

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 9 November 2017.

Present:

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

Councillor Charlie Gilbert
Councillor Annette Ireland
Councillor David Macdonald

Councillor Miller in the Chair

Attending:

Louise Pringle, Head of Business Change and Revenues; Michelle Blair, Chief Auditor; Barbara Clark, Chief Accountant; Linda Hutchison, Clerk to the Committee; and Jennifer Graham, Committee Services Officer.

DECLARATIONS OF INTEREST

218. There were no declarations of interest intimated.

CHAIR'S REPORT

219. The following matter was raised during the Chair's report:-

(i) Key Control Failures

Under reference to the Minute of the meeting of 28 September 2017 (Page 146, Item 157 refers), when the committee agreed to explore if, in future, elected Members could be advised of key control failures over a certain financial threshold, possibly £50,000, at an early stage and at the same time as the CMT was advised, Councillor Miller confirmed that, on the committee's behalf and in the first instance, the Clerk had written to the Chief Executive seeking her views on the suggestion and how the matter could be progressed.

Councillor Miller clarified that, when responding, the Chief Executive had referred to questions raised and comments made on this issue at the Council meeting on 25 October 2017 (Page 174, Item 193 refers), including the Leader's suggestion that officers review what happens in other councils to identify if any changes to the existing procedures should be implemented. She had also advised that, due to the short time between the Council meeting and this meeting, it had not been possible to carry out this review, but that she would arrange it and that feedback would be provided to a future meeting of the committee.

Having referred to comments by the Leader of the Council on the threshold for reporting material losses to the Cabinet, Councillor Miller expressed the view that any financial failure in controls and procedures that leads to a loss should be notified to councillors at the earliest opportunity, referring to what had happened in the case of the attempted fraud in March regarding procedures. He requested that the Chief Executive proceed with the review as quickly as possible and before the committee's next meeting.

The committee noted the comments made, which would be fed back to appropriate officers.

INTERIM TREASURY MANAGEMENT REPORT FOR 2017/18

220. Under reference to the Minute of the meeting of 28 September 2017 (Page 148, Item 158 refers), when the committee had noted the Treasury Management Annual Report for 2016/17 and recommended to the Council that the organisations specified in that report for investment of surplus funds be approved, the committee considered a report by the Head of Accountancy (Chief Financial Officer) on treasury management activities for the first six months of 2017/18.

The report explained that, in line with the revised CIPFA Treasury Management Code of Practice 2011, the Audit and Scrutiny Committee was responsible for ensuring effective scrutiny of the Council's treasury management activities. In accordance with that requirement, the interim Treasury Management Report for 2017/18 was attached to the report for consideration.

The Chief Accountant explained that the report reflected the debt position and movement in investments over the preceding 6 months, and that £15m had been borrowed from the Public Works Loan Board (PWLB) to support the Council's capital investment plans and take advantage of low interest rates. Having commented on borrowing assumptions to cover capital expenditure over the next 3 years and related issues, she provided clarification on the strategy adopted on variable rate loans and related issues; explained why short-term investments had increased slightly due to additional borrowing and cashflows in both capital and revenue; and referred to related fluctuations in balances. She also commented on prudential indicator issues, and the list of organisations recommended for the investment of surplus funds. It was clarified that all investments were restricted to United Kingdom bodies with high credit ratings, with the maximum period of investment restricted to 6 months, with the exception of the Bank of Scotland where investment was restricted to 364 days.

Whilst responding to questions, the Chief Accountant referred to the current maturity profile for outstanding debt as of September 2017; issues taken into account regarding debt maturity in terms of new debt; debt level fluctuations; and borrowing from and the repayment of loans to the PWLB. She undertook to provide clarification to Councillor Macdonald on new PWLB borrowing for the current year.

In response to a more general question regarding the Council's level of reserves and their potential availability for roads-related matters, the Chief Accountant confirmed the total current level of reserves; explained that the non-earmarked General Fund reserve balance represented around 4% of the annual budgeted net revenue expenditure; and referred to reserves held in specific funds such as the Repairs and Renewal Fund.

The committee agreed:-

- (a) to **recommend to the Council** that the organisations for investment of surplus funds be approved in accordance with Appendix 2 to the report;

- (b) that the Chief Accountant provide clarification on new Public Works Loan Board borrowing for the current year; and
- (c) otherwise, to note the report and related comments made.

NATIONAL FRAUD INITIATIVE

221. Under reference to the Minute of the meeting of 29 September 2016 (Page 2064, Item 2210 refers), when a report on the Audit Scotland report on *The National Fraud Initiative (NFI) in Scotland* was considered, the committee considered a report by the Head of Business Change and Revenues providing an update on the impact of the 2016/17 NFI exercise in East Renfrewshire Council.

Having referred to the aim of this work undertaken by Audit Scotland working with other bodies, and its contribution to security and transparency of public sector finances, the report explained that NFI exercises were undertaken every two years, were linked to statutory audits of participating bodies, and enabled public bodies to take advantage of computer data matching techniques to detect fraud and error. Reference was made to the Council's single point of contact for the NFI, departmental contacts, their role, and information on matches and related risks reported as part of the 2016/17 exercise.

The report clarified that Housing Benefit and Council Tax reduction continued to be the largest areas of fraud and claimant error, referring to related matters including issues identified and recovery and mitigation action. Reference was made to a review of the Council Tax Single Person Discount (SPD) which had been included as part of the most recent NFI data matching exercise; related findings; and how with a view to strengthening the Council's approach to fraud, data-matching of Council Tax SPD records against financial and banking records had commenced. Information was provided on the Fraud and Error (FES) investigation service established by the Department of Work and Pensions (DWP), related initiatives including an electronic interface with HMRC, next steps, and the Council's full participation in the 2016/17 NFI exercise and related benefits and issues.

The Head of Business Change and Revenues referred to key aspects of the report and the initiative. Thereafter, in response to questions, she attributed issues identified regarding SPD to both error and potential fraud, expressing hope that procedures for reporting changes of individuals' circumstances to the Council were clear. She referred to previous reports on the NFI, including those submitted to this committee and related issues, and anticipated that through NFI related work instances of fraud might reduce in future.

Having heard Councillor Fletcher comment on various issues including the effectiveness of the NFI, related liaison, small scale fraud, late notification of changes of circumstances and tax evasion, in response to Councillor Macdonald, the Head of Business Change and Revenues referred to the reporting of Housing Benefit fraud of £2,000 and above to the FES for investigation, clarifying that fraud valued below that was the subject of a risk assessment to determine how best to proceed, recovery being an option. In response to him and Councillor Miller respectively, she clarified that she was not the appropriate officer to comment on civic and taxi licensing related fraud, and that the NFI work made a contribution to addressing the type of issue that had arisen a few years ago concerning overpayments to deceased clients. More generally she referred to developments aimed at getting a single view of the authority's customers.

The committee agreed:-

- (a) to request and circulate examples of the types of fraud that occur regarding civic and taxi licensing; and

- (b) otherwise, to note the action taken in respect of the NFI audit in East Renfrewshire Council for 2016/17 and related comments made.

NATIONAL EXTERNAL AUDIT REPORT – HOUSING BENEFIT PERFORMANCE AUDIT ANNUAL UPDATE 2016/17

222. Under reference to the Minute of the meeting of 10 November 2016 (Page 2106, Item 2263 refers), when a report on the 2015/16 Housing Benefit Risk Assessment was noted, the committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Housing Benefit Performance Audit Annual Update 2016/17* which had been sent to Councillor Aitken (who had since resigned from the committee) and Councillor Macdonald 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.

The report explained that Audit Scotland produced an annual national update on its Housing Benefit Performance Audit, undertaking a risk assessment in each council biennially to produce it and follow-up work on individual council action plans in the interim years. Comments were provided on the most recent national annual report and, in particular, context for the Council's performance on Housing Benefit administration.

Regarding the 2016/17 update, it was explained that through eight risk assessments undertaken in local authorities, 18 risks had been identified, 80% of risks identified in 2015/16 having been dealt with fully or partially. East Renfrewshire's own action plan from the 2016/17 audit comprised three new risk areas and three outstanding ones, information on which was provided. Having referred to issues on the move to a full Universal Credit (UC) service in 2018, ongoing monitoring of the impact of UC on Housing Benefit caseload and well established fraud investigation arrangements with the local FES, the report concluded that Housing Benefit remained a key service for councils to deliver well into the next decade and that the auditor's view was that the council demonstrated awareness of what constitutes an effective, efficient and secure benefits service whilst identifying a few improvement actions to be progressed. Managers within Revenues Services had reviewed the action plan in April and August 2017, reporting progress to be satisfactory. Audit Scotland was expected to carry out the next routine audit in 2018.

The Head of Business Change and Revenues highlighted key aspects of the report and related issues. Thereafter, in response to questions from Councillor Gilbert and Councillor Macdonald, she referred to ways in which clients could seek help and advice, action taken when fraud was suspected, overpayment related matters, the importance of dealing with changes of circumstances and making related improvements, and debt recovery. Councillor Ireland commended the proactive approach being taken and the pursuit of improvements.

The committee noted the report and related comments made.

NATIONAL EXTERNAL AUDIT REPORT – EQUAL PAY IN SCOTTISH COUNCILS

223. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Equal Pay in Scottish Councils* which had been sent to Councillors Aitken (prior to his resignation from the committee) and Macdonald for review. The Head of HR, Customer and Communications had been asked to provide comments and a copy of her feedback was attached to the report.

The report explained that the Council had been dealing with equal pay claims since 2005 and had categorised them into three groups, details of which were provided. Further

clarification was provided on the outcome of first wave and residual claims (categories 1 and 2) settled between 2006 and 2014; second wave claims raised from 2010 (category 3); and the associated costs to the Council. Having referred to the extent to which other councils had live claims outstanding, the report confirmed that the Council had now dealt with all outstanding claims including the last 6 in March 2017. Reference was made to the importance of equal pay for equal work, related issues and complexities, information published by the Council biennially on the gender pay gap and included in the Council's Equality Mainstreaming Report and related reports, and challenges linked to benchmarking. Actions being taken by the Scottish Government to develop a suite of indicators, measures and reports in this area were welcomed.

Having expressed satisfaction regarding the settling of claims, Councillor Macdonald requested a copy of the Council's Equality Mainstreaming Report for review and additional information on gender balance within the Council, such as at middle and senior management within some departments for example, referring to the importance of an appropriate gender balance in terms of the workforce going forward. The Chief Auditor referred to a related performance indicator on which information would be available. Thereafter, Councillor Fletcher referred to the fair and proactive approach pursued by the Council on claims, expressed the view that it would be useful to seek clarification on whether or not there were any further issues regarding equal pay that could need to be addressed in future, and commented on increased pay for lower paid workers and associated equality issues.

The committee agreed:-

- (a) to request and circulate a copy of the Council's Equality Mainstreaming Report; information about gender balance within employment at the Council; and clarification on whether or not there were any further issues regarding equal pay that could need to be addressed in future; and
- (b) otherwise, to note the report and related comments made.

INTERNAL AUDIT PLAN 2017/18 - PROGRESS

224. The committee considered a report by the Chief Auditor regarding progress made on the implementation of the 2017/18 Internal Audit Plan from 1 July to 30 September 2017. The report confirmed the number of reports issued during the quarter and that satisfactory management responses had been received in all cases. Reference was also made to the quarterly performance indicators for the section.

Whilst presenting her report, the Chief Auditor referred to the risk categorisation into which various recommendations had fallen and two minor fraud matters on which internal audit work had been done in the subsequent quarter. She also referred to an internal audit report on creditors completed in October and commented on a range of related findings and issues including recommendations made and accepted on creditors in a previous report, the extent of their implementation, some issues identified through the most recent work on creditors, the risk categorisation of various recommendations and some action being taken to address issues. The Chief Auditor clarified that the date for receiving the management response to her recommendations had not yet passed.

In response to Councillor Grant and Councillor Miller who raised general issues on the implementation of internal audit recommendations and related responsibilities, the Chief Auditor referred to the issue of reports through appropriate members of the Corporate Management Team, the identification of officers to progress actions, and follow-up audit work through which the extent to which recommendations had been acted on was reviewed.

It was clarified that the committee could opt to request that an individual internal audit report be circulated to its members for review or formally submitted to one of its meetings; and could ask appropriate officers to attend.

It was proposed that the most recent report on creditors and associated management plan be circulated when the Chief Auditor had received the latter. In reply to Councillor Miller, the Chief Auditor stated she could not say categorically that implementation of previous recommendations would have prevented some mistakes identified through the more recent audit work on creditors, commenting on related matters including human error and enhanced checks to be made before making payments greater than £10k to creditors, following which the Clerk referred to the involvement of a member of the accountancy team in those checks in the shorter term and action being taken by management to look at a longer term solution.

Issues referred to by Councillor Macdonald included the crime the authority had fallen victim to earlier in 2017; the publication of the Council's Best Value Assurance Report; comments within it on transparency and Members having an active role in scrutiny which he supported; and his hope to start that important change at this meeting. He requested that his statement (which was not read in full), including comments he wanted to make on financial controls be minuted in full, undertaking to supply a copy later. It was clarified that verbatim Minutes were not prepared, but that appropriate reference to comments he made at the meeting would be included.

Having heard Councillor Miller request strongly that Councillor Macdonald refer to issues relating to the report being considered, Councillor Macdonald read out 11 questions he had prepared on the fraud incident in March 2017, directing all to the Chief Auditor and clarifying he had prepared 9 before the meeting and 2 during it. He indicated at one stage that he was not necessarily expecting responses to all at the meeting

During discussion, Councillor Miller indicated that the questions were neither all appropriate for the Chief Auditor nor pertinent to the particular report before the committee given the period it covered, suggesting that a copy be provided and circulated as appropriate. In reply Councillor Macdonald commented on why he considered them appropriate for the Chief Auditor.

Having heard Councillor Ireland comment on various issues, including on the questions posed being for another place, other opportunities Councillor Macdonald had had to pose them, the unacceptability of some for this meeting and her concerns for staff hearing some, Councillor Miller expressed the view that the questions were mostly pertinent, but not to the specific report being considered and that a witch hunt was inappropriate. Councillor Macdonald disagreed including with Councillor Ireland's views, referring to financial controls going forward, the committee's remit, his wish to secure answers to specific questions and accountability, proposing that the Chief Executive and Deputy Chief Executive attend the next meeting.

Having heard Councillor Fletcher suggest that, if there were no further questions on the report the committee was considering that the meeting should be concluded, the Chief Auditor made some general comments. These included expressing the view that the main issue that should be focussed on was the procedural failure; referring to the type of remotely perpetrated fraud that had occurred and related discussions and meetings between herself and the Police; and the Police's view on the type of fraud that occurred and there being no time critical evidence in the case in question. Having referred to the length of time this type of fraud had existed which went back 10 years, she clarified that she would have been happy to show members of the committee information she had on this if they approached her for this. Referring to Members, she said that none had asked her about the timescales associated with the issue raised by Councillor Macdonald and added that, in this case, the

Police expected her to finish her work before their work would be done. Councillor Macdonald suggested that it was necessary for the police investigation for them to be told at the time a crime occurred, referring to the public money involved, the trail going cold and how the crime almost succeeded.

During the remaining discussions, several Members expressed concerns regarding the nature of some of the comments made and questions posed by Councillor Macdonald and the manner in which they had been raised, including referring to his approach as a witch hunt and appalling. Comments made by Councillor Fletcher included that the authority had a duty of care for its employees, that there had been an opportunity at the most recent Council meeting to discuss the matter on which Councillor Macdonald had raised his questions, and that what was important was having the right systems in place going forward.

Having heard Councillor Fletcher, in the absence of a seconder Councillor Macdonald's proposal regarding attendance at a future meeting the Chief Executive and Deputy Chief Executive fell and the committee agreed:-

- (a) that the most recent Internal Audit report on Creditors and associated management plan be circulated when the Chief Auditor had received the latter;
- (b) to note that a copy of the list of questions posed by Councillor Macdonald would be passed to the Chief Auditor after the meeting; and
- (c) otherwise, to note the report and related comments.

CHAIR

