

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 27 September 2018.

Present:

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

Councillor Charlie Gilbert
Councillor Annette Ireland
Councillor Jim Swift

Councillor Miller in the Chair

Attending:

Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Sharon Dick, Head of HR, Customer and Communications; Barbara Clark, Chief Accountant; Ross Mitchell, Senior Auditor; Kath McCormack, HR Manager; Linda Hutchison, Clerk to the Committee; and Jennifer Graham, Committee Services Officer.

Also Attending:

Elaine Barrowman and Morven Fraser, Audit Scotland.

Apology:

Councillor Jim McLean.

DECLARATIONS OF INTEREST

610. There were no declarations of interest intimated.

CHAIR'S REPORT

611. Councillor Miller, having referred to a request from a member of the public, asked Members to let him know if there had been any significant demand for meetings, other than the full Council meeting, to be webcast and if so he would pass that information to appropriate officers.

The committee noted the request to notify the Chair of any significant demand to have meetings, other than the full Council, webcast.

2017/18 ANNUAL ACCOUNTS FOR THE COUNCIL'S CHARITABLE TRUSTS AND RELATED EXTERNAL AUDIT OPINION AND INTERNATIONAL STANDARD ON AUDITING (ISA) 260 REPORT

612. Under reference to the Minute of the meeting of 21 June 2018 (Page 454, Item 484 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 2017/18 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 Accounts and related issues, the Head of Accountancy and Ms Barrowman explained that for 2017/18 the Accounts were unqualified, and that there were no unadjusted misstatements requiring to be brought to the committee's attention. Subject to the outcome of discussions, reference was made to the letter of representation that the Head of Accountancy would sign.

In reply to Councillor Ireland who referred to an issue raised when the 2016/17 Accounts had been considered, Ms Barrowman, supported by the Chief Accountant, clarified that this had been a matter for the Trustees of Netherlee School 1937 Endowment and centred on considering arrangements for ensuring the proper use of funding to ensure grant awards were used for their intended purposes in compliance with the Charity's objectives. It was confirmed that this had been addressed.

The committee agreed to:-

- (a) note the External Auditor's report on matters arising from the audits of the registered charities for 2017/18 under requirements of ISA 260;
- (b) note the amalgamated Annual Accounts for 2017/18 for the seven Charitable Trusts for which the Council acted as Trustee; and
- (c) remit the report to the Council for consideration.

2017/18 EAST RENFREWSHIRE COUNCIL ANNUAL ACCOUNTS, DRAFT ANNUAL AUDIT REPORT AND RELATED ISA 260 REPORT

613. Under reference to the Minute of the meeting of 21 June 2018 (Page 454, Item 484 refers), when the committee had noted the unaudited Annual Accounts for 2017/18 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 2017/18, 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 2017/18 reported under ISA 260 requirements. The draft Audit report provided an overview of the main issues arising from the 2017/18 audit.

The Council had received an audit certificate which was unqualified. An overall surplus of £5,072k had been recorded in the Accounts. After transfers to earmarked reserves, a sum of £379k had been added to the Council's non-earmarked General Fund reserve resulting in

a balance of £10,133k as at 31 March 2018. This represented 4.3% of the annual budgeted net revenue expenditure which was in line with Council policy.

Transfers totalling £4,600k has been made from the General Fund balance to specific reserves and capital expenditure of £53,207k had been invested. An operating surplus of £385k had been made on the Housing Revenue Account, thus increasing the accumulated surpluses brought forward to that Account to £1,629k.

Whilst referring to the Accounts and related issues, in support of comments made by the Head of Accountancy, Ms Barrowman 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. She highlighted key aspects of the Annual Audit Report, including key messages within it regarding the Council pertaining to the Accounts; financial management; financial sustainability; governance and transparency; and Best Value. Whilst referring to the evaluation of misstatements, she commented on proposed adjustments to the financial statements associated with Council housing stock valuation, net pension liability, the valuation of Eastwood office accommodation and the reallocation of asset values, the net effect of which would increase the net worth recorded in the balance sheet by £30.982m.

Having summarised and commented on the significant findings from the audit of the financial statements itemised in Exhibit 3 of the Annual Audit Report, Ms Barrowman confirmed that the issues identified had been or were to be dealt with and that none had impacted on the signing off of the Accounts. Thereafter she referred to the recommendations for improvement which had been made and were contained within the 2017/18 Action Plan appended to the report, some of which related to a follow up of prior year recommendations. She also thanked the Chief Accountant and her team for their assistance during the audit.

In response to Councillor Miller, Ms Barrowman clarified that the introduction of an Information Security Policy should have predated the implementation of GDPR, and how the need to recruit an Information Security Officer had contributed to this, referring to the need for it and to keep the position under review.

Whilst commenting on the report, Provost Fletcher commended the fact that the Accounts were unqualified. He welcomed that the Council's Best Value Assurance Report (BVAR) had been good and arguably one of the best in Scotland, and that progress made on implementing the related action plan had been referred to by the External Auditor in the Annual Audit Report. He added that the Council had reflected on the Best Value recommendations and acted to address them.

Councillor Swift highlighted a range of issues referred to in the Annual Accounts and Annual Audit Report on borrowing levels, financial sustainability, savings to be identified, funding requirements, Reserves, increased Capital commitments and risk, asking if he and some local residents were right to be concerned about the level of borrowing the Council was pursuing. In reply Ms Barrowman stated that what was critical was having strong financial planning arrangements and scenario planning, referring to the good and comprehensive Financial Strategy the Council had introduced quite recently and related information provided to Members. Having also commented on the importance of budget monitoring, she added that there were no real concerns other than regarding the underspend, and acknowledged the financial pressures faced by the Council such as regarding its ageing population.

The Head of Accountancy stated she would support those comments, reporting that the Council had increased the timespan covered by its long term financial plan to six years, had a Capital Plan horizon of eight years, and was working with consultants on the further development of good practice and long term planning over ten to twenty years. She also

referred to treasury management reports submitted to the Council annually in advance of the budget being agreed not only to demonstrate that plans were affordable, prudent and sustainable, but also to provide related assurances about the adequacy of funding plans in the medium and long term, as well as the short term.

Councillor Ireland expressed satisfaction with the report, making particular reference to the issues raised in the BVAR on scrutiny and welcoming that the Annual Audit Report reflected that these were being addressed. Regarding exit packages for employees, in response to Councillor Ireland, the Head of Accountancy clarified that established procedures had existed for a long time for assessing the relative impact of different types of these, but that the documenting of some issues would be enhanced as recommended in the action plan.

Whilst referring to the Culture and Leisure Trust, Councillor Swift referred to additional funds provided to it by the Council, querying why, in that financial context, its Chief Executive had recently approved the salary increase he himself had received. Having heard Councillor Grant emphasise that it was the Board, not the Chief Executive, which had approved this and that it would only do so if considered required, Council Swift queried the Board's decision. Speaking more generally, Provost Fletcher expressed support for pay increases and equal pay for employees and, supported by Councillor Grant, queried the validity of the Committee discussing the matter. That was challenged, in turn, by the Chair on the basis that the salary was specified in the Accounts. Ms Barrowman confirmed that this was for information and that her team did not audit the Trust, referring to mechanisms that existed to enable the Council to monitor the Trust's performance and raise issues with the Board.

Councillor Swift also expressed the view that there was a lack of transparency regarding the Trust, commenting on the failure to publish Board Minutes timeously.

The committee agreed:-

- (a) to note the draft Annual Audit Report to the Council and Controller of Audit 2017/18 and the External Auditor's Report on matters arising from the audit of the Council's 2017/18 Financial Statements prepared under requirements of ISA 260;
- (b) to note the content of the Council's Annual Accounts for 2017/18 and related comments made; and
- (c) to remit the report to the Council for consideration.

NATIONAL EXTERNAL AUDIT REPORT – 2016/17 AUDIT OF DUNDEE CITY COUNCIL

614. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Audit of Dundee City Council – Report on Significant Fraud* which under the committee's specialisation arrangements had been sent to Councillors Miller and Grant for review. The Head of Business Change and Revenue Services and Head of ICT and Digital Engagement had been asked to provide comments and a copy of their feedback was attached to the report.

It was reported that the significant fraud at Dundee City Council had been brought to the Council's attention initially through a Directors of Finance meeting in June 2017 following which amendments had been made to the creditors' payment process and ICT controls to mitigate the possibility of a similar fraud occurring in the Council. In addition the Internal Audit Work Plan for 2018/19 would consider the Council's mitigating actions taken since the reports on the Dundee fraud had been published, to ensure they were robust.

Provost Fletcher referred to a range of related issues, including how fraudulent action of this type was invariably attributable to a rogue individual who would often be asked to leave an organisation when caught but could then be reemployed elsewhere, and why many organisations affected did not want related publicity. Adding that it was difficult to eliminate possible fraud of the type reported, he endorsed the investigation of such issues, as in this case, learning lessons and the implementation of additional safeguards as appropriate.

The Chief Financial Officer echoed the comments made, reiterated how the matter had come to light allowing action to be taken, and clarified that ways to reduce fraud would be built into the new core corporate systems currently being designed.

The committee agreed to note the report and related comments made.

NATIONAL EXTERNAL AUDIT REPORT – NATIONAL FRAUD INITIATIVE IN SCOTLAND

615. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *The National Fraud Initiative in Scotland* which under the committee's specialisation arrangements had been sent to Councillors Miller and Grant for review. The Head of Business Change and Revenues had been asked to provide comments and a copy of her feedback was attached to the report.

It was reported that the Council had an effective approach to the National Fraud Initiative (NFI) and all recommendations contained within the report had been addressed. A range of services across the organisation participated in the biennial exercise, the outcome of which was routinely reported to the committee.

It was clarified that East Renfrewshire had a single point of contact for NFI and a well-established internal network of departmental contacts covering a number of areas including Housing Benefit, Council Tax Reduction, housing waiting lists, and Payroll and Creditors' history. Information was provided on the number of matches reported in the 2016/17 NFI exercise, the largest area of fraud and claimant error being in relation to Housing Benefit and Council Tax Reduction. The Department of Work and Pensions' (DWP) National Fraud and Error Service (FES) continued to protect the Council's interests and mitigate the risk against housing benefit fraud, and the Council's Corporate Debt Recovery Team continued to pursue cases through either long term payment arrangements or by deduction direct through the DWP. Further information was provided on other related initiatives and it was reported that arrangements had already commenced within the authority to prepare for the next NFI exercise for 2018/19.

The committee noted the report.

NATIONAL EXTERNAL AUDIT REPORT – AUDIT OF CITY OF EDINBURGH COUNCIL – REPORT ON EDINBURGH SCHOOLS

616. Under reference to the Minute of the meeting of the Cabinet of 30 August 2018 (Page 454, Item 484 refers), when the proactive approach taken by the Council in relation to the *External Audit of City of Edinburgh Council – Report on Edinburgh Schools* (also known as the Cole Report) and the resulting action plan prepared by Property and Technical Services (PATs) and Building Standards (BS) had been noted, as had the quarterly action plan monitoring regime put in place since 1 April 2018, the committee considered a report by the Clerk on the publication of the report which under the committee's specialisation

arrangements had been sent to Councillors Gilbert and Ireland for review. The Head of Environment (Strategic Services) had been asked to provide comments and a copy of his feedback was attached to the report.

The report explained that the Cole Report was issued following an independent inquiry, Chaired by Professor John Cole CBE an architect and retired senior civil servant, which had been commissioned by the Chief Executive of the City of Edinburgh Council as a result of the collapse of a wall at Oxfangs Primary School. Following the publication of the inquiry report, East Renfrewshire Council had instructed a full programme of visual and intrusive surveys of its Public Finance Initiative/Public Private Partnerships (PFI/PPP) properties. An independent structural engineer had confirmed that there were no major structural defects in any of the buildings or risk to the health and safety of staff and pupils.

The report also explained that the Cole Report had raised 75 points relating to construction, quality control and supervision and that these points had been reviewed by officers from Property and Technical Services and Building Standards in 2017. As a result an action plan had been prepared in response to ensure that the Council had additional measures and practices in place, alongside existing procedures, to minimise the risks of the issues raised in the Cole Report being experienced in future new build projects.

Councillor Grant commented that, having raised an issue at the most recent Council meeting, she had subsequently received assurances she had been seeking from officers based within the Environment Department that factors such as altitude and exposure to low temperatures and wind due to location had been sufficiently taken into account regarding the new school being built at Maidenhill. Having expressed the view that this had been a very relevant issue to raise, Provost Fletcher commented on the importance of taking appropriate steps in response to the Cole report, and of learning lessons from incidents regarding which he cited examples of how the Council had responded to some situations in the past. He also referred to the advantages and disadvantages of projects being progressed on a not for profit basis, regarding which he referred to maintenance of buildings amongst other things.

During further discussion on the importance of and responsibilities associated with monitoring projects, and in response to Councillor Swift, the Head of Accountancy confirmed the action the Council was taking regarding the appointment of clerks of works for major projects.

The committee agreed to note the report and related comments made.

MANAGING ABSENCE – ANNUAL REPORT

617. Under reference to the Minute of the meeting of 28 September 2017 (Page 148, Item 159 refers), when absence management during 2016/17 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 2017/18, the report explained that the Council had placed significant focus on tackling absence across all departments, there having been an improving trend since 2014/15, with emphasis placed on absence hotspot areas such as facilities management and home care.

Having highlighted various issues on absence benchmarking, including a range of data within the Chartered Institute of Personnel and Development (CIPD) Annual Survey Report 2017 for private, public and non-profit sectors, the report provided statistical information on absence trends since 2011/12 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 non-work related stress continued to be the top reason for absence for Council employees. 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 continued to improve during the year, the overall figure for absence per full time equivalent being 8.5 days. The council's absence rate was in line with CIPD research, with a strong focus continuing to be placed on absence improvement, benchmarking and the implementation of training and improvement actions.

Whilst commenting on various aspects of the report and in response to questions, the Head of HR, Customer and Communications advised that the Local Government Benchmark Framework data issued by the Improvement Service for 2017/18 was not yet available, but was expected to reflect improvement locally compared to some other areas. In reply to Councillor Swift, who referred to the report as encouraging, she confirmed that the target for 2018/19 was considered realistic and to be about the limit of what could be achieved. In reply to Councillor Miller she outlined reasons why teacher absence levels were better than others, referring to the impact which the number of days worked and the absence of a manual workforce as part of that sector had on their absence levels compared to that of others.

The Committee noted the content of the report, the improvement in absence ratings and to support the range of approaches being taken to further reduce absence levels across the Council.

Resolution to Exclude Press and Public

It was noted that the agenda for the meeting contained a recommendation that the committee pass a resolution to exclude the press and public from the meeting on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 – “information relating to a particular employee, former employee or applicant to become an employee of, or a particular office holder, former office holder or applicant to become an office holder, under the authority” (Item 618 below).

However, on the motion of the Chair, the committee unanimously resolved that the press and public should not be excluded from the meeting whilst the item was under consideration, as there was considered to be insufficient information contained within the report to identify any particular individual.

SUMMARY OF EARLY RETIREMENT/REDUNDANCY COSTS TO 31 MARCH 2018

618. The committee considered a report by the Deputy Chief Executive summarising the position on early retirement/redundancy costs from 1 April 2017 to 31 March 2018 and related issues. Information on the total costs incurred and projected savings was provided.

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

Councillor Grant reiterated concerns she had commented on before at various meetings about the impact of losing experienced officers, related challenges in terms of replacing that experience, and the importance of balance on this issue. Councillor Swift welcomed efficiencies being introduced within the Council.

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

CHAIR