

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 28 September 2017.

Present:

Councillor Stewart Miller (Chair)
Provost Jim Fletcher
Councillor Paul Aitken

Councillor Charlie Gilbert
Councillor Annette Ireland

Councillor Miller in the Chair

Attending:

Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Andy Corry, Head of Environment (Operations); Sharon Beattie, Head of HR, Customer and Communications; Barbara Clark, Chief Accountant; Ross Mitchell, Senior Auditor; Mary Docherty, Quality Improvement Officer, Education Department; Craig Geddes, Records Manager; Saima Nevin, HR Business Partner; Linda Hutchison, Clerk to the Committee; and Jennifer Graham, Committee Services Officer.

Also Attending:

David McConnell and Elaine Barrowman, Audit Scotland.

Apologies:

Councillors Barbara Grant (Vice Chair) and David Macdonald.

DECLARATIONS OF INTEREST

153. There were no declarations of interest intimated.

CHAIR'S REPORT

154. Under reference to the Minute of the meeting of 17 August 2017 (Page 83, Item 90 refers), when it had been noted that Councillor Swift had resigned from the committee, Councillor Miller confirmed that the Council had appointed Councillor Charlie Gilbert who had been a long-standing member of the committee previously to fill the vacancy and welcomed him to the meeting.

REVIEW OF STRATEGIC RISK REGISTER AND RISK MANAGEMENT PROGRESS

155. Under reference to the Minute of the meeting of 2 March 2017 (Page 2246, Item 2409 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 recent general progress on risk management.

The SRR, a copy of which was attached to the report, itemised key risks that required to be considered and actions put in place to manage these, referring also to related operational risk registers in place. Having confirmed that several risks had been amended to include additional control measures and rescored for significance, the report clarified that a thorough review of all risks on the SRR had been undertaken by the Corporate Management Team (CMT) arising from which the risks had been grouped by the outcomes listed in the Single Outcome Agreement (SOA). Relevant significant risks which could impact on achievement of the Council's outcomes relating to the Integration Joint Board (IJB) and Culture and Leisure Trust (C<) had been considered as part of the update. In total there were now 30 strategic risks, 8 of which were evaluated as high, 17 as medium and 5 as low.

Further information was provided on risks that remained high; those added to the register; and those where the risk description had been amended. The register continued to align with key SOA outcomes and the current internal and external business environments; and reflected corporate risks associated with the Council's strategic change and transformation agenda. It was confirmed that although reports on the SRR were submitted on a 6-monthly basis to the committee and annually to the Cabinet, the register was considered a live document and updated continually.

Regarding general progress, it was explained that the Corporate Risk Management Group had met to review the risk management process to identify areas for improvement which had resulted in more emphasis on the discussion of risks at departmental management team meetings.

Whilst referring to the most recent changes made to the SRR, the Head of Environment (Operations) reiterated it was a live document which was updated regularly and had been approved by the CMT, indicating that any feedback the committee might have on the content would be welcomed.

In response to Councillor Miller who, on behalf of the Vice-Chair, referred to the risk of the closure of C< facilities and the associated loss of income as a concern and sought clarification on where income would be sourced to mitigate the effect of that, the Head of Environment confirmed that the nature of that concern was why the matter was referred to in the SRR. Also in response to Councillor Miller who referred to a further comment made by the Vice-Chair prior to the meeting to the effect that she had thought that the level of risk linked to the Barclay Review of Non Domestic Rates would have been higher, the Head of Environment undertook to relay the comment back to relevant officers. Having heard the Head of Accountancy (Chief Financial Officer) confirm that the SRR was a live document and discussed at every CMT meeting to ensure it remained updated, she advised that the recommendation by the Barclay Review about charitable and sports clubs rates relief to Council Arms Length External Organisations (ALEOs) ceasing from 1 April 2018 remained to be accepted by the Scottish Government. She explained that this was currently the subject of further negotiation and discussion by the Government which was expected to publish its Review related action plan by the end of December reflecting the issues it would be taking forward at which point the reference within the SRR to the Review would be reviewed and updated as required.

The committee, having heard Councillor Miller comment that the new additions made to the SRR were welcome:-

- (a) noted that the Head of Environment would provide feedback to appropriate officers on comments made by members of the committee at the meeting; and
- (b) otherwise, approved the updated Strategic Risk Register, noting also the progress with risk management across the Council.

ANNUAL ACCOUNTS FOR THE COUNCIL'S CHARITABLE TRUSTS AND RELATED EXTERNAL AUDIT OPINION AND INTERNATIONAL STANDARD ON AUDITING (ISA) 260 REPORT FOR 2016/17

156. Under reference to the Minute of the meeting of 17 August 2017 (Page 85, Item 92 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 2016/17 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, prepared 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 2016/17 they had been amalgamated into one consolidated and more streamlined document, that they were unqualified, and that there were no unadjusted misstatements requiring to be brought to the committee's attention.

Regarding the one significant governance related finding raised by External Audit, it was clarified that this concerned the trustees considering arrangements for ensuring that Netherlee School 1937 Endowment awards grants were used for their intended purposes and complied with the charity's objectives. Ms Barrowman confirmed that External Audit were happy with the proposed course of action regarding this, following which she clarified that it was anticipated that an unqualified report would be issued in due course and how matters on the Accounts would be concluded.

In reply to Councillor Miller, the Chief Accountant confirmed who donated to the Netherlee School 1937 Endowment fund, the scale of the funds added annually, and who was entitled to receive awards from the fund.

The committee agreed to:-

- (a) note the External Auditor's report on matters arising from the audits of the registered charities for 2016/17 under requirements of ISA 260;
- (b) note the amalgamated Annual Accounts for 2016/17 for the seven Charitable Trusts for which the Council acted as Trustee; and
- (c) remit the report to the Council for consideration.

EAST RENFREWSHIRE COUNCIL ANNUAL ACCOUNTS, DRAFT ANNUAL AUDIT REPORT AND RELATED ISA 260 REPORT FOR 2016/17

157. Under reference to the Minute of the meeting of 17 August 2017 (Page 85, Item 92 refers), when the committee had noted the unaudited Annual Accounts for 2016/17 and that a report on the final Accounts and associated 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 2016/17, 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 2016/17 reported under ISA 260 requirements. The draft Audit report provided an overview of the main issues arising from the 2016/17 audit.

The Council had received an audit certificate which was unqualified. An overall surplus of £2,437k had been recorded in the Accounts. After transfers to earmarked reserves, a sum of £655k had been added to the Council's non-earmarked General Fund reserve resulting in a balance of £9,754k as at 31 March 2017. This represented 4.2% of the annual budgeted net revenue expenditure which was in line with Council policy.

Transfers totalling £8,000k had been made from the General Fund balance to specific reserves and capital expenditure of £40,146k had been invested. An operating deficit of £134k had been made on the Housing Revenue Account, thus decreasing the accumulated surpluses brought forward to that Account to £1,244k. The deficit had been calculated after a transfer of £450k to loan charges to reduce future financing costs.

Under the requirements of ISA 260, Mr McConnell referred to the Accounts and related issues, confirming 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. Having heard him clarify the purpose of an associated letter of representation under ISA 580 that the Head of Accountancy (Chief Financial Officer) would be required to sign, Ms Barrowman thanked the Chief Accountant and her team for their assistance during the audit, including for providing the Accounts on time and working with External Audit to turn round various issues within a short timescale.

Thereafter Mr McConnell highlighted key aspects of the Annual Audit Report, including key messages itemised within it. Amongst other things, he commented on budget monitoring arrangements; highlighted that the controls relating to the Council's financial systems were considered to be operating effectively, although improvements were required on invoice processing; and referred to the Council's sound governance arrangements, its stable financial position but related challenges faced to identify further savings.

Referring to the significant findings from the audit itemised in Exhibit 3 of the Annual Audit Report, Mr McConnell commented that issues identified had been or were to be dealt with and that none had impacted on the signing off of the Accounts. He added that such reports usually commented further on corporate governance and value for money issues, but that further comment on these matters would instead be included in the Council's Best Value Assurance Report that was scheduled to be published in November.

In response to comments made by Councillor Aitken regarding the key control failure within the Creditors section associated with the fraudulent request to change a supplier's bank account details which the committee had discussed at its previous meeting and an issue raised by him regarding the adequacy of internal audit, Ms Barrowman, supported by the Head of Accountancy, clarified that the fraud issue had not been raised initially by External Audit, but rather officers within the Corporate and Community Services department when the

bank had made contact about the matter, following which the matter had been referred to Internal Audit. More generally, Ms Barrowman confirmed that External Audit considered the Council's Internal Audit team, its work and the documentation it prepared to be of a high standard, which enabled External Audit to place reliance on the section's work.

During further discussion, Councillor Miller reported that he had received assurances that the fraudulent issue that arose had been well known of before the committee had been alerted formally to it at its most recent meeting. Councillor Aitken expressed concern that information on the matter did not appear to have been shared with elected Members at an early stage, proposing that further clarification be sought regarding the exact dates of the control breach; when the matter was picked up by Internal Audit; when the Chief Executive and other members of the CMT were advised; and when elected Members were informed, commenting on the importance of having a record of the timeline of key dates of events. He expressed the opinion that, in future, elected Members should 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.

Provost Fletcher confirmed that when he had been Leader of the Council, he had not been aware of the control failure, adding that the information had not been in the public domain prior to the local government elections in May 2017 and expressing surprise at some of the comments made by Councillor Miller on the matter at the Council meeting on 13 September. He commented that he did not have a problem with the dates and that it was important that the issue over them was clarified. Having heard Councillor Aitken express the view that the issue should have been made public, Councillor Miller stated that at the most recent Council meeting he had not said that the issue would have had an impact on the outcome of the election, only that it could have.

Provost Fletcher commended the Accounts, adding that there should be appreciation of the Council's financial position at the end of the last Administration, that it was in a better financial position than many other authorities, and that a good level of reserves existed. He also commented on the frustration felt by the authority and challenges faced by it regarding Audit Scotland's expectation that councils should prepare 3 year budgets when information on financial settlements was only provided at a late stage for the following financial year and future financial settlements were unknown. He added that he would like to have seen reference to this in the Annual Audit Report. Mr McConnell acknowledged the difficulty of predicting budgets beyond the following year and related variabilities, but commented that preparatory budgeting was expected and considered valuable to enable councils to react when settlement figures became known.

In response to further questions, Ms Barrowman clarified how an error had occurred in the calculation of the discount rate used in the valuation of council houses at 31 March 2017 and the extent of the impact of this and, more generally, the Head of Accountancy clarified why the underspend projected by the Council was substantially lower than the final underspend referred to in Annual Accounts. She attributed this to various reasons including under expenditure linked to savings and the provision of less absence cover for example; over recovery of income such as increased Council Tax revenue linked to house building; reduced expenditure on contingencies; and loan charges and interest payments. She acknowledged the importance of not over budgeting.

The Committee agreed:-

- (a) to note the Draft Annual Audit Report to the Council and Controller of Audit 2016/17 and the External Auditor's report on matters arising from the audit of the Council's 2016/17 Financial Statements prepared under requirements of ISA 260;

- (b) to note the content of the Council's Annual Accounts for 2016/17 and related comments made;
- (c) to remit the report to the Council for consideration
- (d) regarding the key control failure within the Creditors section associated with the fraudulent request to change a supplier's bank account details that further clarification be sought regarding the exact dates of the control breach; when the matter was picked up by Internal Audit; when the Chief Executive and other members of the CMT were advised; and when elected Members were advised; and
- (e) 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 is advised.

ANNUAL TREASURY MANAGEMENT REPORT 2016/17

158. Under reference to the Minute of the meeting of 2 February 2017 (Page 2205, Item 2372 refers), when it had been agreed to note and recommend to the Council that the Treasury Strategy Statement Report 2017/18 be approved, the committee considered a [report](#) by the Head of Accountancy (Chief Financial Officer) providing details of the Council's treasury management activities for the year ending 31 March 2017 and seeking approval to recommend to the Council that a list of organisations for the investment of surplus funds be approved.

The report referred to a well-managed treasury function within the Council and related issues, commenting that the Council continued to adopt a prudent approach to treasury management and that stability in borrowing assisted the Council respond to current, national economic pressures. The submission of the report to the committee, prior to its submission to the Council, was in line with the CIPFA Code of Practice on Treasury Management.

The committee agreed to:-

- (a) note the Treasury Management Annual Report for 2016/17; and
- (b) recommend to the Council that the organisations specified in the report for investment of surplus funds be approved.

MANAGING ABSENCE - ANNUAL REPORT

159. Under reference to the Minute of the meeting of 18 August 2016 (Page 2005, Item 2141 refers), when it had been noted that the next annual report on managing absence for 2016/17 would be submitted to the committee in late summer 2017, 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 2016/17, the report explained that the Council had placed significant focus on tackling absence across all departments placing particular emphasis on absence hotspot areas with improvement seen in absence trends and the target having been achieved in the Environment, Corporate and Community Services and Education (Local Government Employees) Departments, and Chief Executive's Office. It was

also reported that teacher absence performance had improved significantly which had contributed greatly to an overall improvement in Council absence performance.

Having highlighted various issues on absence benchmarking, including a range of data within the Chartered Institute of Personnel and Development (CIPD) annual survey report 2016 for private, public and non-profit sectors, the report provided statistical information on absence trends since 2009/10 and commented on related issues. One of the issues highlighted was that absence within East Renfrewshire Culture and Leisure Limited was no longer included in the figures provided, there having been very little impact seen as a result of the Trust employees being removed from the figures. The report also commented that it was recognised, at a national level, that not all councils were measuring absence in exactly the same way due to different on line and manual calculation systems being used.

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, although this figure had reduced in 2016/17. 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.

Whilst commenting on various aspects of the report, the Head of HR, Customer and Communications commented on the significant improvement in absence levels for 2016/17, highlighting the excellent improvement within the teaching staff sector.

Having heard Councillor Miller welcome the improvements, in response to questions, the Head of HR, Customer and Communications reiterated that the top reason for absence was non-work related stress and that officers were working hard to support staff who were absent for that reason. She clarified that the improvement within the teaching staff sector absence level had resulted in there being less need to incur expenditure on providing absence cover and commented on absence linked to services involving a high level of manual tasks. She highlighted that although improvements had been made by the Council in addressing absence in recent years, further improvements were continuing to be sought.

Regarding benchmarking, the Head of HR, Customer and Communications referred to work by the Improvement Service on a new calculation for absence levels which would help address some concerns, but reiterated that the various systems used by different councils was continuing to impact on this issue and the validity of comparisons. She commented that the extent to which different local authorities had ALEOs for example was not always sufficiently acknowledged in terms of benchmarking. Provost Fletcher expressed the opinion that highlighting such issues further would be valuable.

The committee noted the improvement in absence ratings, the report and related comments made, supporting the range of approaches being taken to further reduce absence levels across the Council.

Resolution to Exclude Press and Public

At this point in the meeting, on the motion of the Chair, the committee unanimously resolved that in accordance with the provisions of Section 50A(4) of the Local Government (Scotland) Act 1973, as amended, the press and public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 1 Part I of Schedule 7A to the Act.

SUMMARY OF EARLY RETIREMENT/REDUNDANCY COSTS TO 31 MARCH 2017

160. The committee considered a report by the Deputy Chief Executive summarising the position on early retirement/redundancy costs from 1 April 2016 to 31 March 2017 and related issues. The total costs incurred and projected savings were provided. It was explained that the Council had continued to undertake targeted restructuring resulting in various voluntary redundancies and early retirements to support budget reductions.

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 legal requirements in some cases, and confirmed that associated costs depended on the individual circumstances of each employee involved, with each case considered on its own merits. In response to questions, she clarified that the age profile of a department could be a factor in terms of the number of employees involved each year and the Head of Accountancy commented that another factor was that some departments had more manual workers than others, some of whom were not members of the Strathclyde Pension Fund.

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