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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 Monday, 24 September 2018 at 10.15 am

Present:- Councillors S Hamilton (Chairman), H Anderson, N Richards, H Scott, S Scott E Thornton-Nicol and Mr M Middlemiss.
Apologies:- Councillor S Bell, Councillor J Fullarton
In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Clerk to the Council (paras. 1-3), Chief Officer Roads (para 4), Corporate Risk Officer (para 5), Corporate Fraud & Compliance Officer (para 9), Democratic Services Officer (J Turnbull).
Ms G Woolman, Mr A Haseeb and Mr G Samson - Audit Scotland.

1. WELCOME AND INTRODUCTIONS

The Chairman welcomed those present to the meeting and introductions were made.

SCRUTINY BUSINESS

2. MINUTES

There had been circulated copies of the Minutes of 23 August 2018 and 3 September 2018.

DECISION

APPROVED for signature by the Chairman.

3. SCRUTINY WORK PROGRAMME 2018/19

With reference to paragraph 8 of the Minute of 7 June 2018, there had been circulated copies of the Scrutiny Work Programme with suggestions for future Scrutiny reviews to be approved by Council. The Clerk to the Council, Ms Wilkinson, advised that Item No. 5 'Information provided to Members in reports', would be removed from the Programme as this would be included in the Review of the Scheme of Administration which would be subject to a report to full Council. The Committee requested that Item No. 1 the review on 'Councillors' role in staff matters' also included training given to officers and the monitoring of decisions of staff disciplinary hearings and employment tribunals. Members also discussed whether Item No. 3 'The Impact of Brexit' should be considered by the Audit & Scrutiny Committee or whether this would be better considered at full Council.

VOTE

Councillor Scott, seconded by Councillor Richards, moved that Item No. 3, 'Impact of Brexit on the Scottish Borders' be removed from the Scrutiny Work Programme.

Councillor Anderson, seconded by Councillor Thornton-Nicol, moved that it remain on the Scrutiny Work Programme.

On a show of hands Members voted as follows:

Motion - 3
Amendment - 2

The Motion was accordingly carried.

DECISION

(a) AGREED:

(i) the Scrutiny Work Programme 2018/19 as detailed in the Appendix to this Minute; and

*** (ii) to recommend approval to Council of the Scrutiny Work programme as detailed in the Appendix to the Minute.**

(b) NOTED that additional items could be added to the Scrutiny Work Programme as appropriate.

AUDIT BUSINESS

4. ACTION TRACKER

With reference to paragraph 3 of the Minute of 26 June 2018, there had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee. With regard to the actions concerning the Fleet Management Workforce Plan, the Chief Officer Roads, Mr Girdler, was in attendance to give an update. Mr Girdler advised that a new Manager had recently been appointed who would oversee the transformational programme for the Council's fleet. Mr Girdler explained that there were still vacancies for mechanics within the Service, it being difficult to attract and retain suitable candidates owing to the disparity between the Council's remuneration and that offered by the external market. Existing staff would therefore continue to receive overtime payments until suitable appointments had been made. The Chief Officer Audit & Risk, Ms Stacey, added that Fleet Management was a key component for delivery of services across the entirety of the Council's business. It was noted that a report on progress would be presented to the November meeting.

DECISION

NOTED:-

(a) the Action Tracker; and

(b) that a report on the progress of the Fleet Management Workforce Plan would be presented to the November meeting.

5. RISK MANAGEMENT IN SERVICES

5.1 The Chairman welcomed Mr David Robertson, the Council's Chief Financial Officer. Mr Robertson was in attendance to give a presentation on the strategic risks within Finance, IT and Procurement. Mr Robertson began by explaining that managing risk involved: a consistent corporate process, effective project/programme management, risk workshops, self-evaluation, training, regular monitoring of strategic service, operation risk and performance measures. Risk Registers for each of the services were developed through the Business Planning Process and were owned and managed by Service Managers within that service. The Risk Registers were regularly reviewed by the Service Director and Management Team and when necessary, risks were escalated to Corporate Management Team (CMT). Mr Robertson referred to the key risks within his service, namely: uncertainty over funding levels from Scottish Government; ring fencing of resources which placed pressure on remaining areas of budget; delivery of permanent savings; increasing demand from a variety of sources e.g. care of elderly, IT transformation and security; impact of the wider economy; and, Local Government Pension Scheme reform.

- 5.2 In terms of managing risks Mr Robertson explained the risk process methodology, giving examples from various risk registers of the risk scoring system, risk factors and advising of internal controls in place around particular risks (one corporate risk for which he was responsible, and several operational risks relating to the Finance service and the IT service). Mr Robertson then responded to questions, advising that savings were scrutinised through the monitoring process linked to Service Directors. Portfolio holders were made aware of the risks within their services. Ms Stacey added that Audit and Scrutiny Committee received an annual report on the risk management arrangements across the entirety of the Council's services. There were also regular briefings to Members around the risk management policy and process which could be refreshed if the Committee considered appropriate. The Chairman thanked Mr Robertson for his presentation.

DECISION

NOTED:-

- (a) the presentation; and**
- (b) that portfolio holders be advised of risk management processes affecting their service areas.**

6. ANNUAL TREASURY MANAGEMENT REPORT (2017/18)

- 6.1 With reference to paragraph 4 of the Minute of 25 September 2017, there had been circulated copies of a report by the Chief Financial Officer presenting the annual report of treasury management activities undertaken during the 2017/18 financial year. The report was presented to Audit and Scrutiny 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 (the Code) required an annual report on treasury management to be submitted to Council following the end of each financial year. This report highlighted the Council's treasury activity in the year ended 31 March 2018 and the performance of the Treasury function. Appendix 1 to the report comprised the annual report of treasury management activities for 2017/18 and contained an analysis of performance against targets 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 21 December 2017.
- 6.2 The Appendix to the report also showed the Council's borrowing requirement to fund the capital investment undertaken during 2017/18, 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 undertaking new borrowing. However, the Council had undertaken short term borrowing for cash flow purposes and additional long term borrowing for capital purposes during the year, amounting to £5m and £10m respectively. 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 2018.
- 6.3 In response to questions, Mr Robertson advised that the lower than projected final capital expenditure was due to a variety of reasons including planning and SEPA issues with the Waste Transfer Station, policy changes affecting the Early Learning and Childcare block expenditure, and delays in the implementation of the Business World ERP system and the Digital Customer Access system. Other capital projects such as the Selkirk and Hawick Flood Protection Schemes had moved forward. A review of best practice around delivery of capital expenditure projects would be undertaken in the near future. With regard to the additional borrowing for capital purposes, Mr Robertson advised that this was a ten year maturity debt at a favourable rate.

DECISION

NOTED that treasury management activity in the year to 31 March 2018 was carried out in compliance with the approved Treasury Management Strategy and Policy.

ADJOURNMENT

The meeting was adjourned at 11.27 am and reconvened at 11.35 am.

7. EXTERNAL AUDITORS ANNUAL AUDIT REPORTS 2017/18

7.1 Scottish Borders Council Pension Fund Audit of 2017/18 Annual Report and Accounts

With reference to paragraph 5.3 of the Minute of 25 September 2017, there had been circulated copies of a report by Audit Scotland, the Council's external auditors, in respect of Scottish Borders Council Pension Fund. Ms Woolman of Audit Scotland presented the Report, advising that there were no material adjustments to the financial statements arising from the audit. Ms Woolman explained that the Report identified that investment values provided by the Custodian did not use Fund Manager Valuations as at 31 March 2018 for some assets. The accounts had not been adjusted to reflect this difference as management had concluded that it was not material. Mr Robertson advised that the Pension Fund accepted all the recommendations made and these would be incorporated into the Performance Management system to monitor implementation. In response to questions, Mr Robertson advised that the significant increase in investment management expenses was due to an investment property transaction tax of £5m with the long lease property investment. This was a one-off charge and was expected to be recovered over the longer term. With regard to the actuarial assumption showing a funding level of 114%, Mr Robertson explained that this reflected the performance of the Pension Fund. Ms Woolman added, that this year, the discount rate was down which had reduced liability.

7.2 Charitable Trusts administered by Scottish Borders Council

There had been circulated copies of a report by Audit Scotland in respect of Charitable Trusts administered by Scottish Borders Council. Mr Haseeb of Audit Scotland advised that there were no material adjustments to the financial statements. However, the cashflow statements for Common Good Funds had required a number of changes and these had been amended.

7.3 Scottish Borders Council Annual Reports and Accounts 2017/18

With reference to paragraph 5.1 of the Minute of 25 September 2017, there had been circulated copies of a report by Audit Scotland. Ms Woolman of Audit Scotland explained that there had been no material adjustments arising from the audit. There had been three significant findings from the audit of financial statements: Pension fund assets reported in the Council's balance sheet had been understated by £1m; payroll creditors' balances were unclear; and assets which had not been charged depreciation. Mr Robertson clarified that the depreciation error related to £30m which had now been corrected and had not impacted on the General Fund.

7.4 Scottish Borders Cares LLP and Scottish Borders Supports LLP

There had been circulated copies of a report by KPMG, the Council's external auditors in respect of Scottish Borders Cares LLP and Scottish Borders Supports LLP. The report advised that there were no significant matters in respect of audit differences, and stated auditor independence and non-audit fees and management representation letter contents.

DECISION

NOTED the Annual Reports from the Council's External Auditors.

8. SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2017/18

8.1 With reference to paragraph 5 of the Minute of 25 September 2017, there had been circulated copies of the Council's audited Annual Accounts for 2017/18. The audit appointment of Audit Scotland for Scottish Borders Council accounts included the requirement to provide an auditor's report for the Council as well as related charities.

The report explained that Audit Scotland had now completed the audit of the Council's Annual Accounts for 2017/18 and had given an unqualified audit opinion in all cases. In addition, Audit Scotland concurred with management's accounting treatment and judgements; and had reached positive conclusions in respect of financial sustainability, financial management, governance, transparency and value for money. Audit Scotland had identified eight recommendations for improvement requiring action and these had been accepted by management and would be enacted within the agreed timescales. The report also referred to KPMG's external audit of the Council subsidiaries SB Cares, SB Supports and Bridge Homes which were not registered charities, and advised that no issues had been raised and there were no matters to report.

- 8.2 As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Common Good Funds, the SBC Charitable Trusts, Bridge Homes LLP, SB Supports LLP and SB Cares LLP and Scottish Borders Council's Pension Fund had been presented to the Audit and Scrutiny Committee prior to signature.

DECISION

AGREED to APPROVE:

- (a) **the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2018;**
- (b) **the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2018;**
- (c) **the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2018;**
- (d) **the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2018;**
- (e) **the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2018;**
- (f) **the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2018;**
- (g) **the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2018;**
- (h) **the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2018;**
- (i) **the SB Supports LLP audited Annual Accounts for the year to 31 March 2018;**
- (j) **the SB Cares audited Annual Accounts for the year to the 31 March 2018;**
and
- (k) **the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2018.**

9. NATIONAL PERFORMANCE REPORT BY AUDIT SCOTLAND

There had been circulated copies of the Account Commission's report (March 2018) on a significant fraud at Dundee City Council in 2016/17 for consideration of any implications for Scottish Borders Council. The report compared the Accounts Commission's findings in relation to Dundee City Council with the processes, procedures and practices at

Scottish Borders Council to provide assurance to the Committee. The Council was committed to minimising the risk of loss due to fraud, theft or corruption and would take appropriate action against those who attempted to defraud the Council, whether from within the authority or from outside. The Corporate Fraud and Compliance Officer was in attendance and advised that controls included regular meetings with counterparts in other local authorities, fraud awareness training for staff, and internal controls and monitoring arrangements.

**DECISION
NOTED :**

- (a) the issues raised by the Audit Commission and the controls in place; and**
- (b) that the Scottish Government's Fraud Maturity model had been adopted as a means of self-assessment and that development of counter fraud measures would continue under the direction of the Corporate Fraud Steering Group in line with the Council's Corporate Fraud Policy and Strategy.**

10. INTERNAL AUDIT WORK TO JULY 2018

10.1 With reference to paragraph 5 of the Minute of 14 May 2018, 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 and the recommended audit actions agreed by management to improve internal controls and governance arrangements. The work Internal Audit had carried out during the period 2 April to 27 July 2018 was detailed in the report. During the period a total of two Final Internal Audit reports had been issued. There were two recommendations made relating to one of the reports which had been accepted by Management for implementation. An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) 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 Appendix 1 to the report.

10.2 The SBC Internal Audit function conformed to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews. Information relating to the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) was shown in Appendix 2 to the report. In response to a question, Ms Stacey advised that the Carbon Reduction Programme was being led by Service Director Assets and Infrastructure.

DECISION:

- (a) NOTED:**
 - (i) the final assurance reports issued in the period from 2 April to 27 July 2018 associated with the delivery of the approved Internal Audit Annual Plan 2018/19; and**
 - (ii) the Internal Audit consultancy and other work undertaken in this period.**
- (b) AGREED to acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

11. THANKS

The Chairman thanked Audit Scotland and officers for their attendance and the comprehensive, clear reports provided to the Committee.

The meeting concluded at 12.55 pm

Scrutiny Work Programme 2018/19

	Review subject	Outcome/Lead Officer
1	Councillors' Role in staff matters	Presentation giving an update on the role, guidance and training given to Councillors and Officers on staff disciplinary appeals and employment tribunals, and the monitoring of these decisions. (Lead Officer(s): Clair Hepburn, Service Director HR and Iain Davidson, Employee Relations Manager).
2	Amey – Trunk Roads Management	Presentation from Amey Scotland on trunk roads management. (Lead Officer: Martin Joyce, Service Director Assets & Infrastructure & David Girdler, Chief Officer – Roads).
3	ALEOs and Live Borders	Briefing on the performance monitoring process through the Major Contracts Governance Group. (Lead Officer: Philip Barr, Executive Director).
4	Co-wheels contact	Presentation on the Co-wheels contract (Lead Officer: David Robertson, Chief Financial Officer).

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