determine the need for any follow up scrutiny.

- 3.3 Audit Scotland had received correspondence from a member of the public requesting a review of a Council decision relating to the awarding of the waste management contract for the Scottish Borders. Members were advised that Audit Scotland were required to investigate such matters as they saw fit and following scrutiny, found that relevant processes had been adhered to and appropriate progress had been made in relation to addressing areas for improvement. It was noted that SBC had also requested KPMG to look at this decision independently of the public request.
- 3.4 Discussion followed and Members requested clarification on how the LAN could influence the work being carried out at a local level. One of the benefits of the LAN was that the group was able to bring relevant partners together to achieve a shared understanding of the issues on a local and wider level.

**DECISION
NOTED.**

MEMBER

Councillor White joined the meeting during consideration of the following item of business.

4. **SCOTTISH BORDERS COUNCIL ANNUAL GOVERNANCE STATEMENT 2015/16**
- 4.1 With reference to paragraph 6 of the Minute of 11 May 2015, there had been circulated copies of a report by the Chief Executive seeking approval of the Annual Governance Statement to be published in the Council's Statement of Accounts for 2015/16. The report explained that the CIPFA/SOLACE framework "Delivering Good Governance in Local Government" urged Local Authorities to review the effectiveness of their existing governance arrangements against their Local Code and to prepare a governance statement in order to report publicly on the extent to which they complied with their own Code on an annual basis, including how they had monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period. Part of the Audit & Risk Committee's remit was to assess the effectiveness of internal controls, risk management and governance arrangements in place and this included 'being satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflected the risk environment and any actions required to improve it, and demonstrated how governance supported the achievements of the authority's objectives'. The Annual Governance Statement 2015/16 was detailed in Appendix 1 to the report and this explained the Governance Framework, including the key elements of the Council's governance arrangements and the Review Framework, outlining the annual review process, overall opinion and areas of further improvement. In terms of overall corporate governance, it was the Chief Executive's opinion that, although there were a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council were considered sound. The Annual Governance Statement was informed by the self-assessment of compliance against the Local Code by the officer self-evaluation working group, the work of internal audit, external audit and inspection agencies, and by Depute Chief Executives' and Service Directors' assurance statements. This Statement would be published in the Statement of Accounts 2015/16. A number of areas for further improvement to ensure compliance with the Local Code were highlighted and were detailed in Appendix 1, paragraphs (a) to (h). The Chief Executive advised Members that the Council had improved and developed its Governance Framework and continued to demonstrate that the governance arrangements within which it operated were sound and effective.
- 4.2 Members were advised that the implementation of the new ICT arrangements was expected to complete at the end of 2016/17 and acknowledged the related benefits associated with the implementation of ERP in terms of financial systems and processes

within the Council. Members were also advised that the Integration Joint Board for Scottish Borders Health and Social Care Integration was now established and operational.

- 4.3 Members raised a number of questions which were answered by officers. It was explained that the Local Code was reviewed on an annual basis and was a high level statement for the Council. The self-assessment group had concluded that revisions were required to the Local Code to ensure it reflected the changing context of Scottish Borders Council including SB Cares, Health and Social Care Integration etc. The revised Local Code would be presented for approval by Scottish Borders Council in due course. In terms of governance of ALEOs, Members were advised that each organisation was responsible for its own Governance arrangements. The Council's Audit and Risk Committee did maintain a strategic overview of governance for all ALEOs and could request that the arrangements were amended as necessary. It was agreed that the text at paragraph (a) of the Annual Governance Statement 2015/16 be amended to include detail specific to monitoring governance of ALEOs.

DECISION

- (a) **NOTED the details of the Annual Governance Statement 2015/16 as detailed in Appendix 1 to the report subject to amendments to text at paragraph (a) to include details specific to monitoring governance of ALEOs; and**
- (b) **APPROVED the actions identified by Management to improve internal controls and governance arrangements.**

5. INTERNAL AUDIT WORK 2015/16 TO MARCH 2016

- 5.1 With reference to paragraph 3 of the Minute of 29 March 2016, 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, 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 to 31 March 2016, a total of two final internal audit reports had been issued, namely Salaries (including expenses) and Revenues (Council Tax and Non-Domestic Rates). There was 1 recommendation made (1 Priority 3 Low Risk) specific to one of these 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 objectives, 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.
- 5.2 With reference to the final report on Salaries, it was noted that Management teams were more aware of the levels of overtime being worked and would continue to scrutinise to ensure that unforeseen increases in overtime did not occur except in emergency situations such as inclement weather or client welfare. The report also highlighted that line managers were responsible for the recovery of all equipment when staff left Council employment and for the completion of the HR Leaver form which ensured accurate and correctly authorised payment of salaries.
- 5.3 The report explained that some areas for improvement had been identified relating to existing systems for income charging, billing and collection. As these systems were soon to be replaced, agreement had been reached with the Chief Financial Officer that the project scope for a replacement system would address the improvements required during the design process. Further assurances had been received from Management that full reconciliation of physical to recorded Asset Register information would be addressed as part of the Business World ERP system project.

- 5.4 Discussion followed and Members were advised that there were a number of ways in which cover was provided during emergency and unexpected situations, including the use of flexible hours and time off in lieu. Officers provided clarification on a number of staff-related queries. In respect of staff absence and in particular when it related to work-based stress, assurance was given that staff welfare was a priority and that the SBC Absence Management policy enabled managers to monitor patterns of absence and how this could be dealt with throughout the year. Officers and staff also had the opportunity to discuss a range of issues during Performance Review and Development (PRD) meetings.

DECISION

- (a) **NOTED the final reports issued in the period from 1 to 31 March 2016 to deliver the Internal Audit Annual Plan 2015/16; and**
- (b) **ACKNOWLEDGED that it was satisfied with the recommended audit actions agreed by management.**

6. INTERNAL AUDIT ANNUAL REPORT 2015/16

- 6.1 There had been circulated copies of a report by the Chief Officer Audit and Risk presenting the Committee with the Internal Audit Annual Report for the year to 31 March 2016, which included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy and effectiveness of the Council's overall control environment. In support of the overall governance arrangements of the Council, the Local Code of Corporate Governance and the Public Sector Internal Audit Standards required the Chief Officer Audit and Risk to provide an annual internal audit opinion and report to the Chief Executive on the adequacy and effectiveness of the Council's internal control and governance arrangements to support the preparation of the Annual Governance Statement. The Remit of the Audit and Risk Committee indicated that it should ensure an adequate framework of internal control, risk management and governance throughout the Council. The Chief Officer Audit and Risk's opinion, based on internal audit reviews, risk assessments and knowledge, was that the systems of internal financial control and internal control and governance arrangements were operating satisfactorily, with some improvements being identified. The Chief Officer Audit and Risk's Annual Report for 2015/16 was detailed at Appendix 1 to the report.
- 6.2 The report advised that two significant strategic developments for service delivery had been undertaken, each requiring different governance arrangements to be in place. In April 2015, the Limited Liability Partnership Strategic Governance Group (LLP SGG) was established to monitor and control functions required by the Council in connection with SB Cares when this organisation was set up to deliver adult care services. In April 2016, the Integrated Culture and Sports Trust (Live Borders) was established and the Council's Executive Committee, by means of a Member-Trustee Liaison Group, assumed a performance monitoring role for the delivery of the agreed outcomes.
- 6.3 During the discussion that followed, Members were advised that audit recommendations in respect of target dates were adhered to whenever possible and were followed up by Internal Audit, especially if they became overdue. There were occasions when recommendations were superseded and therefore no longer relevant when alternative solutions were required to manage the identified risks or when it was necessary to grant extra time to complete recommendations, eg delays in the implementation of a new IT system or lead in times for the implementation of new legislation. Ms Stacey explained the way in which this information was recorded and used in Covalent to trigger action notifications to officers. Members requested clarification regarding the number of audit days and type as presented in paragraph 3.2 of the report and Ms Stacey explained that specific pieces of work were sometimes completed within less than planned audit days and some used more to reflect the audit scope and any unplanned work relating to counter fraud was included in the "Other" category. Following discussion, it was agreed that the report should be amended to include more detailed information relating to the

analysis of audit type and audit days and that this should be applied to future reports. The process for managing Internal Audit time was outlined to Members and Ms Stacey emphasised that any areas for concern were highlighted in the Internal Audit mid-term performance and annual reports.

DECISION

- (a) NOTED the Internal Audit Annual Report for 2015/16.**
- (b) AGREED that:-**
 - (i) the report be amended to include more detailed information relating to the analysis of audit type and audit days and that this should be applied to future reports; and**
 - (ii) Internal Audit Annual Report for 2015/16 be published on the Council's website.**

7. PENSION FUND ANNUAL GOVERNANCE STATEMENT 2015/16

With reference to paragraph 7 of the Minute of 11 May 2016, there had been circulated copies of a report by the Chief Financial Officer seeking approval of the Pension Fund Annual Governance Statement to be published in the Statement of Accounts 2015/16 of Scottish Borders Council Pension Fund. The report explained that the Local Government Pension Scheme (Scotland) Regulations 2014 required Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards were established via a number of best practice principles. Part of the Audit and Risk Committee's remit was to assess the effectiveness of internal controls, risk management, and governance arrangements in place for the Scottish Borders Council Pension Fund. This included being satisfied that the Pension Fund Annual Governance Statement demonstrated compliance with its governance policy and best practice principles and identified any actions required to improve governance arrangements. The Pension Fund Annual Governance Statement 2015/16 detailed the Governance Framework, including the key elements of the Pension Fund's governance arrangements, as shown in Appendix 1 to the report. It was the Chief Financial Officer's opinion that the overall governance arrangements of the Pension Fund were considered sound. The Annual Governance Statement was informed by the self-assessment of the Fund's compliance with the best practice principles; the work of professional accountancy staff; and the work of internal audit, external audit and inspection agencies and included any improvement actions which had been identified. This Statement would be published in the Pension Fund Annual Report and Accounts for the year to 31 March 2016. The Chief Financial Officer advised Members that controls relating to the Pension Fund were operating effectively and that full compliance had been recorded for all applicable principles as detailed in Appendix 1. The annual review of the overall governance framework for the Pension Fund had identified two areas where improvements could be made, namely: development of a communications plan to improve awareness and understanding of stakeholders and encourage maximum membership of the Fund; and full evaluation of the implications of new national policy on freedom of choice of pension sums. Discussion followed in respect of how the Pension Fund might be affected by the new national policy changes and the need for identified risks to be included in the Pension Fund Risk Register. Members were advised that a three year review would be carried out and reported to Members at that time. With reference to paragraph (h) of the Pension Fund Annual Governance Statement 2015/16, it was agreed that this should be amended to demonstrate that all professional advice had been sought.

DECISION

- (a) NOTED the Pension Fund Annual Governance Statement 2015/16 as detailed in Appendix 1 to the report subject to amendments to text at**

**paragraph (h) to demonstrate that all professional advice had been sought;
and**

- (b) AGREED to approve the actions identified by Management to improve internal controls and governance arrangements.**

The meeting concluded at 12.30 pm