

SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on Wednesday, 28 June 2017 at 10.15 am

Present:- Councillors S Bell (Chairman), H Anderson, S Hamilton (Vice-Chairman), N Richards, H Scott and E Thornton-Nicol.
Apologies:- Councillors K Chapman, J A Fullarton and R Tatler. Mr M Middlemiss.
In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Clerk to the Council, Democratic Services Officer (P Bolson); Mr A Haseeb – Audit Scotland.

1. WELCOME

The Chairman welcomed those present to the first meeting of the Audit and Scrutiny Committee.

AUDIT BUSINESS

2. MINUTE

There had been circulated copies of the Minute of 28 March 2017.

DECISION

NOTED for signature by the Chairman.

3. SCOTTISH BORDERS COUNCIL LOCAL SCRUTINY PLAN 2017/18

3.1 With reference to paragraph 3 of the Minute of 9 May 2016, there had been circulated copies of a report by Audit Scotland setting out its Local Scrutiny Plan 2017/18 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 scrutiny bodies that engaged with the Council. This shared risk assessment process drew on a range of evidence with the aim of determining any scrutiny activity required and then focusing this in the most appropriate way. The report only identified risks within the Council which had been identified by the LAN where scrutiny was required or where scrutiny was planned as part of a national programme. Planned scrutiny activity informed the National Scrutiny Plan for 2017/18. This had also been circulated for information and was available on the Audit Scotland website.

3.2 The report indicated that there was no specific additional scrutiny work required within Education beyond ongoing inspection and support activity provided to the Council by Education Scotland. With regard to Housing and Homelessness, the Scottish Housing Regulator (SHR) had reviewed the performance of all Scottish Social Landlords in March 2016 and some recommendations were made in relation to repeat recording and closure of cases. Scottish Borders Council had acted on these recommendations and was now implementing its improvement plan for the service generally, with some actions being carried forward to 2017/18. In addition, the Council was reviewing the management arrangements for its gypsy/traveller site to ensure that the requirements of the Scottish Social Housing Charter were met. Under Social Care, the Integration Joint Board (IJB) had been established in February 2016 to assume delegated authority for the provision of health and social care services in the area. Governance arrangements were in place and the IJB's strategic plan outlined the work of the partnership and the way in which services would develop over the next three to five years. Further arrangements were in place to progress locality planning. A joint inspection of Children's Services was published in June 2016 and of the nine quality indicators assessed, one was evaluated as "very good", four

as “good” and the remaining four as “adequate”. SB Cares was also assessed during 2015/16 and evaluations of “adequate” and “good” were awarded. The final joint inspection report on Older People’s Services was due to be published later in 2017. Audit Scotland would continue to monitor the effectiveness of the ICT arrangements established in October 2016 under the Digital Transformation Programme and would comment in its Annual Audit Report. Mr Haseeb advised that following a review by the Scottish Borders Community Planning Partnership (CPP) Strategic Board of its governance arrangements, it had been agreed that a CPP Consultative Group be established to develop the strategic direction of the Partnership, with the Strategic Board remaining as the decision-making group for the CPP. A review of these arrangements would be undertaken after 18 months and in the meantime, work continued to develop locality plans the Local Outcomes Improvement Plan as required under the Community Empowerment (Scotland) Act 2015. Audit Scotland would continue to monitor progress during the year.

- 3.3 Mr Haseeb explained that a new approach to auditing Best Value had been agreed by the Accounts Commission in June 2016. Best Value would now be assessed over the five year audit appointment and a Best Value Assurance Report would be considered by the Accounts Commission at least once during this time. Appendix 1 to the report detailed the scrutiny activity planned for 2017/18 and was available on the Audit Scotland website.

DECISION

NOTED the report.

4. EXTERNAL AUDIT INTERIM MANAGEMENT REPORT 2016/17

With reference to paragraph 8 of the Minute of 29 March 2016, there had been circulated copies of an Interim Management Report by Audit Scotland for the year 2016/17. The report summarised the key issues identified during the year and included testing key controls within the Council’s financial systems to gain assurance over the processes and systems used in the preparation of financial statements. In addition, Audit Scotland had reviewed the Council’s approach to financial planning, with further work planned on financial governance and transparency. The findings would be detailed in the Audit Scotland Annual Audit report. Mr Haseeb advised that two recommendations had been made: regular bank reconciliations being carried out; and the storage and inclusion of adequate supporting documentation for journal entries. Mr Haseeb confirmed that Audit Scotland was satisfied with the Management response for both recommendations. Officers clarified a number of points raised by Members and Mr Haseeb confirmed the way in which the transfer of data from the present financial system to Business World would continue to be monitored by Audit Scotland.

DECISION

NOTED the report.

5. FINANCIAL REPORTING & SCRUTINY: WHY THE ACCOUNTS MATTER

With reference to paragraph 6 of the Minute of 28 June 2016, there had been circulated 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. It also 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. Audit Scotland also commented on some areas for improvement. In light of the key messages, a list of questions had been 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. Ms Stacey noted that membership of the new Audit and Scrutiny Committee included a number of newly appointed Elected Members and it was anticipated that these questions would be useful in considering the accounts and annual audit report at future meetings. Discussion followed in relation to the quality of the

management commentary included in reports and Mr Robertson advised that SBC compared very favourably across Scottish Councils. Members agreed that the publication was useful as a reference document for future use. Ms Stacey also explained how the Audit Self-Evaluation questionnaire was used by the Committee to ensure that Members were appropriately supported for carrying out their role.

DECISION

(a) NOTED the report.

(b) AGREED that the Committee would use the questions in Appendix 1 of the report as a checklist when considering the Final Accounts at the September meeting.

6. SCOTTISH BORDERS COUNCIL DRAFT REPORTS AND ACCOUNTS 2016/17

6.1 With reference to paragraph 7 of the Minute of 28 June 2016, there had been circulated copies of a report and associated papers by the Chief Financial Officer on the draft Annual Report and Accounts for Scottish Borders Council, Common Good Funds, Charitable Trusts, Bridge Homes LLP, SB Supports LLP and SB Cares LLP. The report provided the Audit and Scrutiny Committee with an opportunity to scrutinise the draft Annual Reports and Accounts for the year ended 31 March 2017 for Scottish Borders Council and associated Group Accounts prior to submission for External Audit Inspection by the statutory deadline of 30 June 2017. The report referred to the protocols and timeline associated with the overview of accounts as set out in the Local Authority Accounts (Scotland) Regulations 2014. In addition, Section 12 of the Local Government in Scotland Act 2003 required annual accounts to be prepared in accordance with proper accounting practice, primarily comprising the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17 supported by International Financial Reporting Standards (IFRS). Following audit and a public inspection period the finalised Audit report and Audited Accounts would be presented to the Audit and Scrutiny Committee for approval in September 2017 prior to consideration by Council.

6.2 Mr Robertson summarised the draft Unaudited Annual Accounts for the year to 31 March 2017 for Scottish Borders Council and advised Members that the revenue out-turn showed £0.128m underspend. Financial Plan Savings of £8.96m had been achieved representing 73% on a permanent, recurring basis. 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 £1.25m. The report explained that in 2016/17, turnover was £18.3m, an increase of £4m (28%). 28% of the total turnover was generated by external work and this was £0.057m down on the previous year. Mr Robertson explained the Statutory Accounting Adjustments and noted that the net impact on the General Fund Balances of these adjustments was broadly neutral with no effect on Council taxpayers. He further explained that the Balance Sheet showed that net assets of the Council excluding Pensions Liabilities were £213.8m at 31 March 2017. Pensions Liabilities for year ending 31 March 2017 totalled £216m which was an increase of £74.4m from the previous year. Included in the current liabilities was a provision of £4m for de-commissioning of landfill sites. With regard to 2016/17 capital outturns, there had been a total expenditure of £51.5m with timing movement of £7.5m and underspend of £0.3m. Efficiencies of 27% were still required and Management continued to explore ways to achieve this on a permanent, recurring basis.

6.3 With reference to the Common Good and Trust Annual Report and Accounts for year ended 31 March 2017, these had been circulated and Mr Robertson highlighted the key points as detailed in the report and Appendices. With regard to the nine Common Good Funds, the total net assets for the year were £13.746m, a reduction of £149k from the previous year, and fixed assets were £10.7m. With regard to the six SBC Trust Funds, Mr Robertson explained that each was a Registered Charity and was reported separately in

terms of the Unaudited Annual Reports and Accounts for 2016/17. The Total Net Assets across the six Funds was £4.0m, with Fixed Assets of £1.8m. Mr Robertson explained that in addition to those mentioned, there were a further 177 Trusts which were not registered at this time. In response to a question, Mr Robertson advised that work was ongoing at the moment to look at how these additional 177 Trusts could be correctly closed, consolidated and relocated within the appropriate SBC Charity. Consultation within the local communities would be required and the process was likely to take some time to complete. Progress would be reported in due course. The financial statements for Bridge Homes LLP for the year ended 31 March 2017 showed a Property value of £5.4m for 45 units, which was funded by the SBC loan of £4.6m and £0.8m from Affordable Housing Contribution. The Accounts showed a 3rd year trading profit of £0.021m. With reference to Scottish Borders Supports LLP and SB Cares LLP, the financial statements for each were detailed in the Appendices to the report and it was noted that £0.647m of surplus from SB Cares was returned to SBC. Discussion followed and Mr Robertson answered questions in relation to the points raised by Members. It was also noted that Councillor Weatherston's name had been incorrectly recorded within the Common Good Funds' and Charitable Trusts' Annual Reports and Accounts. Mr Robertson would amend the reports as appropriate prior to submission to the External Auditors.

DECISION

- (a) NOTED the Draft Annual Report and Accounts 2016/17 for Scottish Borders Council and associated Group Accounts; and**
- (b) AGREED to support their submission, subject to minor amendments as discussed at the meeting, for review by the External Auditors, Audit Scotland.**

7. PENSION FUND ANNUAL REPORT AND ACCOUNTS 2016/17

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 providing an opportunity for the Audit and Scrutiny Committee to scrutinise the draft Scottish Borders Council Pension Fund Annual Report and Accounts for the year ended 31 March 2017 prior to its submission to the External Auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations specified a number of elements that must be contained within the Annual Report and Accounts and these were detailed in the report. The Report and Accounts, which met these requirements, was attached as an Appendix to the report. The Annual Report and Accounts would be made available for public inspection for a 3 week period commencing 30 June 2017. Following Audit sign-off, the final Report and Accounts would be circulated to the joint Pension Fund Committee and Board, and then to Audit and Scrutiny Committee. Mr Robertson highlighted the main points of the Report, noting the continually growing governance agenda and increasingly complex pension administration environment within which the Fund operated. He advised Members that the Fund had, and continued to, perform well and that joint meetings of the Committee and Board continued to be productive and informative due to the positive engagement of out-going and newly appointed Members. Also during the past year the Investment and Performance Sub-Committee had met twice with all investment managers, allowing full scrutiny of the managed Funds to take place. The report noted that a strong market recovery and strong performance from key Fund Managers had contributed to the success of the Fund during 2016/17. Despite the level of volatility across markets during 2016/17, the Fund had managed to increase in value by £112m during the year. The overall performance of the Fund was 21.5% for the year, outperforming the benchmark by 1.0%. Other developments included the appointment of three new Fund Managers to the Fund following completion of the Strategic Asset Allocation; an agreement reached with Lothian Pension Fund that allowed access to the infrastructure market; and ongoing work continued in relation to modelling the cashflow position. In response to a question, Mr Robertson clarified the status of membership organisations and admitted bodies.

DECISION

- (a) NOTED the Draft Annual Report and Accounts 2016/17 for Scottish Borders Council Pension Fund; and**
- (b) AGREED to support its submission for review by the External Auditors.**

ADJOURNMENT

The Committee adjourned at 11.55am and reconvened at 12.05pm

8. SCOTTISH BORDERS COUNCIL'S LOCAL CODE OF CORPORATE GOVERNANCE

- 8.1 With reference to paragraph 4 of the Minute of 9 May 2016, there had been circulated copies of a report by the Chief Executive, seeking agreement for the revised Local Code of Corporate Governance of Scottish Borders Council to be presented to Council for approval. The report explained that Scottish Borders Council was responsible for ensuring that its business was conducted in accordance with the law and proper standards, and that public money was safeguarded, properly accounted for, and used economically, efficiently and effectively. Corporate Governance was essentially to ensure openness, integrity and accountability across all aspects of Council business. The revised Local Code of Corporate Governance for the Council was consistent with the principles and requirements of the CIPFA/SOLACE framework "Delivering Good Governance in Local Government" and would help to ensure that proper arrangements continued to be in place for the Council to meet its responsibilities. Members were advised of the seven core principles of good governance and of the changes included in the revised Code, as detailed in the report. The Code should be seen as a "live" document and reviewed annually to ensure that it continued to meet the requirements of the changing Council environment and Best Value principles.
- 8.2 Officers responded to questions by Members. It was acknowledged that there had been a number of new Members elected in May 2017 and it was therefore agreed that a presentation on Corporate Governance and the Local Code be offered to all Members at a suitable time during 2017. A copy of the Local Code would also be circulated to the Chairs of the new Locality Committees for information.

DECISION

- * **(a) AGREED TO RECOMMEND that Scottish Borders Council:-**
 - (i) approves the revised Scottish Borders Council Local Code of Corporate Governance as detailed in Appendix 1 to the Minute; and**
 - (ii) approves the revised Scottish Borders Council Local Code of Corporate Governance being relaunched to ensure greater awareness across the Council.**
- (b) AGREED:-**
 - (i) to request that the Chief Executive and Service Directors consider compliance with the Scottish Borders Council Local Code of Corporate Governance as part of the annual assurance statements on internal control and governance and implement actions to ensure full compliance to the elements of the Code; and**
 - (ii) that a presentation on the Scottish Borders Council Local Code of Corporate Governance be arranged for all Elected Members in due course.**

9. INTERNAL AUDIT WORK TO JUNE 2017

- 9.1 With reference to paragraph 5 of the Minute of 28 March 2017, 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 an outline of the work of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). The work carried out by Internal Audit during the period from 3 April to 9 June 2017 was detailed in the report and it was noted that during the current period, a total of two final Internal Audit reports had been issued, namely: Corporate Transformation Programme; and Corporate and Social Work Complaints. Seven recommendations relating to these reports 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. The Chief Officer Audit and Risk summarised other assurance and consultancy work that Internal Audit had been involved in during the reporting period and which was detailed in the report.
- 9.2 In response to questions from Members, Ms Stacey advised that the Corporate Transformation Programme covered a wide range of Council business therefore each review was designed to cover one aspect of the Programme at any given time. With reference to Complaints Handling, it was noted that although excellent examples of good practice were found, the procedures were not applied consistently across all Council areas.
- 9.3 Further discussion took place relating to the Members' Induction session held on 20 June 2017 which included the role of the Audit Committee and that of the Scrutiny Committee. Ms Stacey also advised that Members would have an opportunity to assess their learning and development needs via Annual Self-Evaluation and confirmed that the first development session for Audit and Scrutiny Committee Members would be held within the Informal session on 25 September 2017 and would cover aspects of Treasury Management.

DECISION

(a) NOTED:-

- (i) the final assurance reports issued in the period from 3 April to 9 June 2017 associated with the delivery of the approved Internal Audit Annual Plan 2016/17; and**
- (ii) the Internal Audit consultancy and other work undertaken in the period.**

(b) ACKNOWLEDGED:-

- (i) the assurance provided on internal controls and governance arrangements in place for the areas covered by Internal Audit work; and**
- (ii) the benefits to Scottish Borders Council Internal Audit function arising from its participation in the SLACIAG national forum for Heads of Internal Audit.**

Audit Business concluded at 12.35pm.

SCRUTINY BUSINESS

10. SCRUTINY REVIEWS

With reference to paragraph 3 of the Minute of the Scrutiny Committee of 23 March 2017, there had been circulated copies of a list detailing the work undertaken by the Committee

since 2001/02 including Working Groups; Briefings; Hearings; Call-ins of Executive Committee decisions; and Notices of Concern. The Clerk to the Council, Ms Wilkinson, explained the various ways in which subjects could be brought forward to the Committee for consideration and the criteria used to determine how each would proceed. Members were advised of the need to develop a programme of Reviews for approval by full Council and that the Programme should include, where possible, cross-cutting service subjects across SBC. It was anticipated that a draft Programme of Reviews for Scrutiny would be presented to the August meeting of the Committee for consideration. Following discussion, a number of areas for Review were identified as detailed in Appendix 2 to the Minute.

DECISION

- (a) **NOTED** the list of work undertaken by the Scrutiny Committee since 2001/02.
- (b) **AGREED** that a draft Programme of Reviews for Scrutiny be presented to the Committee in September 2017 for consideration.

11. PROPOSED DATES OF FUTURE MEETINGS.

There had been circulated copies of a list of proposed dates for meetings of the Audit and Scrutiny Committee and these were agreed as follows:-

<u>Date of Meeting</u>	<u>Business to be considered</u>
Thursday 17 August 2017	Scrutiny
Monday 25 September 2017	Audit
Thursday 26 October 2017	Scrutiny
Monday 13 November 2017	Audit and Scrutiny
Thursday 30 November 2017	Scrutiny
Monday 15 January 2018	Audit and Scrutiny
Thursday 15 February 2018	Scrutiny
Monday 19 March 2018	Audit
Thursday 26 April 2018	Scrutiny
Monday 14 May 2018	Audit and Scrutiny
Thursday 31 May 2018	Scrutiny
Tuesday 26 June 2018	Audit

DECISION

AGREED the schedule of meetings for Audit and Scrutiny Committee as detailed in the Minute.

The meeting concluded at 1.05 pm