

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 Tuesday, 26 June 2018 at 10.00 am

Present:- Councillors S Bell (Chairman), H Anderson, K Chapman, S Hamilton, R Tatler and E Thornton-Nicol (during Item 4).
Apologies:- Councillors J Fullarton, N Richards, H Scott. Mr M Middlemiss.
In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Financial and Commercial Director SB Cares, Democratic Services Officer (P Bolson); Mr A Haseeb and Mr G Samson– Audit Scotland.

1. **WELCOME**

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

2. **MINUTE**

There had been circulated copies of the Minute of 7 June 2018.

DECISION

NOTED for signature by the Chairman.

3. **ACTION TRACKER**

There had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee. With regard to the entry on 25 September 2017 relating to corrective action in place to address the issues identified in the Fleet Management Workforce Plan, it was agreed that the Chief Officer Roads would be invited to attend the next meeting to provide an update to Members of the Committee.

DECISION

NOTED:-

(i) **the Action Tracker; and**

(ii) **that the Chief Officer Roads would provide an update to Members at the next meeting of the Committee in respect of corrective action in place to address the issues identified in the Fleet Management Workforce Plan.**

4. **RISK MANAGEMENT IN SERVICES**

4.1 The Chairman welcomed Ms Jenni Craig, Service Director Customer and Communities, to the meeting. Ms Craig was in attendance to give a presentation on the strategic risks affecting her service and the internal controls and governance in place to manage and mitigate those risks. Ms Craig began by providing some background and explained that the areas covered by Customer and Communities, namely Customer Advice and Support; Business Change and Programme Management; Business Planning, Performance and Policy Development; and Communities and Partnerships each had Service Risk Registers. These Registers were reviewed on a quarterly basis and had been developed through the Business Planning Process. They were owned by the Service Managers, reviewed by the Service Directors and Management Team and were escalated to CMT when necessary. The key factors and major changes influencing the service included: financial pressures; resources and the changing demand on the skills mix required;

changing service delivery models; the increasing demand and requirement for IT; Government policies and legislation; Welfare Reform; and economic and environmental change. In terms of the key skills now required, work was ongoing with HR to ensure that these skills were in place both to enable staff to meet the increasing demand by the public and to allow the public to access Council services. Government policies and legislation could have tight implementation timescales with increased staff resources required, eg Universal Credit which had to be implemented by 13 June 2018, and risk could increase as a result. Current risks in the main were driven by service responsibility and included: failure of IT systems; unprepared for significant legislative change; ineffective change management to modernise the organisation; insufficient skilled resources to meet service demands; focussing on short-term savings which could result in failure to achieve objectives/targets and damage to the Council's reputation; not meeting customer service expectations; and unable to demonstrate best value due to failure to embed a self-assessment approach across the organisation. The Corporate Risk relating to a focus on short-term savings currently scored 9 (amber) on the Register and Ms Craig explained what mitigation had been and would be implemented. Management was working towards aligning Business Plans and Service Plans with available resources in order to reduce the risk. The Service Risk relating to major legislative and economic/social change which could result in increased demand on services and the ability of the service to provide customers with the help, advice and statutory assistance required currently scored 12 (high amber treat) on the Register. Again, Ms Craig explained what mitigation had been and would be implemented and this included exploring opportunities for Community Planning Partnership joint working; and having a flexible resource and agile methods such as manual work arounds when there was a need to react to late legislation. Single points of failure would also be identified and addressed to reduce risk. Ms Craig advised that within the Digital Customer Access Project, lack of resources within SBC and the potential impact on delivery of the project scored 12 on the Risk Register. Any resultant delays in delivery and benefits could potentially result in additional costs to the Council. Members noted the mitigation measures being implemented and the aim to provide a "seamless" experience for customers within a complex landscape. Ms Craig summarised the Service's approach to managing risk which included: adhering to a consistent corporate process and framework; effectively managing projects, programmes and change; delivering risk workshops as a key aspect of the Business Planning Process; conducting self-evaluation, inspections and internal/external scrutiny; delivering effective and appropriate training; and regular monitoring of strategic service and operation risks and performance indicators.

- 4.2 Ms Craig responded to a number of questions raised by Members. In terms of an internal communications strategy going forward, Ms Craig advised that work was ongoing to develop an internal communications plan for staff and arrangements were being considered for a programme of Roadshows across the Council area. Appropriate consultation was also taking place. The plan would be circulated to Members in due course. With regard to security of the IT network and pressure during severe winter conditions, the Chief Financial Officer explained how the huge increase in staff trying to access the Council network remotely caused severe pressure on the IT firewall. A decision was made to close off system access to staff to preserve access for those delivering emergency/essential services. Measures would be in place to avoid this situation in the future. In terms of Corporate Management involvement, Members were advised that Welfare Reform and Universal Credit were live issues and were being addressed by both the Service and Corporately. Further to the development of an Action Plan and staff training, additional work was being taken forward to consider what changes would now be required following the implementation of the new GDPR regulations. Ms Stacey confirmed that Information Governance, which included GDPR, and Workforce Planning were included on the Internal Audit Work Schedule for 2018/19. The Chairman thanked Ms Craig for her interesting and comprehensive presentation.

DECISION

NOTED the presentation.

5. **SCOTTISH BORDERS COUNCIL DRAFT REPORTS AND ACCOUNTS 2017/18**

5.1 With reference to paragraph 6 of the Minute of 28 June 2017, 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, Scottish Borders Council Pension Fund, 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 2018 for Scottish Borders Council and associated Group Accounts prior to submission for External Audit Inspection by the statutory deadline of 30 June 2018. The report summarised the financial transactions for 2017/18 and the balance sheet positions as at 31 March 2018 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 2017/18 and the Service Reporting Code of Practice 2017/18 supported by International Financial Reporting Standards (IFRS). The Pension Fund Accounts were required to adhere to the Local Government Pension Scheme Amendment (Scotland) Regulations which specified what must be contained in the Annual Report and Accounts. The Common Good and Trust Reports adhered to the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing accounts in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). Following audit and a public inspection period the finalised Audit report and Audited Accounts would be submitted to Council in September 2018.

5.2 The Chief Financial Officer then summarised Scottish Borders Council draft reports and accounts by means of a presentation. He detailed the 2017/18 highlights which included – a Revenue out-turn of £1.029m underspend; and £12.286m of Financial Plan savings delivered, of which 64% was recurring. Net Assets (excluding Pension Fund liabilities) had increased by £38.6m net on the Balance Sheet. The Balance Sheet demonstrated a significant improvement, materially affected by Actuarial Gains on the Pension Fund Net Assets/Liabilities (£70.5m) and an overall surplus on the revaluation of Property, Plant and Equipment (£53.6m). Capital Expenditure was £36m with Fixed Asset NVB of £536.5m. The presentation included the requirements under the Local Authority Accounts (Scotland) Regulations 2014 and the Council's own Accounts timetable. The Chief Financial Officer advised that the Council's Audited Accounts were required to be published on its website no later than 31 October 2018. The presentation included an analysis of Revenue Expenditure by department and a breakdown of how efficiency savings had been achieved. A reduction in turnover was reported in respect of external trading by SB Contracts and Members noted that this was as a direct result of a continuing challenging external market. Mr Robertson went on to explain the - Statutory Accounting Adjustments; General Fund Balances; Balance Sheet overview; and Capital Out-turn for 2017/18. Group Accounts were consolidated as detailed in the full report for Scottish Borders Council.

5.3 With reference to the Pension Fund, Mr Robertson confirmed that Scottish Borders Council was one of the best funded LGPS nationally. In response to a question relating to Common Good Funds, Mr Robertson advised that an Annual Seminar was scheduled to take place on 28 August 2018 and it was agreed that the Statement of Common Good Trustees' responsibilities would be circulated to all Members separately.

DECISION

(a) **NOTED the Draft Annual Report and Accounts 2017/18 for Scottish Borders Council and associated Group Accounts; and**

(b) AGREED to:-

- (i) support their submission for review by the External Auditors, Audit Scotland for Scottish Borders Council, Scottish Borders Council Pension Fund, Common Good and Trust Funds Accounts; and**
- (ii) support submission for review by KPMG who continued to provide the external audit of the Council subsidiaries SB Cares, SB Supports and Bridge Homes which were not Registered Charities.**

ADJOURNMENT

The meeting was adjourned at 11.45 am and reconvened at 11.50 am.

6. EXTERNAL AUDIT INTERIM MANAGEMENT REPORT 2017/18

With reference to paragraph 4 of the Minute of 28 June 2017, there had been circulated copies of an Interim Management Report by Audit Scotland for the year 2017/18. 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 carried out early substantive testing of income and expenditure transactions and had reviewed the Council's progress with the National Fraud Initiative (NFI). The findings would be used by Audit Scotland to determine its approach during the 2017/18 financial statements audit. Further work had been carried out on the wider dimension audit of reviews of NFI investigation, General Data Protection Regulation (GDPR) and the results would be detailed in the Audit Scotland Annual Audit report. Mr Samson advised that some control weaknesses had been identified during the audit as summarised in Exhibit 2 within the report. The Management response/action plan in each case was also included in the report. Officers clarified a number of points raised by Members and Mr Samson confirmed that Business World ERP was, in the main, delivering what was expected. There were, however, some aspects of the system that were not yet fully operational but the Chief Financial Officer confirmed that work was ongoing with CGI to resolve these issues within the contract. It was noted that the Committee had a continuing role to scrutinise this area of Council business.

DECISION

NOTED the report.

7. NATIONAL PERFORMANCE REPORTS BY AUDIT SCOTLAND

7.1 With reference to paragraph 6 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk providing Members of the Audit and Scrutiny Committee with a list of recently published National Performance Reports by Audit Scotland which were relevant to Local Government. The report also proposed their scheduled presentation to Committee for consideration. The report noted that the Audit and Scrutiny Committee's purpose was to have a high level oversight of the framework for internal control, risk management and governance within the Council and it was regarded good practice for the Committee to take account of relevant reports from external inspection bodies such as Audit Scotland. Ms Stacey advised that two reports entitled "Challenges and Performance 2018" and "Councils' Use of Arm's-Length Organisations" were two such documents of interest to SBC which could also be used for learning purposes. Ms Stacey also notified Members that presentations to the Committee on the circumstances and situations relating to the Dundee City Council Significant Fraud and the City of Edinburgh Council Report on Schools would be scheduled for September 2018.

7.2 Discussion followed and Members' questions were answered. With reference to the publication entitled "Challenges and Performance 2018", Members requested that the Scrutiny Tool for Members referred to on page 8 of the document be circulated to assist them in their scrutiny role. Concern was raised in respect of the level of waste collected

within the Scottish Borders. Members considered the document to be very user friendly and easy to understand. The Chief Financial Officer confirmed that reports such as this from Audit Scotland were regularly included on the Corporate Management Team Agenda for discussion and were also circulated to Members.

DECISION

(a) NOTED:-

- (i) the report and list of recently published National Performance reports by Audit Scotland; and**
- (ii) the reports by Audit Scotland entitled “Local Government Challenges and Performance 2018” and “Councils’ Use of Arm’s Length Organisations”.**

(b) AGREED the proposed schedule for presentation of the National Performance reports by Audit Scotland.

8. PROGRESS ON IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

With reference to paragraph 6 of the Minute of 13 November 2017, there had been circulated copies of a report by the Chief Officer Audit and Risk providing an update and overview to the Committee on the status and implementation by Management of audit recommendations previously agreed in Internal Audit reports. Information relating to Internal Audit recommendations which had not yet been fully implemented was detailed in the Appendix to the report. Some concern was raised regarding four outstanding recommendations relating to Complaints, to which Ms Craig responded earlier in the meeting, one outstanding recommendation relating to Fleet Management workforce plan referred to in the Action Tracker, and two outstanding recommendations relating to Roads Management and Flood Risk and Coastal Management and it was agreed that the appropriate officers would be asked to attend the next meeting of the Committee to address these items. Ms Stacey answered Members’ questions relating to the Appendix.

DECISION

(a) ACKNOWLEDGED satisfaction with the progress made by Management in implementing Internal Audit recommendations, subject to those concerns raised being addressed.

(b) AGREED that appropriate officers would be asked to attend the next meeting of the Committee to address one outstanding recommendation relating to Fleet Management workforce plan and two outstanding recommendations relating to Roads Management and Flood Risk and Coastal Management.

9. AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT 2017/18 AND ANNUAL SELF-EVALUATION

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 providing Members with the Audit and Scrutiny Committee Annual Report 2017/18. The report also incorporated the annual self-assessment using the CIPFA Audit Committee Guidance. The report noted that the outcome of the self-assessments was a high degree of performance against the good practice principles and a medium degree of effectiveness. This was considered to be the result of the significant change in membership of the Committee following Local Government elections in May 2017. With reference to external membership of the Committee, Ms Stacey confirmed that a report would be submitted to Council in August 2018 requesting that a Selection Committee be convened to progress external appointments to the Audit and Scrutiny Committee.

DECISION

- (a) APPROVED the Audit and Scrutiny Committee Annual Report 2017/18 which incorporated its self-assessments using the CIPFA Audit Committee guidance.**
- (b) AGREED that:-**
 - (i) the Audit and Scrutiny Committee Annual Report 2017/18 be presented to Scottish Borders Council and published on the SBC website; and**
 - (ii) that a report be presented to Council in August 2018 requesting that a Selection Committee be convened to progress external appointments to the Audit and Scrutiny Committee.**

The meeting concluded at 12.40 pm