Item No. 4

SCOTTISH BORDERS COUNCIL
AUDIT COMMITTEE

MINUTE of MEETING of the AUDIT COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St. Boswells on 10 November 2014 at 10.15 a.m.

Present: -	Councillors M. Ballantyne (Chairman), J. Campbell, S. Scott. Mr D.Gwyther, Mr G. Tait.
Apologies:-	Councillors W. Archibald, A. Nicol, B. White.
Also present:-	Councillor G. Edgar.
In Attendance:-	Chief Financial Officer, Chief Officer - Audit and Risk, Service Director Commercial Services, Chief Legal Officer, Democratic Services Officer (F. Walling), Mr M. Swann – KPMG, Mr. A. Clark – Audit Scotland.

WELCOME

1. The Chairman welcomed to the meeting Mr Antony Clark from Audit Scotland and Mr Matthew Swann from KPMG.

ORDER OF BUSINESS

2. The Chairman varied the order of business as shown on the Agenda and the Minute reflects the order in which the items were considered at the meeting.

MINUTE

3. There had been circulated copies of the Minute of 23 September 2014.

DECISION
APPROVED for signature by the Chairman.

SCOTTISH BORDERS COUNCIL SHARED RISK ASSESSMENT 2015-2018

4. With reference to paragraph 7 of the Minute of 24 June 2014, Mr Antony Clark, Assistant Director Audit Scotland, was in attendance to give a presentation on the 2015/16 Shared Risk Assessment (SRA) process. Mr Clark summarised the revised process for 2015/16 as being shorter, sharper and more focused. He gave a reminder of the reasons for the introduction of Shared Risk Assessment which followed the key recommendation in the Crerar report to introduce a scrutiny 'gatekeeping' role. The parts of the scheme which were working well included improved scheduling and co-ordination of local government scrutiny activity, the minimisation of duplication and overlap in planned scrutiny activity and better use being made of shared information and intelligence. Not working quite as well was the aim to deliver tailored scrutiny plans which reflected local risks and circumstances nor the promotion of innovative and flexible scrutiny responses. Mr Clark summarised what was still to be improved in the process that culminated in an Assurance and Improvement Plan (AIP) detailing the rolling 3-year forward scrutiny plan for the Council. Although Councils generally valued the process it was felt that engagement with them was still inconsistent. The process had reduced the scrutiny burden but rather than being linked with local risks, ministerial-driven inspection programmes were creating new potential scrutiny 'burden' risks. An unintended consequence of a more proportionate and risk-based approach to planning scrutiny was that high performing Councils were subject to less scrutiny weakening the evidence base of good and innovative practice. Furthermore it was suggested that the time and effort taken to prepare and publish AIPs was sometimes greater than the value and impact that the SRA brought.

5. Mr Clark went on to outline what had been changed in the revised SRA process. The SRA scope would exclude outcomes and public service reform but include improvement support from bodies such as Education Scotland. The SRA scope would now inform Care Inspectorate scheduling of children's services and older people's inspections. Further changes would be a reduction in size of the SRA template and length of the Local Scrutiny Plan and streamlined Question and Answer arrangements. The changes should result in a more efficient process; scope for more application of professional judgement; streamlined reporting with a clearer focus on locally tailored scrutiny plans; and overall a shorter, sharper and better process. Mr Clark proceeded to answer Members' questions. With regard to the apparent shift away from a focus on outcomes Mr Clark explained that outcomes would still be captured in the context of the main services that contributed to them. With regard to the level of local engagement he emphasised the need to ensure planning for inspection reflected local issues. The Chairman thanked Mr Clark for his presentation.

DECISION
NOTED the presentation.

PROPERTY MANAGEMENT

6. Service Director Commercial Services, Andrew Drummond-Hunt, was in attendance to give a presentation updating members on estate management and the expenditure on Council Properties including the Economic Development portfolio. The presentation began with an overview of Scottish Borders Council Property and Estates. Charts showing the analysis of the Council's property indicated that by far the largest asset class was the school estate, by asset value this was 64% and by floor area 52%. Scottish Borders Council spent £5 per square metre on maintenance, this being augmented by the Property and Asset Programme in the capital programme which brought the spend up to around £7 per square metre. This compared with a 2009 local authority average of £11 per square metre and a Scottish Futures Trust (SFT) recommendation of £35 per square metre. A challenge was that construction inflation was set to increase significantly over the next three years. A further chart, showing how the total revenue budget of £1.8m per annum was spent on property maintenance, showed the statutory planned maintenance in the areas of electrical testing (7%), legionellosis (3%) and asbestos and indicated that 57% of the budget was reactive spend covering critical repairs such as plumbing and electrical faults, boiler/heating faults, roof leaks, health and safety repairs etc. 33% was spent on planned repairs to replace life-expired components such as roof coverings, boilers, re-wiring, fire alarm systems etc. The current maintenance backlog was reported to be £26.1m. Using the Government Scoring system for overall condition 6.4% of the Council's estate was in Condition A, 70.5% in Condition B, 20.9% in Condition C and 2.2% in Condition D. However Mr Drummond- Hunt advised that the scoring system was not fool proof in that it did not necessarily reflect the severity or cost implications of a particular problem that may exist within a property. The presentation went on to focus on the Council's commercial estate. There were 228 industrial units, 31 shops and 31 offices/yards etc. with a total asset value of £9.04m, the annual income receivable representing a 12% return. In addition there were 54 development sites for sale or lease. Maintenance spend on commercial property was £3 per square metre with the tenant being responsible for internal repairs. The commercial estate was geared well for local businesses, with a current occupancy rate of approximately 90%. A recent change of policy had resulted in an emphasis on the provision of serviced sites for sale or lease rather than buildings to let. Maintenance and capital spend was insufficient over the long term to regenerate the built estate and consideration should be given to selling commercial buildings that were becoming obsolete and perhaps 'top slicing' the income for investment to regenerate the estate.

7. Mr Drummond-Hunt summarised the Council's current programme of property rationalisation and circulated schedules of current and recent sales and a list of potential industrial property sales. The amount anticipated to be raised over the next 5 years was £8.62m. Currently capital receipts from sales were used to fund the Council's capital

programme. Other considerations within the property rationalisation programme were to encourage economic development and stimulate affordable housing, as well as rationalisation reviews in conjunction with service and estate strategy reviews. In summary: there was a need to carry out rationalisation to keep the estate sustainable as maintenance resources were under severe pressure; the Council had a large successful commercial estate but would be unable to sustain the built commercial assets in the long term; the focus would therefore be on serviced site sales/leasing and the prudent rationalisation of the built commercial estate. In the discussion that followed Members recognised that rental income contributed to the overall income budget and that insufficient resources had been allocated for maintenance of the Council's estate, which was needed to protect that income. Likewise one element of the capital plan was funded by sales of property. Mr Drummond-Hunt drew attention to the difficult choices facing the Council in terms of which properties to sell and which to retain. It was noted that the capital plan concentrated on new buildings rather than investment in older property. With regard to the serviced sites Members accepted that their provision addressed market failure and that this was a vital contribution from the Council towards economic development in the Borders. It was agreed that, following the outcome of service reviews, a comprehensive Asset Management Plan covering all property asset classes was needed to enable an active property rationalisation programme to be taken forward.

DECISION
NOTED the presentation.

INTERNAL AUDIT RECOMMENDATIONS 2013/14 FOLLOW-UP

8. With reference to paragraph 8 of the Minute of 21 April 2014, there had been circulated copies of a report by the Chief Officer Audit and Risk providing details of all Priority 1 (High Risk) and related Priority 2 (Medium Risk) recommendations issued by Internal Audit during 2013/14 and management's progress in addressing these. A table within the report highlighted the latest position with regard to internal audit recommendations arising from previous years. In 2012/13 there had been 26 recommendations, all of which had been implemented. In 2013/14 a total of 51 recommendations had been made of which 27 had been implemented, 22 were not yet due and 2 were overdue though in some cases revised target completion dates had been agreed. An appendix to the report provided details of seven Priority 1 and six related Priority 2 recommendations issued by Internal Audit during 2013/14 and the progress by Management in implementing these to address internal control, risk and governance issues. For those actions not yet completed an explanation had been provided of the reason for delay in implementation, including in some cases where there were dependencies on computer based systems and where appropriate revised timescales had been agreed for their full implementation.

9. With regard to one Priority 1 and related Priority 2 recommendations in respect of Income Charging, Billing and Collection Finance Business Partner, Paul McMenamin, was in attendance to give a presentation on a review of the policy on External Fees and Charges. Mr McMenamin explained that the purpose of the policy was to set out the broad principles that should govern charging for services where the Council has discretion; to establish greater transparency, consistency and fairness to the process of charge-setting; and to assist the Council in achieving its corporate objectives. The Council currently charged for 584 different services across 20 generic service areas. The aims of the policy were listed which concluded with the need to strike a fair balance between the financial needs of the Council and the social needs of its customers. The progress made with the review was outlined by Mr McMenamin. All Council fees and charges were now included in a single booklet by service area, which was presented to Council for approval as part of the annual budget-setting process. Service managers were required to review all charges each year in line with the policy. The review of Fees and Charges was therefore now a prescribed 'annual event' within the Financial Planning process as well as informing day-to-day service and financial planning and management across departments. There was a clear linkage between the Council's policies on Charging, Debt Recovery and Income Management. The

presentation went on to give examples of changes made across services which were associated with the policy review.

10. The Chief Financial Officer, David Robertson, gave Members further information in respect of the Priority 1 recommendation about the identification and training of staff in connection with raising invoices, income collection and debt recovery. He advised that e-learning training was now available with checks being made that all relevant staff had accessed and followed-through this training. With regard to the Priority 2 recommendation to make available necessary tools to distribute a range of performance reports to management Mr Robertson advised that a suite of reports had been created but full implementation awaited the roll-out of Office 2010/Windows 7 within the Finance service. At Mr Robertson's request a revised target completion date of March 2015 was agreed by the Committee for this action. With regards the one Priority 1 recommendation in connection with ICT Infrastructure Mr Robertson referred to the difficulties of operating on software systems within the Council that did not have a common interface. Research was currently being carried out in the market with a view to formulating a bid for an appropriate new finance system through the budget process. Members of the Committee supported this move and emphasised the importance of a having a strategy across the Council that prevented the introduction of a unilateral software system which did not provide interrelationship with other parts of the service. With regard to the three Priority 1 and two Priority 2 recommendations in connection with the Social Care Charging Review, Principal Assistant Social Care and Health, Jane Douglas, attended the meeting to give further information on the progress made to improve practices within this complex end-to-end process. She explained that some processes had been held up through the introduction of Frameworki Finance system (Fwi). However in the interim to enable monthly monitoring of billing a manual reporting system was being developed to reflect the agreed measures and standards which were in place. Further information on the progress in response to the two Priority 1 and three Priority 2 recommendations made in relation to Data Security and Information Management was given by the Chief Legal Officer, Nuala McKinlay, who in recent days had taken over responsibility for the Information Management team. She explained that, despite endeavours by the Corporate Transformation and Services Director to re-shape the service, progress had not been as expected due to two members of staff leaving the organisation, resulting in significant under-staffing of the service. However despite this backdrop the Corporate Transformation and Services Director had put in place significant improvements in processes which had been reflected in improved response times to Freedom of Information requests in recent months. At Mrs McKinlay's request revised target completion dates of April 2015 were agreed by the Committee for three of the actions. She confirmed that re-establishing the Information Governance Group was a priority to facilitate full implementation of the recommended improvements.

DECISION
AGREED:-

(a) to APPROVE the progress by management in implementing the seven Priority 1 (High Risk) and the six related Priority 2 (Medium Risk) recommendations issued by Internal Audit during 2013/14 to appropriately address the identified control weaknesses;

* **(b) to RECOMMEND to Council that the business case for a new finance system be prioritised as part of the budget process and to monitor progress on that recommendation; and**

(c) to request that the Chief Officer Audit and Risk bring back a further report monitoring progress in line with the revised target completion dates.

<u>INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2014/15</u>

11. With reference to paragraph 9 of the Minute of 10 March 2014, there had been circulated copies of a report by the Chief Officer Audit and Risk. The purpose of the report was to

inform the Audit Committee of the progress Internal Audit had made, in the first 6 months of the year to 30 September 2014, towards completing the Internal Audit Annual Plan 2014/15, in order that the Committee may monitor the adequacy of the performance of Internal Audit. Internal Audit had made progress towards completing the Internal Audit Annual Plan 2014/15 despite the need to reschedule some of the planned audits to the second half of the year. In contrast some internal audit work that was originally scheduled for completion in the 3rd quarter had been accelerated. Internal Audit was currently on target to complete its Annual Plan 2014/15. An appendix to the report provided details of the half yearly progress by Internal Audit with the delivery of its programme of work and a table within the report summarised the Internal Audit activity for the 6 months to 30 September 2014. The work Internal Audit had carried out in the first half of the year equated to Productive Days Achieved as a percentage of Productive Days as per the Audit Plan of 113% (CIPFA Directors of Finance PI for Internal Audit services) and 68% completion of planned audits. 66% of the half-year actual audit hours and 59% of the half-year actual audit numbers related to completion of high risk audits and potentially high risk contingency and consultancy audit work to demonstrate a risk-based approach to the completion of the Internal Audit Annual Plan 2014/15. Not all planned audits had been completed in the 6 months to 30 September 2014 and reasons were given for this. A further table set out the Internal Audit planned work for the second half of the year to complete the 2014/15 Plan. The report advised that the Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014. These regulations would apply to the statutory Annual Accounts commencing with the financial year 2014/15. The provision in the regulations for internal audit applied from 10 October 2014 which required a local authority to operate a professional and objective internal auditing service. The Public Sector Internal Audit Standards (PSIAS) required the chief audit executive (Chief Officer Audit & Risk) to carry out an annual internal self-assessment against the PSIAS and develop a Quality Assurance and Improvement Plan (QAIP). A table within the report provided a summary overview of the outcome of the 2013/14 internal self-assessment against the PSIAS carried out by one of the Senior Internal Auditors as reflected in the QAIP.

DECISION
APPROVED the progress Internal Audit had made towards completing the Internal Audit Annual Plan 2014/15.

TREASURY MANAGEMENT MID-YEAR REPORT 2014/15

12. With reference to paragraph 5 of the Scottish Borders Council Minute of 6 February 2014, there had been circulated copies of a report by the Chief Financial Officer. The report presented the mid-year report of treasury management activities for 2014/15, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and sought comments from the Audit Committee prior to consideration of the report by Council. The report provided a mid-year report on the Council's treasury activity during the six month period to 30 September 2014 and demonstrated that Treasury activity in the first six months of 2014/15 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year. The appendix to the report contained an analysis of the performance against targets set in relation to Prudential and Treasury Management Indicators, and proposed revised estimates of these indicators in light of the 2013/14 outturn and experience in 2014/15 to date for Council approval. The Chief Financial Officer, in his summary of the mid-year report, referred to the intention to use the Swedish bank Svenska Handelsbanken for short term deposits. This institution met the Creditworthiness Policy set out in the 2014/15 Treasury Management Strategy in full and was currently graded for investing up to 1 year with a similar long term credit rating as HSBC Bank plc. In addition Sweden still had a AAA sovereign debt rating from all three rating agencies which was higher than the UK. The proposal was to open a call account with Svenska Handelsbanken which meant that the Council would have instant access to the money deposited. No changes were required to the Treasury policy or strategy documents as a result of using Svenska Handelsbanken.

Members discussed the report and received answers to their questions from the Chief Financial Officer.

DECISION

(a) NOTED that treasury management activity in the six months to 30 September 2014 was carried out in compliance with the approved Treasury Management Strategy and Policy.

(b) AGREED to the presentation of the Treasury Mid-Year Report 2014/15, as appended to the report, to Council for approval of the revised indicators.

MEMBER

Councillor Scott left the meeting which subsequently was left without a quorum of Members.

PENSION FUND REFORMS

13. The planned presentation, on pension fund reforms and implications for the Council, was deferred to the next meeting.

DECISION
NOTED

OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND 2014

14. The Chairman referred to an informal meeting held prior to the main Audit Committee meeting when a self-evaluation was carried out using the checklist contained in Appendix 2 to the Accounts Commission's 'An Overview of Local Government in Scotland 2014' report published in March 2014. No gaps were identified for Members of the Audit Committee, in terms of training needs, and no recommendations were made as a result of the discussion. It was agreed that there was a difficulty in interpretation of the questions on the checklist, in the context of the role of the Committee, but that they provided a useful aide-memoire for future self-evaluation. A document, 'Audit Committee Members – Knowledge and Skills Framework' which is Appendix C of CIPFA 'audit committees' Guidance 2013, was handed out to Members for their information and to facilitate future discussion.

DECISION
NOTED

The meeting concluded at 1.25 p.m.