

SCOTTISH BORDERS COUNCIL AUDIT AND RISK

MINUTES of Meeting of the AUDIT AND RISK held in Council Chamber, Council Headquarters, Council Headquarters, Newtown St Boswells on Monday, 26 September 2016 at 10.15 am

Present:- Councillors M. Ballantyne (Chair), B White (Vice-Chairman), J. Campbell, I. Gillespie, A. J. Nicol and M Middlemiss. Mr M. Middlemiss.
Apologies:- Councillor S. Scott. Mr H. Walpole.S. Scott and H Walpole
In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk (from Item 8), Capital and Investments Manager, Democratic Services Officer (P Bolson); Mr H Harvie – KPMG and Mr M. Swann – KPMG.

1. WELCOME AND INTRODUCTIONS

The Chairman welcomed those present to the meeting and introduced Mr Asif Haseeb from Audit Scotland who would now represent the Council's external auditors on the Audit and Risk Committee.

**DECISION
NOTED.**

2. 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.

3. MINUTE.

3.1 There had been circulated copies of the Minute of 28 June 2016.

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

3.2 With reference to the decision at paragraph 3(b) of the Minute of 28 June 2016, it was noted that the informal briefing on Management's utilisation of Covalent as a tool in respect of Risk Management had taken place.

**DECISION
NOTED.**

4. SCOTTISH BORDERS COUNCIL ANNUAL AUDIT REPORT 2015/16.

4.1 There had been circulated copies of the Scottish Borders Council 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 2016, highlighting the key issues and financial position. In respect of the financial reporting framework, legislation and reporting requirements, KPMG expected to issue an unqualified audit opinion for 2015/16. KPMG's report also presented information on financial sustainability; governance and transparency; financial management and value for money. Only minor internal control deficiencies had been identified and these were outlined in Appendix 6 to the report. The report concluded that Scottish Borders Council had engaged in the National Fraud Initiative (NFI) 2014/15 and recognised that improvement had been achieved during 2015/16 though no alleged or actual fraud had been identified through the NFI in the current year. Appropriate arrangements were in place for both securing Best Value and monitoring ALEOs and following the public pound.

Governance and transparency were considered to be operating appropriately, with an observation that national guidance on establishing a clear and documented process in respect of compromise agreements would be beneficial.

- 4.2 Mr Harvie of KPMG provided clarification to Members on a number of points within the report and Members noted that details in respect of compromise agreements and financial packages might not be in the public domain due to the commercial sensitivity of information. In response to a question on financial risk, the Chief Financial Officer advised that the Council continued to operate within the lowest quartile of Scottish Local Authorities. Discussion followed in relation to the level and utilisation of the Council's Financial Reserves and in terms of financial planning in general. A Scottish Government-led programme to revalue assets was introduced from 1 April 2016 with a new Accounting Code due for publication in April 2017. Implementation of this programme would present a considerable challenge for Local Authorities and Members would receive further information in due course. The Chairman thanked KPMG and the Council's Finance Service staff involved in presenting this very positive report.

DECISION

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

5. **SCOTTISH BORDERS COUNCIL PENSION FUND ANNUAL AUDIT REPORT 2015/16; ANNUAL REPORT AND ACCOUNTS 2015/16**
- 5.1 With reference to paragraph 8 of the Minute of 28 June 2016, there had been circulated copies of the above reports in respect of the Scottish Borders Council Pension Fund. The Chairman advised that, as these reports were closely connected, they would be considered as a single item.
- 5.2 With reference to the Annual Audit report, Mr Harvie of KPMG advised that all benchmarks within the remit of the report had been met. Councillor White, Chairman of the Pension Fund Committee, further advised that benchmarking returns had increased, the Pension Fund was currently outperforming and that this was partly as a result of the Fund diversifying over a number of years. In response to a question about the increase of £0.4m in management expenses, the Chief Financial Officer explained the method by which payments to Fund Managers were calculated and advised that these amounts could vary throughout any given year.
- 5.3 With reference to paragraph 8 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Financial Officer presenting the finalised Pension Fund Annual Report and Financial Statements for 2015/16. Members noted that the draft report had been previously presented to the Committee and agreed to endorse the final version.

DECISION

NOTED the reports.

6. **SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2015/16**
- With reference to paragraph 7 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Financial Officer presenting the Council's audited Annual Accounts for 2015/16. The report explained that KPMG, the Council's external auditors, had now completed the audit of the Council's Annual Accounts for 2015/16 and had given an unqualified audit opinion in all cases. In addition, KPMG concluded positively on the high quality of working papers; management's accounting treatment and judgements; and in respect of financial sustainability, financial management, governance, transparency and value for money.

DECISION

AGREED to approve the following for signature by the appropriate individuals:-

- (a) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 1 to the report;
- (b) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 2 to the report;
- (c) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 3 to the report;
- (d) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(i) to the report;
- (e) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(ii) to the report;
- (f) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(iii) to the report;
- (g) the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(iv) to the report;
- (h) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(v) to the report;
- (i) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(vi) to the report;
- (j) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 5 to the report;
- (k) the SB Supports audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 6 (i) to the report; and
- (l) the SB Cares audited Annual Accounts for the year to the 31 March 2016 as detailed in Appendix 6 (ii) to the report.

7. SCOTTISH BORDERS HEALTH AND SOCIAL CARE INTEGRATION JOINT BOARD - ANNUAL AUDIT REPORT 2015/16; ANNUAL REPORT AND ACCOUNTS 2015/16; FINANCIAL GOVERNANCE AND MANAGEMENT

7.1 There had been circulated copies of the above reports in respect of the Health and Social Care Integration Joint Board (IJB). The Chairman advised that, as these reports were closely connected, all three would be considered as a single item.

7.2 Mr Harvie and Mr Swann introduced the first KPMG Annual Audit report since the Board was established and as such were brief but included all required information. The IJB was in a positive position after its first year and all parties continued to work in partnership. The key challenge would be to ensure and maintain effective budget management going forward and this would continue to be monitored. KPMG expected to issue an unqualified audit opinion with recommendations only within the area of financial sustainability, namely that: the IJB should agree funding levels for 2017/18 and 2018/19 to allow for budget setting and planning; plans should be in place as a matter of urgency for efficiency savings; budget provision should also be in place for areas of emerging pressures with a Risk Register established for monitoring of financial risks; and budget

and financial plans should be updated regularly to reflect these risks. Mr McMenam, Interim Chief Financial Officer IJB, was in attendance and confirmed that the Risk Register was now in the final stages of development.

- 7.3 Mr McMenam advised that this first Annual Report of the IJB provided an update on the process of production, audit and approval of IJB accounts for the period to 31 March 2016. This laid the foundation for future reports and was compliant with the Code of Practice. Further information would be included in subsequent reports as the Board developed and Mr McMenam acknowledged that there were substantial financial challenges to be faced going forward. Members were advised that the report which would be presented to the IJB on 17 October 2016 would include detail in respect of the direction and resources available; and services commissioned and the resources in place to meet such commitments. The IJB would also require to develop a new Strategic Plan with clear priorities set for the future. There was discussion around the timetables for the different budget setting processes for the Council and NHS Borders. Mr McMenam confirmed that pressures and priorities would be reflected within these timetables.
- 7.4 Mr McMenam advised that the report on the IJB Financial Governance and Management provided an update on the progress within the Health and Social Care Integration Programme (HSCIP) in relation to compliance with the legislative provisions within The Public Bodies (Joint Working) Scotland Act 2014 and the subsequent recommended best practice guidance issued by the Scottish Government/Integrated Resources Advisory Group (IRAG). The provisions related to the establishment of arrangements for Financial Governance and Management within NHS Borders, Scottish Borders Council and the Scottish Borders Health and Social Care Partnership. Members noted that there were 69 key finance-related provisions/recommendations within the IRAG guidance that required consideration. These were detailed in Appendix 1 to the report. The report also detailed the current "RAG" ratings for all Actions with the timescales for progressing and completion as appropriate. It was noted that 8 provisions did not currently apply, 36 were complete and the remaining provisions were within the red, amber or yellow categories. Members requested clarification on the IJB Audit Committee management arrangements. Ms Stacey advised that governance for the IJB Audit Committee was now in place, with membership comprising two members from each SBC and NHS Borders, none of whom could hold the post of Chair of the IJB. It was noted that membership of the IJB Audit Committee was drawn from the full IJB and there was some concern over potential conflicts of interests. Members were assured that appropriate governance arrangements were in place and that proper evaluation would be undertaken to ensure that there were no conflicts of interests. Discussion in relation to financial planning followed and it was noted that meetings would take place between the Chair of the IJB and the Chairs of SBC and NHS Audit Committees to ensure clarity and understanding.

**DECISION
NOTED:-**

- (a) Scottish Borders Health and Social Care Integration Joint Board Annual Audit Report 2015/16 from the Council's external auditors;**
- (b) the draft Statement of Accounts for the operating activities of the Scottish Borders Health and Social Care Integration Joint Board from the period of its establishment (6 February 2016) to 31 March 2016;**
- (c) the further progress made to date in the development and implementation of the financial and governance arrangements which require to be in place across NHS Borders, Scottish Borders Council and the Health and Social Care Partnership; and**

- (d) **the Scottish Borders Health and Social Care Integration Joint Board plan of actions for the remaining work to be completed during the remainder of 2016/17.**

MEMBER

Councillor White left the meeting during consideration of the above item of business.

8. ANNUAL TREASURY MANAGEMENT REPORT 2015/16

- 8.1 With reference to paragraph 7 of the Minute of 29 September 2015, there had been circulated copies of a report by the Chief Financial Officer presenting the annual report of treasury management activities undertaken during 2015/16 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 2015/16 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 17 December 2015.
- 8.2 The report advised that the Council's actual capital expenditure for 2015/16 was £45m which was £5.7m less than estimated and further detail was included in the Appendix to the report. The Appendix also showed the Council's borrowing requirement to fund capital investment undertaken during 2015/16, how much the Council actually borrowed against the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits. The Council had, whenever possible, deferred borrowing and used surplus cash rather than undertake additional long term borrowing during the year. Treasury management activity had been undertaken in compliance with approved policy and the Code and the Council remained under-borrowed against its Capital Financing Requirement (CFR) as at 31 March 2016.
- 8.3 Members requested further explanation of "spend to save" and officers suggested examples of when this was best demonstrated. The SLEEP programme for the replacement of street lights and the programme of replacement windows were projects where initial spend was required in order to save in the longer term.

DECISION

- (a) **NOTED that treasury management activity in the year to 31 March 2016 was carried out in compliance with the approved Treasury Management Strategy and Policy.**
- (b) **AGREED that the Annual Treasury Management Report 2015/16, as detailed in Appendix 1 to the report, be presented to Council.**

9. INTERNAL AUDIT WORK TO AUGUST 2016.

- 9.1 With reference to paragraph 5 of the Minute of 9 May 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. The work carried out by Internal Audit during the period 1 April to 31 August 2016 was detailed in the Appendix to the report and it was noted that during the current period, a total of six final internal audit reports had been issued, namely: Performance Management – Statutory Performance Indicators (SPIs) and Local Government Benchmarking Framework (LGBF); Revenues (Council Tax); Selkirk Conservation Area Regeneration (CARs) Scheme; Carbon Management Programme; Public Services Network (PSN) compliance; and ICT Change Programme (previously ICT Review Project). No recommendations had been made. 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 included in the Appendix to the report. Area of work in progress included LEADER Grants Compliance with SLA; European Maritime Fisheries Fund Compliance with SLA; Procure to Pay; Salaries and Expenses; and Schools. The Chief Officer Audit and Risk summarised other consultancy work that Internal Audit had been involved with and Members noted that Internal Audit's restructuring had now taken place.

- 9.2 Reference was made to paragraph 3.5.3 of the report in respect of Covalent and how outstanding and overdue audit recommendations were reviewed. It was noted that Internal Audit was satisfied that progress had been made to implement previous recommendations and that appropriate control mechanisms were in place. A mid-term report by Internal Audit would identify any outstanding recommendations and where progress had been less than anticipated. Discussion followed in respect of management of the contract with CGI. Members were advised that this would transfer to the Chief Financial Officer in due course and that cognisance would be taken of legal, financial and risk requirements.

DECISION

NOTED the recent work carried out by Internal Audit and the work currently in progress.

10. **THANKS**

As this was the final meeting of the Audit and Risk Committee that Mr Harvie and Mr Swann would attend on behalf of KPMG, signifying the end of their 5-year external auditor appointment, the Chairman thanked them for their attendance at meetings on behalf of the Members.

DECISION

NOTED.

11. **FUTURE MEETING DATES**

The scheduled dates for future meetings of the Audit and Risk Committee were as follows:-

14 November 2016;
16 January 2017;
28 March 2017; and
27 June 2017.

The meeting concluded at 12.25 pm