

SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Chambers. Council Headquarters, Newtown St Boswells on Monday, 23 September 2019 at 10.15 am

Present:-

Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J. A. Fullarton, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, S. Scott, E. Thornton-Nicol, Ms H. Barnett and Mr M. Middlemiss.

In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk. 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.

SCRUTINY BUSINESS

2. **MINUTE.**

There had been circulated copies of the Minutes of 22 August 2019.

DECISION

APPROVED for signature by the Chairman.

AUDIT BUSINESS

3. **ANNUAL TREASURY MANAGEMENT REPORT 2018/19**

3.1 With reference to paragraph 6 of the Minute of 24 September 2018, there had been circulated copies of a report by the Chief Financial Officer presenting the annual report of treasury management activities undertaken during the 2018/19 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 2019 and the performance of the Treasury function. Appendix 1 to the report comprised the annual report of treasury management activities for 2018/19 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 29 November 2018.

3.2 The Appendix also showed the Council's borrowing requirement to fund the capital investment undertaken during 2018/19, 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 long term borrowing for debt rescheduling during the year, amounting to £10m. 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 2019.

- 3.3 The report was fully discussed and in response to questions, the Chief Financial Officer, Mr Robertson, advised that the Council sought to maintain a level debt profile. Where opportunities were identified to refinance debt, these were considered to ensure best value over the 10 – 25-year period. With regard to the £10m debt rescheduling this was to take advantage of a lower interest rate of 2.74% as opposed to 4.80%. Regarding capital expenditure, Mr Robertson acknowledged that there had been slippage on a number of projects and reassured Members that these were being monitored with appropriate action taken. Audit Scotland added that although slippage had increased in comparison to previous years, this was not considered significant.

DECISION

AGREED TO RECOMMEND TO COUNCIL:

- * (a) **that treasury management activity in the year to 31 March 2019 was carried out in compliance with the approved Treasury Management Strategy and Policy as detailed the report and Appendix 1, attached to the agenda; and**
- * (b) **to increase the investment limit for AAA Money Market Funds from £20m to £25m.**

4. EXTERNAL AUDITORS' ANNUAL AUDIT REPORTS 2018/19

4.1 Scottish Borders Council Annual Report and Accounts

With reference to paragraph 7.1 of the Minute of 24 September 2018, there had been circulated copies of a report by Audit Scotland, the Council's external auditors. The report explained that Audit Scotland had now completed the audit of the Council's Annual Accounts for 2018/19 and had given an unqualified audit opinion in all cases. In addition Audit Scotland has reached positive conclusions in respect of financial sustainability, financial management, governance, transparency and value for money. Ms Woolman, Audit Scotland was in attendance and summarised the report; in addition she advised that there were no material adjustments or unadjusted errors arising from the audit.

- 4.2 In response to questions, Ms Woolman advised that Audit Scotland had carried out an audit on community engagement which would provide comparative information across local authorities. Regarding the £10.2m purchase price for Lowood Estate, Mr Robertson clarified that this figure included legal fees and tax costs. He further advised that the Estate had been acquired for economic development and it was reasonable to pay all legal fees associated with such transactions. Regarding payroll creditors' balances, Mr Robertson acknowledged that the Council had not taken sufficient action to reflect the Audit Scotland opinion of 2017/18; however, configuration changes to the system had now been concluded as required. Regarding invoice payment performance Mr Robertson stated 84% of invoices were paid within 30 days and all invoices were processed within two days of receipt; an update on progress would be provided to the December 2019 meeting. Regarding the arrangements around recurrent and non-recurrent savings, Mr Robertson clarified that there were no formal targets around temporary savings, incidences occurred when projects had been delayed. With regard to digital transformation, a number of lessons had been learned including that necessity for the Council to be fully involved and retain ownership of such projects.

4.3 Charitable Trusts administered by Scottish Borders Council

With reference to paragraph 7.2 of the Minute of 24 September 2018, 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, he highlighted that the cash flow statements for Common Good Funds had required a number of changes and these had been amended.

4.4 Scottish Borders Council Pension Fund

With reference to paragraph 7.1 of the Minute 24 September 2018, there had been circulated copies of a report by Audit Scotland in respect of Scottish Borders Council Pension Fund. Mr Hasseb of Audit Scotland presented the report, advising that there were no material adjustments to the unaudited financial statement arising from the audit. Mr Haseeb highlighted that the triennial valuation showed a funding level of 114% - which was the highest in Scotland. In response to questions, Mr Robertson advised that the Council policy was auto-enrolment for new employees; the Fund's investment strategy focused increasingly on income bearing assets which would fund future pension payments. The next triannual valuation was March 2020 and would set contribution rates for the next three years. Regarding members' lack of attendance at training events during the year, Mr Robertson stressed the importance of this issue and advised that it had been addressed with the individuals concerned.

DECISION

NOTED the Annual Reports from the Council's External Auditors prior to Council approval.

5. SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2018/19

5.1 With reference to paragraph 8 of the Minute of 24 September 2018, there had been circulated copies of the Council's audited Annual Accounts for 2018/19. 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.

Audit Scotland had now completed the audit of the Council's Annual Accounts for 2018/19 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 two recommendations for improvement requiring action and these had been accepted by Management and would be enacted within the agreed timescales.

5.2 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, Lowood Tweedbank Ltd and Scottish Borders Council's Pension Fund had been presented to the Audit and Scrutiny Committee prior to signature.

5.3 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. KPMG had concluded that the ongoing review of SB Cares was a going concern and had included this comment in its audit opinion. Late in the audit process KPMG had identified a consistency issue with actuarial valuation of pensions fund liabilities for SB Cares. Regarding Bridge Homes, KPMG had raised no issues and had no matters to report.

5.4 In response to a question regarding contingent liabilities and contingent assets, Mr Robertson advised that further information on failure to conclude the land sale transaction would be provided in due course. Regarding the High Court ruling with regard to Guaranteed Minimum Pensions (GMP), there was still material uncertainty as reconciliation was still being progressed. With regard to the claim against Capita Plc, the Council had requested a cash settlement and the claim was still ongoing. Mr Robertson also advised that the £613k exit packages had been calculated in accordance with Council policy.

DECISION

AGREED to APPROVE the following accounts for officer signature and Council approval:

- (a) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2019;**
- (b) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2019;**
- (c) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2019;**
- (d) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2019;**
- (e) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2019;**
- (f) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2019;**
- (g) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2019;**
- (h) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2019;**
- (i) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2019;**
- (j) the SB Supports LLP audited Annual Accounts for the year to 31 March 2019;**
- (k) the SB Cares audited Annual Accounts for the year to the 31 March 2019; and**
- (l) Lowood Tweedbank Ltd Annual Accounts for the 30 November 2018 to the 31 March 2019 (part year).**

6. FRAUD AND IRREGULARITY UPDATE 2018/19

There had been circulated copies of a report by Audit Scotland, which contained a summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2018/19. The report was designed to share best practice and lessons learned. The Chief Officer Audit & Risk, Ms Stacey, explained that the report had been discussed at a number of national forums and was a valuable resource to establish key controls, monitoring effectiveness, as well as sharing prevention and detection fraud controls. In response to a question, Ms Stacey advised that the report would be considered at the Corporate Fraud Steering Group, any recommendations arising would be presented to Corporate Management Team.

DECISION

AGREED to request that the Corporate Fraud Steering Group consider the Audit Scotland's Fraud and Irregularity Update 2018/19 and make any recommendations arising to Corporate Management Team.

7. INTERNAL AUDIT WORK TO JULY 2019

With reference to paragraph 5 of the Minute of 13 May 2019, 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 1 April to 2 August 2019 was detailed in the report. During the period a total of five Internal Audit reports had been issued. There were 10 recommendations made relating to three 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. Ms Stacey summarised the findings in the report and advised that, once finalised, the executive summary of the Attendance Management Internal Audit Report would be presented to Committee in November 2019. In response to questions, Ms Stacey advised that in relation to Emergency Works there had been challenges for Management in responding to the draft internal audit report and the recommendations. However, discussions had been constructive and they were reviewing processes to ensure sustainability in the longer term. An action plan had also been agreed which would be followed up by Internal Audit before determining the timing of the next planned audit for this service. With regard to the anomalies identified with performance management data, all queries had been corrected prior to the LGBF submission by the Council. The Committee made reference to the 26 September 2019 Council report on the Strategic Review of SB Cares – Future Provision of Adult Social Care Services; Mr Robertson clarified that the Council report reflected the outcome of the Internal Audit consultancy review of SB Cares commissioned by the Chief Executive.

DECISION:

(a) NOTED:

- (i) the final assurance reports issued in the period from 1 April to 2 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; 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.

8. THANKS

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

The meeting concluded at 12.55 pm.