

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 26 September 2019.

Present:

Councillor Stewart Miller (Chair)
Councillor Barbara Grant (Vice Chair)
Provost Jim Fletcher

Councillor Charlie Gilbert
Councillor Annette Ireland

Councillor Miller in the Chair

Attending:

Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Sharon Dick, Head of HR and Corporate Services; Louise Pringle, Head of Communities, Revenues and Change; Michelle Blair, Chief Auditor; Barbara Clark, Chief Accountant; Fiona Muir, Senior Auditor; Alison Ballingall, Senior Revenues Manager; Gill Darbyshire, Chief Executive's Business Manager; Linda Hutchison, Clerk to the Committee; Charlie Leleux, Scrutiny & Evaluation Officer; and Jennifer Graham, Committee Services Officer.

Also Attending:

John Cornett and Elaine Barrowman, Audit Scotland.

Apologies:

Councillors Jim McLean and Jim Swift.

DECLARATIONS OF INTEREST

1041. There were no declarations of interest intimated.

CHAIR'S REPORT

1042. The Chair reported, and it was noted, that there were no issues which he wished to bring to the committee's attention at this time.

2018/19 ANNUAL ACCOUNTS FOR THE COUNCIL'S CHARITABLE TRUSTS AND RELATED EXTERNAL AUDIT OPINION AND INTERNATIONAL STANDARD ON AUDITING (ISA) 260 REPORT

1043. Under reference to the Minute of the meeting of 20 June 2019 (Page 861, Item 915 refers), when the committee had noted that the final Annual Accounts for the Council's charitable trusts and related documents would be submitted to this meeting, the committee considered a report by the Head of Accountancy (Chief Financial Officer) explaining that the audit of the 2018/19 Annual Accounts for the seven charitable trusts for which the Council acted as Trustee had been completed, and submitting a copy of these for consideration. The External Auditor's report on the trusts, completed in compliance with ISA 260, was also submitted for consideration.

Whilst referring to the 2018/19 Accounts and related issues, Ms Barrowman explained that the Accounts were unqualified, and that there were no unadjusted misstatements that required to be brought to the committee's attention. However, regarding the Netherlee School 1937 Endowment Trust, she explained that during the audit it had been difficult to obtain supporting audit evidence to confirm what a payment made to a pupil to support her in her academic studies had been spent on, and if the payment was in line with the Trust's objectives. It had been recommended therefore that the Trustees should maintain evidence on the actual use of grant awards. Ms Barrowman added that this issue had also been raised in 2016/17 and confirmed that progress would be checked during the next audit.

The Head of Accountancy (Chief Financial Officer) confirmed that a letter had been issued to the Trustees in 2016/17 and that a further letter would be issued regarding the most recent recommendation. Having confirmed that the evidence supporting the payment had been received more recently than the audit, she clarified that the delay in locating it and lack of action previously was linked to changes in personnel amongst the Trustees at the school.

The committee agreed to:-

- (a) note the External Auditor's report on matters arising from the audits of the registered charities for 2018/19 under requirements of ISA 260;
- (b) note the amalgamated Annual Accounts for 2018/19 for the seven Charitable Trusts for which the Council acted as Trustee; and
- (c) remit the report to the Council for consideration.

2018/19 EAST RENFREWSHIRE COUNCIL ANNUAL ACCOUNTS, DRAFT ANNUAL AUDIT REPORT AND RELATED ISA 260 REPORT

1044. Under reference to the Minute of the meeting of 20 June 2019 (Page 861, Item 915 refers), when the committee had noted the unaudited Annual Accounts for 2018/19 and that a report on the final Accounts and associated draft Annual Audit Report to the Council and the Controller of Audit would be submitted to this meeting, the committee considered a report by the Head of Accountancy (Chief Financial Officer) regarding the Annual Accounts for 2018/19, the associated draft Annual Audit Report prepared by the External Auditor which would be issued in final form after the financial statements had been certified, and a further report by the External Auditor on matters arising from the audit of the Council's financial statements for 2018/19 reported under ISA 260 requirements. The draft Audit report provided an overview of the main issues arising from the 2018/19 audit.

The Council had received an audit certificate which was unqualified. As it had operated comfortably within budget, it had not required to draw down £1,355k from reserves as planned. After transfers to earmarked reserves totalling £2,771k, a sum of £421k had been added to the Council's non-earmarked General Fund reserve, resulting in a balance of £10,544k as at 31 March 2019. This equated to 4.4% of the annual budgeted net revenue expenditure, which was slightly above the Council's target of 4%, although the balance would reduce significantly during 2019/20 as the Council had budgeted to use £4,312k of this reserve during the year.

The Accounts reflected the establishment of a Feasibility Fund to permit early preparation and investigations for potential capital projects and enable a faster start on major new capital schemes as work to identify any design or ground condition issues could be taken forward in advance of formal approval of the Capital Plan. Capital expenditure of £41,187k had been invested, in addition to which an operating surplus of £89k had been made on the Housing Revenue Account, thus increasing the accumulated surpluses brought forward to that Account to £1,718k.

Whilst referring to the Accounts and related issues, Mr Cornett confirmed that it was proposed to issue an unqualified auditor's certificate on the Accounts and that there were no unadjusted misstatements requiring to be brought to the committee's attention. Regarding the Annual Audit Report, he itemised the key messages within it pertaining to the Accounts; financial management; financial sustainability; governance and transparency; and value for money. Whilst referring to these further, he commented on various issues, including that the Council should continue to review its budget monitoring to ensure forecasts for the final outturn reflected actual spending patterns and demand; and that, following discussion with the Section 95 Officer, it had been proposed that additional management commentary be added to the Accounts in future. It was reported that actions that remained outstanding to be taken forward included the accommodation strategy and development of a corporate landlord approach. The introduction of the core financial systems during 2019/20 would also impact on future audit work.

Ms Barrowman referred to the various issues and risks, recommendations and actions agreed as documented in the 2018/19 Action Plan, including in relation to the valuation of assets; grants and contributions due to house building and other development within the area; occupancy levels at Greenlaw Business Centre; the Care Inspectorate Report on the review of the Care at Home Service; and the finalisation of the Council's accommodation strategy.

The Head of Accountancy (Chief Financial Officer) referred to the range of agreed management actions and associated timescales specified in Appendix 1 to the report, confirming that some actions had already been implemented whilst others would be taken forward over a longer timescale. Amongst other things, she referred to work being taken forward on business continuity and the accommodation strategy, and work on and savings arising from the Modern Ambitious Programme (MAP). She also referred to the extent to which Members could access the Care at Home Service inspection report and related documents and raise related issues if they wished, including through reports submitted to the Integration Joint Board (IJB). She confirmed that consideration was being given to including IJB Minutes on Council agendas to increase transparency and allow Elected Members to raise questions.

Mr Cornett and Ms Barrowman thanked the Head of Accountancy and Chief Accountant and her team for their invaluable assistance during the audit, commending the approach adopted which had been key to completing the Accounts timeously.

Provost Fletcher welcomed the comments on the financial position the Council as specified in the Accounts and Annual Audit Report which he regarded as a credit to all those concerned. However, he also referred to a lack of reference within the latter to the real and regrettable impact of cuts on services arising from a reduction in the financial resources at the Council's disposal. He also expressed some related concerns regarding the way in which the Scottish Government notified local authorities of the full resources allocated to them, which could take some time to clarify each year.

Mr Cornett confirmed that the Annual Audit Report focussed on the financial position of the Council, which was positive, but did not necessarily reflect on the impact of cuts and savings in terms of employee numbers and services being provided for example, adding that the impact of such issues was covered in Audit Scotland's Best Value work. However, he undertook to reflect further on the comment made.

During discussion on the 2018/19 underspend, the importance of budgeting accurately at the start of the year and some concerns expressed by Elected Members on ring fenced funding which removed local discretion on expenditure, the Head of Accountancy (Chief Financial Officer) reported that new monitoring approaches had led to a reduction in the underspend for 2018/19, but that departments would always wish to reserve some funding until the year end to enable them to react, if required, to emergencies. She added that restructuring occurred almost every year somewhere within the authority associated with which there could be one-off costs which departments were expected to meet themselves if possible, failing which an allocation from a central budget could be considered.

The committee, having heard Councillor Miller thank the Head of Accountancy (Chief Financial Officer), the Chief Accountant and her team and the External Audit team for their hard work producing the Accounts and related Annual Audit Report, agreed:-

- (a) to note the draft Annual Audit Report to the Council and Controller of Audit 2018/19 and the External Auditor's Report on matters arising from the audit of the Council's 2018/19 Financial Statements prepared under requirements of ISA 260;
- (b) to note the content of the Council's Annual Accounts for 2018/19 and related comments made; and
- (c) to remit the report to the Council for consideration.

NATIONAL FRAUD INITIATIVE – UPDATE

1045. Under reference to the Minute of the meeting of 27 September 2018 (Page 553, Item 615 refers) when a report on the National Fraud Initiative (NFI) in Scotland had been noted, the committee considered a report by the Head of Communities, Revenues and Change providing an update on the NFI in Scotland and related work carried out in 2018/19.

Having referred to the data sharing and matching exercise undertaken throughout Scotland every two years, the purpose of the NFI counter-fraud exercise and keys to success, the report explained that East Renfrewshire had a single point of contact for NFI and a well-established network of departmental contacts who were responsible for comparing their own data sets, recovery, and follow up action. Reference was made to the number of matches reported in the 2018/19 exercise with a total potential fraud or error value of £95,360 and how related work was progressed. Further details were provided on related issues and work taken forward on Housing Benefit and Council Tax reduction; the Council Tax single persons' discount (SPD); the Fraud and Error Service set up by the Department of Work and Pensions; and other related initiatives.

It was clarified that the NFI website would be available until February 2020 by which time the majority of investigations would be completed and outcomes recorded. It was concluded that the Council had fully participated in the 2018/19 NFI exercise recovering £23,652 due to fraudulent or claimant error and that it had a robust and effective approach to NFI which complemented existing fraud prevention measures.

The Head of Communities, Revenues and Change commented further on the report during which she reported on the scale of the NFI, related methodology, and the value of not only investigating data matches and identifying and stopping fraud and errors, but also recovering overpayments and improving systems. She highlighted that, to complement the NFI, it had been decided to carry out a further probe on SPD for Council Tax in the interim year using various records, work on which would be progressed later in 2019.

Mr Cornett stressed that not all data matches identified were necessarily fraud related. He stated that he was heartened to hear about the additional work being done during the interim year when an NFI exercise was not being carried which he considered good practice, encouraging its continuation.

The committee noted the report and action taken in respect of the National Fraud Initiative in East Renfrewshire Council for 2018/19.

STRATEGIC RISK REGISTER AND RISK MANAGEMENT PROGRESS

1046. Under reference to the Minute of the meeting of 14 March 2019 (Page 780, Item 832 refers), when the position on the Strategic Risk Register (SRR) and progress with risk management across the Council had been noted, the committee considered a report by the Chief Executive regarding the most recent biannual update of the Register and general progress on risk management.

The SRR, a copy of which was appended to the report, itemised key risks that required to be considered and associated actions put in place to manage these. An additional column had been added to the SRR to record the date for completion of proposed risk measures.

Having referred to related operational risk registers in place, the report confirmed that several strategic risks had been amended to include additional control measures and rescored for significance, clarifying that a thorough review of all the strategic risks had been undertaken by the Corporate Management Team (CMT). In total there were now 30 strategic risks, 11 of which were evaluated as high and 19 as medium. Risks evaluated as low had been removed from the SRR and would be monitored within departmental or operational registers as appropriate. Relevant significant risks which could impact on achieving the Council's outcomes regarding the work of the Integration Joint Board (IJB) and the Culture and Leisure Trust had been considered.

In addition to referring to risks added to the SRR, information was provided on risk scores that remained high; amended risk descriptions; risks which had increased from medium to high; and those which had reduced from high to medium. It was confirmed that although reports on the SRR were submitted to the committee every 6 months and the Cabinet annually, the register was considered to be a live document and updated continually, with the review of the SRR playing a fundamental role in ensuring that the Council met its objectives as detailed in Fairer East Ren, the Modern Ambitious Programme and the Outcome Delivery Plan.

Having heard the Business Manager highlight key aspects of the report, Provost Fletcher expressed concern that the risk score for Risk 6.1 on reduced central government funding

had been lowered to medium. In response, the Head of Accountancy clarified that although the position remained challenging, in determining the revised score account had been taken of various issues. These included a trend to mainline some funding now whereas there had been less certainty about this in the past; the outcome of the UK spending review which might result in local authorities receiving a little more in terms of funding than anticipated; and assurances and clarification provided on funding for some initiatives such as the 1140 hours of nursery and childcare provision to be made available from 2020.

Provost Fletcher reiterated his concerns, acknowledged that there had been some successes securing funding, but referred to an on-going lack of assurances on funds and service cuts being a reality, expressing the view that the risk should remain high. Councillor Miller highlighted that the SRR remained under review and that comments made by Elected Members, such as the one expressed, could be fed back and considered.

In reply to Councillor Ireland who referred to Risk 6.7 “interruption to service or total inability to provide ICT services” and the cost of purchasing a back-up generator, the Head of Accountancy confirmed that the CMT had recently discussed this matter, that funding for a generator had been identified, and that the Head of Digital and Community Safety would be taking this forward.

The committee:-

- (a) agreed that the Chief Executive’s Business Manager provide feedback to appropriate senior officers on comments made by members of the committee at the meeting on the SRR for consideration; and
- (b) otherwise, noted the development of the SRR; that it was considered to be a live document; and that it would be updated and amended by the CMT.

MANAGING ABSENCE – ANNUAL REPORT

1047. Under reference to the Minute of the meeting of 27 September 2018 (Page 554, Item 617 refers), when absence management during 2017/18 had been discussed, the committee considered a report by the Deputy Chief Executive providing an update on the Council’s sickness absence levels and its approach to managing absence.

Whilst commenting on absence data for 2018/19, the report explained that there had been an increase in both local government employee and teacher absences and itemised the top attributable reasons. Having highlighted various issues on absence benchmarking, including a range of data within the Chartered Institute of Personnel and Development (CIPD) Annual Survey Report 2018 for private, public and non-profit sectors, the report provided statistical information on absence trends since 2012/13 and made reference to related issues. The report commented that it was recognised at a national level that a number of factors influenced absence figures, including whether or not manual services remained in-house as in East Renfrewshire, as such services tended to have higher absence rates associated with them.

Further information was provided on the focus being placed on absence improvement and related matters during which it was highlighted that mental health would be an area of focus in the coming year. Statistics were also provided on dismissals on grounds of capability and the number of ill-health retirements. It was explained that there was potential for absence levels to continue to be of concern over the next few years associated with planned service reviews, but emphasised that improving absence levels through a more robust approach remained a priority for the CMT and departments.

It was concluded that the Council's overall absence performance had improved from 2015/16 to 2017/18, although there had been a decline in 2018/19. A strong focus continued to be placed on absence improvement, benchmarking and implementing related training and improvement actions. Reference was made to the focus to be placed on mental health, including encouraging managers to be proactive and supportive when an employee showed signs of a stress related illness; and to encourage employees to attend training relating to this that could be helpful to them.

Whilst commenting further on various aspects of the report, the Head of HR and Corporate Services confirmed that the Local Government Benchmark Framework data issued by the Improvement Service for 2018/19 was not yet available.

The committee:-

- (a) noted the content of the report and trend in absence ratings; and
- (b) agreed to support the range of approaches being taken to reduce absence levels across the Council.

SUMMARY OF EARLY RETIREMENT/REDUNDANCY COSTS TO 31 MARCH 2019

1048. Under reference to the Minute of the meeting of 27 September 2018 (Page 555, Item 618 refers), when early retirements/redundancies to 31 March 2018 had been discussed, the committee considered a report by the Deputy Chief Executive summarising the position on early retirement/redundancy costs from 1 April 2018 to 31 March 2019 and related issues. Information on the total costs incurred and projected savings was provided.

Whilst commenting on the report, the Head of HR and Corporate Services confirmed that redundancies continued to be assessed using a process based on a financial business case, referred to associated legal requirements, and clarified that related costs depended on the individual circumstances of each employee involved, with each case considered on its own merits.

In response to Councillor Grant, the Head of HR and Corporate Services clarified that retirements/redundancies associated with the Education Department related to local government employees not teachers. In response to Councillor Ireland, she confirmed that the target time for recovering costs was 3 years in line with the business case. The Head of Accountancy referred to recent guidance from the Scottish Government on the payback period regarding which a cap had been set for civil servants, reporting that a sample exercise had confirmed that the restrictions enforced by the Council were more stringent.

The committee noted the content of the report, the explanations provided for early retirements/redundancies within the period it covered, and related projected savings.

AUDIT AND SCRUTINY COMMITTEE WORK PLAN

1049. Under reference to the Minute of the meeting of 15 August 2019 (Page 904, Item 975 refers), when it had been agreed that an update on the committee's work plan be submitted to this meeting, the committee considered a report by the Clerk providing an update on the 2019/20 Audit and Scrutiny Committee Work Plan. It reflected various developments such as the extent to which work for the current year had been progressed; the timetable approved for the committee's work on income generation and commercialisation; and other planned work based on the outcome of discussions at the committee's meeting in August. A copy of the updated plan was attached to the report.

Furthermore, as agreed, the Scrutiny and Evaluation Officer had liaised further with members of the committee and others with a view to identifying a further potential priority 1 (high priority) issue for immediate review and the committee determining what its next detailed piece of review work would be. It was proposed that climate change should be the next high priority issue investigated and that further details of the scope of the review and the proposed timeline be submitted to the next meeting, following further discussion.

During further explanation on the work plan, the Clerk confirmed that where there was less certainty about scheduling of specific issues, this was reflected in notes linked to the work plan.

The committee agreed:-

- (a) to approve the updated 2019/20 annual work plan;
- (b) that climate change be the next high priority issue to be the subject of a scrutiny and evaluation review by the committee as outlined in Appendix 2 to the report; and
- (c) that further details of the scope of the review and the proposed timeline be submitted to the next meeting, following further discussion including with the Environment Department.

INVESTIGATION ON INCOME GENERATION AND COMMERCIALISATION – UPDATE ON PROGRESS

1050. Under reference to the Minute of the meeting of 15 August 2019 (Page 906, Item 976 refers), when the committee had noted progress on the investigation on income generation and commercialisation opportunities and that further work on it would be progressed, the committee considered a report by the Chief Executive providing an update on the further progress made since then.

The report referred to meetings which had taken place between members of the committee and representatives of departments and services to discuss current and planned approaches to income generation and commercialisation, related information prepared, and themes discussed and explored. These included how annual savings targets were being met; ways in which external income was currently generated; how a culture of commercialisation was being introduced; and related savings and benefits. The next steps were also outlined.

Whilst commenting on the report, the Scrutiny and Evaluation Officer referred to a further informal meeting on 8 October 2019 at which the information gathered and evidence taken could be discussed with members of the committee. This was with a view to provisional recommendations being developed for the final report on the investigation for submission to the committee for consideration on 21 November.

The committee agreed to note the latest progress with the investigation on income generation and commercialisation opportunities within the Council.