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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, 11th May, 2015 at 10.15 am

- Present:- Councillors M Ballantyne (Chair), W Archibald, J Campbell, A J Nicol, S Scott and B White (Vice-Chairman).
- Apologies:- Mr D Gwyther.
- In Attendance:- Chief Executive, Chief Financial Officer, Chief Officer Audit and Risk, Corporate Finance Manager, Service Director Neighbourhood Services, Clerk to the Council, Democratic Services Officer (P Bolson); Mr M Swann – KPMG, Mr A Clark, Assistant Director of Performance Audit and Best Value – Audit Scotland.

1. **RESIGNATION**

The Chairman advised Members that Mr G. Tait – one of the external appointees to the Committee - had submitted his resignation from the Audit and Risk Committee with immediate effect, due to an increasing number of personal and other workload commitments. The Chairman thanked Mr Tait for his valued service to the Committee and wished him well for the future. Members noted that the two external appointments to the Committee were due for consideration in October 2015 and that further information would be provided to Members in due course.

**DECISION
NOTED.**

2. **MINUTE**

- (a) There had been circulated copies of the Minute of 23 March 2015.

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

- (b) With reference to paragraph 3 of the Minute of 23 March 2015, Members were advised that a presentation on the current position in terms of the Council's policy on housing development and building programme would be given at the next meeting of the Committee on 30 June 2015.

**DECISION
NOTED.**

- (c) With reference to paragraph 9 of the Minute of 23 March 2015, there were circulated at the meeting copies of slides which provided Members with updated information in relation to fault reporting via the Council's website for Neighbourhood Management issues. Mrs Craig, Service Director Neighbourhood Services, explained that there had been an increase in the number of on-line enquiries received relating to bulky uplifts, complaints, missed bins, street lighting and non-integrated category. Statistics showed that the public's preferred method of contact was by telephone but that enquiries via the web had been increasing

steadily since 2011. The fault categories covered in the presentation included dog fouling, drainage/ gullies, flooding, fly tipping, footpaths, litter picking, potholes, road kill, road markings, signs, street cleansing, verges/trees/hedges, winter related issues and "other". In response to questions from Members, Mrs Craig confirmed that the statistics presented to Members at the meeting related only to online contact. She went on to advise that an annual report was being prepared which would highlight any increase in use of the online service now that the public were becoming more comfortable with it. Members also noted that statistics could be presented in an area by area format if that was required.

**DECISION
NOTED.**

3. **SCOTTISH BORDERS COUNCIL LOCAL SCRUTINY PLAN 2015/16**

There had been circulated copies of a report by Audit Scotland setting out its Local Scrutiny Plan 2015/16 for Scottish Borders Council. This was the sixth local Scrutiny Plan and was based on a shared risk assessment undertaken by a Local Area Network comprising representatives of all the main scrutiny bodies that engaged with the Council. Mr Clark from Audit Scotland gave some background, explaining that the report only identified risks within the Council which had been identified by the Local Area Network (LAN) or where scrutiny was planned as part of a national programme. The report highlighted two major strategic developments within SBC in 2015, namely the Council Care Company and Health and Social Care Integration. Members were advised that HMIE was now part of Education Scotland and that the Care Inspectorate would lead nationally-driven joint inspections of services for children and young people in conjunction with Healthcare Improvement Scotland, Education Scotland and HMICS. Mr Clark emphasised that this was a good news report which demonstrated that good governance was in place. Mr Clark also confirmed that the work drew on previous inspections which were then analysed to show any changes. The Chief Executive referred to the joint improvement programme of work currently underway between the Council and Education Scotland.

**DECISION
NOTED the report.**

4. **SCOTTISH BORDERS COUNCIL ANNUAL GOVERNANCE STATEMENT 2014/15**

(a) With reference to paragraphs 10 and 11 of the Minute of 21 April 2014, 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 2014/15. 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 2014/15 was given in Appendix 1 to the report and this detailed 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 2014/15. 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 (l). The Chief Executive advised Members that the Council had improved and developed its Governance Framework and was currently undertaking a joint review with Audit Scotland in order to move from a risk-based to a best value approach. This new approach would be value based rather than process centred, would be implemented across the whole Council and would be put in place during 2016.

- (b) Members raised a number of questions which were answered by officers, including a number of suggested minor amendments to wording and format; the inclusion in Governance Framework of reference to the LLP Strategic Governance Group for SB Cares, and assurance on Internal Audit involvement in Health and Social Care Integration programme; the addition within Review of Framework of a heading to highlight the identified Areas of Improvement (a) to (l); and within (e) to emphasise the focus on value for money in service provision. The Chief Executive explained that, in terms of the Performance Management Framework, the Council was looking to develop tools to create a joined up and effective Framework that would include national benchmarking, business plan outcomes, business transformation, the Single Outcome Agreement and other relevant measures, and bringing these together as effectively as possible. In terms of building relationships with Elected Members, the Chief Executive referred to various forms of engagement not just by her personally but opportunities for senior officers to meet with Members at Group meetings; to provide briefings to Members on regular basis on relevant issues; and on a locality basis, the intention was to meet with local Councillors when the Management Team was in that particular area. Mrs Logan emphasised that the Corporate Management Team would continue to look for opportunities to engage with the Elected Members. With regard to the development of self-assessment processes to achieve Best Value Council-wide, Members were informed that various methods of self-assessment were used at all levels in the Council, such as the Public Service Improvement Framework (PSIF). It was intended that this type of evaluation (a "PSIF Lite") would be brought in across all Council services as part of the Council's improvement plan. Mr Clark confirmed that this was an important area for Audit Scotland as PSIF helped to identify areas for improvement or development. With regard to the governance arrangements for contracts, the Chief Executive confirmed that all high level contracts were subject to full Council approval. Procurement had been subject to audit and the processes had been found to be robust with effective governance. It was recognised that not all decisions made by Council would be popular within the public domain and the Chief Executive advised that an Audit Scotland report would be available in the near future which would provide data in relation to governance of contracts/procurement. In relation to specific concerns about a high profile Waste contract which was subsequently stopped during the procurement phase, Members were advised that all risks had been included in the report to Council, with a clear audit trail, and the importance of lessons learned being applied to future procurement was acknowledged. The Chief Financial Officer confirmed that the other bidder being considered at the time of the award of the original contract had been discarded due to cost, and another Council that had gone with this option had subsequently seen costs increase significantly. External auditors would review the contract as part of the normal audit process and this would be included as part of the annual audit report to Members.

DECISION

- (a) **NOTED the report.**
- (b) **AGREED:-**
 - (i) **to approve the actions identified by Management to improve internal controls and governance arrangements; and**
 - (ii) **to approve a number of suggested minor amendments to wording and format of the information included in the Appendix.**

5. **PENSION FUND ANNUAL GOVERNANCE STATEMENT 2014/15**

With reference to paragraph 11 of the Minute of 24 June 2014, 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 2014/15 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 2014/15 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 2015. The Chief Financial Officer advised Members that controls relating to the Pension Fund were operating effectively. He went on explain that the Annual Review of the Pension Fund had identified some areas where further improvements in internal controls and governance arrangements could be made and these were detailed in Appendix 1 paragraphs (a) to (e). In response to a question about the cost of development of a communications plan, the Chief Financial Officer confirmed that there were no cost implications as this would be about raising awareness for staff, such as improving links to information on the website, and giving enhanced signposting for staff.

DECISION

- (a) **NOTED the report; and**
 - (b) **AGREED to approve the actions identified by Management to improve internal controls and governance arrangements.**
6. **HOUSING BENEFITS OVERPAYMENT AND DEBT RECOVERY**
- (a) With reference to paragraph 12 of the Minute of 23 September 2014, there had been circulated copies of a report by the Service Director Neighbourhood Services detailing activity on Housing Benefit (HB) overpayments and debt recovery as well as providing an update which compared performance during 2014/15 with that in 2013/14. The value of overpayments at the start of quarter 4 of 2014/15 totalled £1.4m in comparison to £1.3m in the same time period in 2013/14. Further comparison showed that in each of 2013/14 and 2014/15, Housing Benefits had been awarded in the sum of £30m and that overpayments had increased from 2.5% to 3.3% respectively. Mrs Craig advised Members that the increase in the value of overpayments demonstrated the impact of Real Time Information (RTI), a

new initiative introduced by the Department of Work and Pensions (DWP) to improve the speed and quality of information available to reassess benefit claims. The report explained that the first data exchange supplied in September 2014 using RTI included changes dating back to April 2013 and therefore resulted in a large increase in the number of identified overpayments in quarter 3 of 2014/15. Mrs Craig advised that RTI would continue into 2015/16 and that this would help ensure that the correct entitlement was paid to claimants and ultimately reduce the amount of overpayments. The report detailed an improvement plan which included re-evaluating recovery methods, making best use of funding received under the Fraud and Error Reduction Incentive Scheme (FERIS) to ensure that correct payments were being made and identifying target areas where collection levels could be improved. In comparison with all 32 Scottish local authorities, the Council had the 10th lowest level of total overpayments outstanding at the start of Quarter 2 of 2014/15 financial year.

- (b) The need to maximise debt recovery was recognised as challenging in light of a general slowing down of recovery. In addition, with the introduction of Universal Credit, it would now not be possible to recover overpayments from benefits paid to claimants and the Council would, in future, need to apply to the Department of Work and Pensions directly to do so. In response to a request by Members for additional information, Mrs Craig agreed to provide a detailed breakdown of the data relating to the reasons for overpayment, namely claimant error, Local Authority error and fraud. Members requested an update briefing on Universal Credit and Welfare Reform and it was agreed that this would take place once the Council had clarity on a number of current issues.

**DECISION
NOTED:-**

- (a) **the report and the intended improvement actions outlined in the report;**
- (b) **that a further performance report would be presented to the Audit and Risk Committee in six months time; and**
- (c) **that the Service Director Neighbourhood Services provide Members with a further breakdown of information on the 3 categories of overpayment.**

7. REVIEW OF AUDITORS' HOUSING BENEFIT SUBSIDY CLAIM REPORTED ERRORS 2013/14

There had been circulated copies of a report by Audit Scotland on Housing Benefit subsidy claim reported errors in 2013/14. The report explained that Housing Benefit paid by the Local Authority to claimants was mostly claimed back by Councils from the Department of Work and Pensions (DWP) under its subsidy scheme. The Local Authority was required to take appropriate action to minimise any overpayment of Housing Benefit and it was the remit of the appointed external auditor to conclude annually whether the subsidy claim was fairly concluded and report any identified errors to the DWP. The Service Director Neighbourhood Services informed Members that Scottish Borders Council had recovered 98% of overpayments made during 2013/14 and that the Council had performed well in terms of maximising the subsidy claimed. The report noted one error had been reported in respect of Scottish Borders Council. This was in relation to the non-entry of Housing Benefits rates in the IT system for polygamous marriages but as there had not been any such marriages in the SBC area, there was no effect on the subsidy claimed. Discussion followed regarding the value of considering national audit reports. Members agreed that such reports provided useful information and benchmarking levels. Mr Clark added that national reports were a useful way in which to highlight local issues and the checklists often included in the reports were a valuable tool in identifying key areas of risk.

**DECISION
NOTED.**

8. **URGENT BUSINESS**

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to keep Members informed / make an early decision.

9. **ACCOUNTS COMMISSION LETTER – ARMS-LENGTH EXTERNAL ORGANISATIONS (ALEOs)**

Linked to the discussion on national audit reports, the Chairman informed the Committee that she had received a letter from the Accounts Commission dated 5 May 2015 in relation to the governance of Arms-Length External Organisations (ALEOs) and the publication later in 2015 of the findings of a Review of the Code of Guidance of Funding External Bodies and Following the Public Pound. The letter explained that ALEOs now accounted for £1,300m turnover and employed over 28,000 staff. The letter served as a reminder of the How Councils Work report by the Accounts Commission entitled Arms-Length External Organisations - Are you getting it right? Access to this report was available via www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf Within SBC, the Limited Liability Partnership Strategic Governance Group (LLPSGG) was now in place and its remit included scrutiny of SB Cares, the Council's recently established ALEO. It was agreed to share the information contained in the letter with the LLPSGG.

DECISION

- (a) **NOTED the information contained in the letter from the Accounts Commission.**
- (b) **AGREED to forward the information contained in the letter from the Accounts Commission to the Limited Liability Partnership Strategic Governance Group.**

10. **INTERNAL AUDIT WORK 2014/15**

- (a) With reference to paragraphs 8 and 9 of the Minute of 23 March 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk providing details of the work carried out by Internal Audit up to March 2015 along with the recommended audit actions agreed by Management to improve internal controls, governance arrangements, the implementation of internal audit recommendations in line with revised target completion dates and internal audit work currently in progress. During the period 28 February to 3 April 2015, a total of 4 final internal audit reports had been issued, namely Revenues (Council Tax and Non-Domestic Rates), Benefit Assessment, Home Tuition and Passenger Transport (in error shown as Draft in the report). There were 3 recommendations made (0 Priority 1 High Risk, 0 Priority 2 Medium Risk, and 3 Priority 3 Low Risk) specific to 1 of the reports. Management agreed to implement the recommendations in all cases to improve internal controls and governance arrangements. A summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations and the Chief Officer Audit & Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was shown in Appendix 1 to the report. A position statement on Management's Progress with implementation of previous internal audit recommendations in line with the revised target completion dates was shown in Appendix 2 to the report. The Chief Social Work Officer and Chief Legal Officer were also present to answer further detailed questions respectively on previous recommendations on the Social Care Charging Review and Data Security & Information Management.

- (b) With reference to Data Security and Information Management, the Chief Legal Officer advised that the slippage was as a result, in part, of staff resigning from their posts, long term absence and a departmental restructure. The situation was being managed and improvements had been made in Freedom of Information performance. It was acknowledged that information management was a high risk and specialist area and, in this respect, the Information Governance Group had been reconvened as part of the management of information process. With reference to Income Charging Billing and Collection, training for staff involved in income charging, billing and collection was discussed, and the Chief Financial Officer confirmed that all those still requiring training had been identified. There had been resource issues which had now been resolved and Members were advised that training on Debt Recovery was progressing well and further work was ongoing in terms of billing training. The Chief Financial Officer further advised that the implementation of a new computer system was key to training staff and acknowledged that a target completion date of 31 March 2016 was now more realistic and achievable for this training. It was noted that staffing did not remain static and that training was therefore required on an ongoing basis to ensure that new staff were equipped with the expertise required. With regard to the full roll out of Windows 7 across the Council, the Chief Financial Officer confirmed that the roll out and full compliance with PSN should be completed by July 2015 ensuring information, including DWP data, could be shared securely across the Public Services Network. With reference to the Social Care Charging Review, the Chief Social Work Officer explained that, in terms of Social Care charging, on the basis that correct data was received, then July 2015 was a realistic implementation date for providing Corporate Management Team with the information reports. It was noted that charging orders could sit against a client's estate for very long periods until the estate was realised and a claim made. Work in this area was undertaken jointly by Social Work, Legal Services and Financial Services. It was agreed that the current report format would continue and that detailed reports would only be presented to the Committee in exceptional circumstances

DECISION

- (a) **NOTED the final reports issued in the period from 28 February to 3 April 2015 to deliver the Internal Audit Annual Plan 2014/15.**
- (b) **AGREED:-**
- (i) **to acknowledge satisfaction with the recommended audit actions agreed by Management;**
 - (ii) **to express satisfaction with Management's progress with implementation of previous internal audit recommendations; and**
 - (ii) **that realistic completion dates for actions be included in the recommendations in reviews.**

11. **INTERNAL AUDIT ANNUAL REPORT 2014/15**

With reference to paragraphs 8 and 9 of the Minute of 21 April 2014, there had been circulated copies of a report by the Chief Officer Audit and Risk providing the Committee with the Internal Audit Annual Report for the year to 31 March 2015, which included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy 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 & 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. In addition, the Chief Financial Officer required a specific opinion on how adequate and effective the Council's systems of internal financial control

were to support the fulfilment of his Section 95 statutory role. The Remit of the Audit & 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. The Internal Audit Annual Report 2014/15, detailed in Appendix 1 to the report, also gave details of the internal audit activity and performance during the year, as well as highlighting the continuous improvements which had been undertaken following Internal Audit reviews, and assurance of Internal Audit's involvement in the development of the health and social care integration governance arrangements. The Internal Audit Annual Report 2014/15 had been used to inform the Chief Executive's Annual Governance Statement 2014/15. In the discussion which followed, Members considered the report to be generally positive. In response to a question on EU Funding, Members were advised that a significant number of LEADER Grants were administered by the Council. Members were advised of the delivery approach taken in respect of the Internal Audit Annual Plan and that the most effective use of Covalent for monitoring the implementation of audit recommendations was dependent on the information being updated timeously by managers. The Committee was further advised that there were 5 outstanding recommendations from 2013/14 and 6 from 2014/15.

DECISION

(a) NOTED the Internal Audit Annual Report 2014/15; and

(b) AGREED that the Internal Audit Annual Report 2014/15 be published on the Council's website.

12. BORROWING AND TREASURY MANAGEMENT IN COUNCILS

There had been circulated copies of a report published by Audit Scotland in March 2015 providing information on the findings from a national review on borrowing and treasury management arrangements across all Scottish Councils. In addition to the report, two further documents were circulated at the meeting, namely a presentation by the Chief Financial Officer on the main findings of the report and actions arising for Scottish Borders Council (SBC) and a publication by Audit Scotland on Borrowing and Treasury Management in Councils – Scrutiny Guidance and Questions for Councillors. The Chief Financial Officer highlighted that the total debt across all Scottish Councils was £14.8b and that this mainly related to PPP activity; total borrowing amounted to £12b; and that 13 Councils, including SBC, had not increased their borrowing in real terms since 2004. It was noted that SBC was complying with and making best use of the prudential code and that the scrutiny model employed by SBC was seen to be positive by Audit Scotland. Overall, the report was a very positive one for the Council and SBC was shown to represent many areas of good practice. A useful scrutiny checklist for Councillors was provided at Part 3 of the Guidance document and this reminded Audit and Risk Committee of the need to consider issues such as potential risks and affordability of borrowing. Following recent political changes, Members asked whether the Council should consider increasing its borrowing. The Chief Financial Officer explained that interest rates for short term borrowing (3 months or less) was currently 0.5%, and 5% for long term borrowing, therefore short term borrowing provided the best option for the Council at the present time. The Chief Financial Officer further advised that, with a very limited revenue budget and an ambitious capital programme, it was essential that the Council maintained a balanced position. The Council also had to consider its ability to repay its loans whilst operating within the less flexible environment of a Council Tax freeze. Members were informed that the Local Tax Commission was undertaking work at the moment to consider options for the future but had yet to make any findings. With reference to borrowing to lend to support the National Housing Trust and Registered Social Landlords, the Chief Financial Officer advised that the Council had invested in property in a number of areas across the Scottish Borders but that no borrowing had taken place to date as this had been managed so far using cash flow. A report on the

National Housing Trust was expected in the near future and the situation would be considered again at that time. A discussion took place in relation to training for Members on Treasury Management and it was agreed that the Chief Financial Officer would make arrangements for a seminar for all Elected Members on Treasury Management/Capital to take place. The training should include the use of Audit Scotland's checklist and the relevance to Scottish Borders Council. Members were advised that the Audit and Risk Committee Annual Report would be considered at the next meeting of the Committee.

DECISION

- (a) NOTED the report; and**
- (b) AGREED that the Chief Financial Officer arrange a seminar on Treasury Management/Capital for all Elected Members.**

The meeting concluded at 12.40 pm

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