

# SCOTTISH BORDERS COUNCIL

## AUDIT AND RISK

MINUTES of Meeting of the AUDIT AND RISK held in Council Headquarters, Council Headquarters, Newtown St Boswells on Monday, 16 January 2017 at 10.15 am

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Present:- Councillors M. Ballantyne (Chair), I. Gillespie, A. J. Nicol and S. Scott.  
Apologies:- Councillors B. White, J. Campbell. Mr M. Middlemiss  
In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Democratic Services Officer (P Bolson); Mr A Haseeb – Audit Scotland and Mr G Samson – Audit Scotland.

### 1. WELCOME

The Chairman welcomed those present to the meeting and introduced Mrs Gillian Woolman, Assistant Director of Audit Scotland who would represent the Council's external auditors on the Audit and Risk Committee along with her colleague, Mr Haseeb.

### 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.

#### DECISION NOTED.

### 3. MINUTE

3.1 There had been circulated copies of the Minute of 14 November 2016.

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

3.2 It was noted that all relevant reports had been presented to Council as detailed in the Minute of 14 November 2016.

#### DECISION NOTED.

### 4. RISK MANAGEMENT IN SERVICES

4.1 Mr Stephen Renwick, Projects Manager, was in attendance to give a presentation on the strategic risks facing Assets and Infrastructure, the internal controls and governance in place to manage and mitigate those risks and the way in which risk management was embedded within the service. Mr Renwick explained that Assets and Infrastructure was formed in 2006 and had brought together seven services from across the Council, namely Catering; Cleaning; Capital Projects; Design Services which included Engineering and Architecture; Estates; Fleet; and Property. Each service had developed a Service Risk Register through the Business Planning Process and these were owned by the relevant Service Managers. Reviews were carried out by the Service Director and their Management Team and where appropriate and necessary, risks would be escalated to the Corporate Management Team. Mr Renwick explained that there had been a number of key overarching issues that had affected the way in which services had operated and provided examples to demonstrate this. These included: financial pressures along with the need for increased efficiency; time, cost, quality and inflation; statutory compliance; increasing demands and expectations; Government policies and legislation; change

management; and a historical lack of investment in property. There were a number of internal facing key risks facing Assets and Infrastructure which included Health and Safety non-compliance; legislative failure, data breaches; and breaches of the Code of Conduct. The main outward facing risks comprised third party failures; contract management of projects; and failure to inspect and maintain roads/bridges/buildings and Mr Renwick provided some examples for Members' information. There were corporate processes in place to manage these risks and they included effective project, programme and change management; change control and financial monitoring; business planning; provision of effective and appropriate training; regular risk monitoring; self-evaluation, review, inspections, scrutiny and KPI development and monitoring.

- 4.2 Members asked Mr Renwick questions relating to aspects of the presentation. With regard to the safety of buildings, Mr Renwick explained how those owned by SBC would be considered as part of the Risk Register whereas those under third party ownership would be dealt with by enforcement, if appropriate. Discussion followed in relation to the current property market and the strategic risks relating to the service. Members were in agreement that it would be useful to receive more detailed information relating to financial and staffing resources to assist them in understanding the strategic risks facing services. Members noted that Internal Audit was currently undertaking work with Mr Renwick's team and progress would be reported to the Audit and Risk Committee at its March meeting. Discussion also took place regarding the utilisation of external Project Managers and Mr Renwick confirmed that they would be employed under Scottish Borders Council Conditions and that he would have oversight of any associated risks. With regard to the new Community Right to Buy section of the Community Empowerment Act, Mr Robertson advised Members that a national working group was in the process of developing guidance for public bodies affected by this legislation. The Chairman thanked Mr Renwick for his presentation.

#### **DECISION**

**NOTED the presentation.**

#### **5. BENEFITS PERFORMANCE AUDIT UPDATE 2015/16**

There had been circulated copies of a report published in June 2016 by the Accounts Commission which provided a summary of the performance audit work carried out by Audit Scotland on Scottish Councils' housing benefit services during 2015/16. The Service Director Neighbourhood Services explained that Scottish Borders Council had not featured specifically in the report as no Audit had been carried out in 2015/16. Ms Craig summarised the report and explained how Housing Benefit subsidy claims were calculated and the reasons for the rise in monetary value of Housing Benefit overpayments. Ms Craig also advised a number of SBC practices were included in the Accounts Commission Good Practice Guide.

#### **DECISION**

**NOTED.**

#### **6. HOUSING BENEFITS OVERPAYMENT AND DEBT RECOVERY**

- 6.1 The Service Director Neighbourhood Services was present to provide Members with an update in terms of Housing Benefit overpayment and debt recovery within the Scottish Borders. Ms Craig explained that Housing Benefit was administered by SBC on behalf of the Department for Work and Pensions (DWP). SBC paid in the region of £29m per year specifically for Housing Benefit across approximately 8,000 cases. Overpayments could result from claimant error, mainly where the claimant had not informed the Council of a change in circumstances; Local Authority error, where the Council had not acted correctly; or fraud, where there was a deliberate intention to make a false claim. Ms Craig explained that penalised levels of subsidy could be claimed from the DWP but that it was a complicated system which could result in no repayment being made if the level of Local Authority error was out with the parameters set by the DWP. Ms Craig went on to summarise SBC's current performance and noted that recoverable overpayments which

had accumulated over the past 20 years were currently around £2.3m, an increase of £0.8m since April 2015. Members noted that the SBC error performance was within target and a subsidy of 100% had therefore been received from the DWP. Initiatives and key national projects such as Real Time Information (RTI) and the Fraud and Error Reduction Incentive Scheme (FERIS) had been successful in identifying errors which would result in a reduction in overpayments. A range of actions was being taken to deal with the overpayment of Housing Benefit. Work was ongoing to maximise recovery of overpayments from ongoing Housing Benefit; implementation of a new system to allow deductions from other benefits such as Universal Credit; processes for invoicing were being reviewed; a new contract with Sheriff Officers which included Housing Benefit overpayments; and a full data cleanse operation to improve the accuracy of data held in the system. Ms Craig recognised that there were challenges ahead, such as the implementation of Welfare Reforms, and in particular the roll out of the full Universal Credit in March 2018; balancing the work required with the limited resources available; and the collection and use of up-to-date and accurate data.

- 6.2 Discussion followed and Ms Craig clarified a number of points. She confirmed that there were some issues still to be addressed. At the moment the system for calculating Council Tax reduction used the same data as for Housing Benefit however, when Housing Benefit became the remit of the DWP, there was a possibility that this data might not be accessible to SBC. Much work was being carried out nationally to address and manage this and other issues. Members were advised of the controls in respect of debt recovery and write-off and Audit Scotland also acknowledged the challenges which might arise with the implementation of Universal Credit. Following discussion, Members requested that a seminar on the impact of Universal Credit on Scottish Borders Council be arranged for an appropriate date in the future. The Chairman thanked Ms Craig.

#### **DECISION**

#### **NOTED.**

#### **ADJOURNMENT**

The meeting was adjourned at 11.45am and reconvened at 11.55am.

#### **7. INTERNAL AUDIT WORK 2016/17 TO DECEMBER 2016**

- 7.1 With reference to paragraph 9 of the Minute of 26 September 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 September to 23 December 2016 was detailed in the report and it was noted that during the current period, a total of ten final internal audit reports had been issued, namely: Procure to Pay; Salaries; Hawick High School; Galashiels Academy; Jedburgh Grammar School; Primary Schools at Kingsland, Reston and Parkside; Primary Schools Support (consultancy); and the EU Funded Programmes 2014 to 2020 LEADER and EMFF. Three recommendations had been made and were accepted by management. 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. Areas of work in progress included Capital Investment; Adult Social Care Services; Corporate Transformation; and Workforce Planning. The Chief Officer Audit and Risk summarised other assurance and consultancy work that Internal Audit had been involved in during the reporting period.
- 7.2 Ms Stacey explained that the work carried out at schools focussed on financial controls and cash handling, with some primary schools being included for the first time. It was noted that Business Administrators were generally linked to secondary schools and that in order to provide a support mechanism for primary schools, the Internal Audit report

recommended using the cluster approach already in place across the area to enable primary schools to access this business support.

- 7.3 Internal Audit had carried out a review of EU Funded Programmes 2014-2020 LEADER and EMFF to assess compliance with the requirements of the new Service Level Agreement (SLA) and relevant EC regulations for the LEADER Programme. Mr Hugh Williams, Principal Officer Rural Development was present to explain the processes and complexities of the LEADER Programme. LEADER was delivered nationally through the Scottish Rural Development Programme by the Scottish Government Directorate of Agriculture, Food and Rural Communities acting as the Managing Authority and Paying Agency on behalf of the EU. It was then delivered locally by Local Action Groups acting as decision making bodies. The Scottish Borders SLA between SBC (as the Accountable Body) and the Scottish Government delegated certain functions within the LEADER Programme to SBC. Mr Williams explained that guidance had eventually been issued by the Scottish Government and work was now ongoing as to how this guidance would be implemented. Discussion followed in respect of review of potential risks which could be faced by SBC in terms of changes in responsibility. The Chairman thanked Mr Williams for his attendance.

#### **DECISION**

**(a) NOTED:-**

- (i) the final reports issued in the period from 1 September to 23 December 2016 to deliver the approved Internal Audit Annual Plan 2016/17; and**
- (ii) other Internal Audit assurance and consultancy work undertaken in the period.**

**(b) ACKNOWLEDGED the assurance provided on internal controls and governance arrangements in place for the areas covered by Internal Audit work.**

#### **8. LOCAL GOVERNMENT IN SCOTLAND - FINANCIAL OVERVIEW 2015/16**

There had been circulated copies of a report by the Accounts Commission which provided a financial overview of local government in Scotland during 2015/16. Ms Woolman explained the new approach being taken to overview reporting and advised that the current document was the first of the new overview outputs. The report included key messages for Local Authorities, noting that generally, the financial health of local government had been good during 2015/16 with a slight increase in reserves and a reduction in overall debt. The report highlighted the financial challenges ahead for Councils facing increased pressures from a long term decline in funding, increased demand for services and increasing costs. It was essential that Councils found different ways of working to be able to deal with these challenges and funding gaps. The report also highlighted the importance of long term financial strategy to ensure that Council spending was aligned with priorities and supported by financial plans and budget forecasts. A number of exhibits were included in the report, providing comparisons across all 32 Scottish Councils. Further detail was available on the Accounts Commission website. A discussion followed and officers answered questions raised by Members regarding the use of reserves and in respect of the Pensions Strategy and how employees could now access pensions. Members were advised that the new Council would be offered training to enable them to gain an understanding and to carry out their varied roles and responsibilities.

#### **DECISION**

**NOTED the report.**

#### **9. TREASURY MANAGEMENT STRATEGY 2017/18**

- 9.1 There had been circulated copies of a report by the Chief Financial Officer presenting the proposed Treasury Management Strategy 2017/18 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 9 February 2017, was included as an Appendix to the report. It reflected the impact of the Administration's draft Financial Plans for 2017/18 onwards on the prudential and treasury indicators for the Council.
- 9.2 The report contained a summary of the proposed Prudential and Treasury indicators within the Strategy in Annex A to the Appendix and it was noted that Audit Scotland had recognised the good practice demonstrated by Scottish Borders Council. A query was raised in respect of the figures for 2017/18 in the table at paragraph 3.1(a) of the Strategy, and it was agreed that the detail would be examined and any adjustments would be made prior to presentation to Council. The table at paragraph 4.1(a) of the report summarised the Council's treasury portfolio position at 31 March 2016 along with forward projections, and detailed the actual external debt against the underlying capital borrowing need whilst highlighting any over and under borrowing. The Strategy explained that the operational boundary ie the limit which external borrowing was not expected to exceed, would normally be similar to the Capital Financing Requirement ((CFR) but this could vary depending on the levels of actual debt. The Council was currently maintaining an under-borrowed position with the CFR not being fully funded by external loan debt. Cash supporting the Council's reserves, balances and cash flow had also been used as a temporary measure and this was considered prudent whilst investment returns were low and counterparty risk was still regarded as an issue. With reference to investment objectives and policy, it was noted that the security of re-payment of principal and interest of investments was considered to be of primary importance. Discussion followed and with regard to the new Kelso High School, Mr Robertson confirmed that although the project would be fully revenue funded by the Scottish Government, the school would remain an asset of SBC, would continue to appear on the balance sheet and be subject to Performance Indicators set by the Council

#### **DECISION**

**NOTED the report and draft Treasury Management Strategy 2017/18 for presentation to Council.**

#### **10. NEXT MEETING**

The next meeting of the Audit and Risk Committee was scheduled to take place on 28 March 2017. It was noted that this meeting would commence at 9.00am and conclude no later than 12.45pm to allow Members to attend a further meeting.

#### **DECISION**

**NOTED.**

***The meeting concluded at 1.40 pm***