

MINUTE
of
AUDIT AND SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 29 September 2016.

Present:

Councillor Gordon Wallace (Chair)	Councillor Paul O’Kane
Councillor Barbara Grant (Vice Chair)	Councillor Tommy Reilly
Councillor Charlie Gilbert	Councillor Ralph Robertson
Councillor Gordon McCaskill	

Councillor Wallace in the Chair

Attending:

Julie Murray, Chief Officer HSCP; Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Lesley Bairden, Chief Financial Officer, HSCP; Barbara Clark, Chief Accountant; Liz Lyon, Senior Auditor; Ross Mitchell, Senior Auditor; Jacqui Martin, Corporate Business Manager; Linda Hutchison, Clerk to the Committee; and Jennifer Graham, Committee Services Officer.

Also Attending:

Brian Howarth and Esther Scoburgh, Audit Scotland.

DECLARATIONS OF INTEREST

2202. There were no declarations of interest intimated.

CHAIR’S REPORT

2203. The following matters were discussed during the Chair’s report:-

(i) Integration Joint Board Performance and Audit Committee

Under reference to the Minute of the meeting of 2 June 2016 (Page 1932, Item 2055 refers), when it had been agreed to contact the East Renfrewshire Integration Joint Board (IJB) regarding Councillor Grant and Councillor Reilly observing a future meeting of its Performance and Audit Committee, Councillor Reilly and Councillor Grant confirmed they had observed and been made welcome at the most recent meeting on 28 September which they had found useful. It was reported that the committee was exploring the option of co-opting a member of the East Renfrewshire Audit and Scrutiny Committee.

(ii) East Renfrewshire Community and Leisure Trust Audit Committee

Councillor Wallace reported that Councillor Gilbert had been appointed as a member of the East Renfrewshire Community and Leisure Trust Audit Committee.

The committee noted the position.

ANNUAL ACCOUNTS FOR THE COUNCIL'S CHARITABLE TRUSTS AND EXTERNAL AUDIT REPORT FOR 2015/16

2204. Under reference to the Minute of the meeting of 18 August 2016 (Page 2004, Item 2140 refers), when the committee had noted that the final Annual Accounts for the Council's charitable trusts would be submitted to this meeting, the committee considered a report by the Chief Executive explaining that the audit of the 2015/16 Annual Accounts for the seven 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 International Standard on Auditing (ISA) 260, was also submitted for consideration.

The Head of Accountancy explained that the Accounts, which were unqualified, also needed to be considered by the Council later that day to allow them to be certified by the required deadline of 30 September 2016.

In response to questions, the Chief Accountant clarified that the availability of the funds was to be advertised through the Council's website and by raising awareness through discussions with colleagues delivering frontline services, particularly those in the HSCP. Councillor Wallace commented that the awareness issue had also been raised as part of the committee's recent work on grants. The Head of Accountancy commented that a suggestion made by Councillor Gilbert about asking Voluntary Action to help publicise the availability of the funds was useful and could be explored.

The Chief Accountant referred to the differing objectives of each fund, clarifying that the feasibility of amalgamating the Accounts on efficiency grounds was to be explored. Councillor O'Kane suggested that discussions with those dealing with the Renfrewshire Educational Trust and other officers in Renfrewshire Council who had dealt with similar matters could be helpful.

The investment of trust fund reserves and revenue income generated from capital in the Council's Loans Fund was commented on by the Chief Accountant, Head of Accountancy and Mr Howarth.

The committee agreed to:-

- (a) note the Annual Accounts for 2015/16 for each of the Council's seven charitable trusts for which the Council acted as trustee and related comments made, including the suggestions made by Members on publicising the funds and pursuing the amalgamation of the Accounts;
- (b) note the External Auditor's report on matters arising from the audits of these registered charities for 2015/16 under requirements of ISA 260; and
- (c) remit the report to the Council for consideration.

EAST RENFREWSHIRE COUNCIL ANNUAL ACCOUNTS AND DRAFT ANNUAL AUDIT REPORT FOR 2015/16

2205. Under reference to the Minute of the meeting of 18 August 2016 (Page 2004, Item 2140 refers), when the committee had noted the unaudited Annual Accounts for 2015/16 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 Chief Executive regarding the Annual Accounts for 2015/16, 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 2015/16 reported under ISA 260 requirements. The draft Audit Report provided an overview of the main issues arising from the 2015/16 audit.

The Council had received an audit certificate which was unqualified. An overall surplus of £2,865k had been recorded in the Accounts. After transfers to earmarked reserves, a sum of £65k had been added to the non-earmarked General Fund reserve resulting in a balance of £9,099k as at 31 March 2016. This represented 4.1% of the annual budgeted net revenue expenditure which was in line with Council policy.

Transfers totalling £10,786k had been made from the General Fund balance to specific reserves and capital expenditure of £25,683k had been invested. An operating surplus of £425k had been achieved on the Housing Revenue Account resulting in an accumulated surplus balance to carry forward of £1,378k.

The Head of Accountancy welcomed that the Accounts had received an audit report that was unqualified and referred to transfers to reserves, commenting that the Council's overall financial position remained satisfactory.

Whilst responding to questions, the Head of Accountancy and Chief Accountant, supported by Mr Howarth, clarified the basis on which the useful lives and depreciation rates had been used to calculate depreciation for roads infrastructure, current requirements regarding the valuation of infrastructure such as roads for the completion of the Whole of Government Return, and the nature of a forthcoming change of accounting practice in terms of the evaluation of roads assets to one based on replacement value. Reference was also made to funds required to maintain roads, regarding which Councillor Grant referred to the poor current state of many roads and Councillor Robertson commented that the most valuable information to him was what it would cost to restore all roads to an acceptable standard. The Head of Accountancy quantified the level of capital to be invested in roads during the next 8 years, commented on the targeting of these funds, and referred to additional revenue funds available for roads maintenance and related issues.

Referring to the recent publication by Audit Scotland of a national External Audit report 'Maintaining Scotland's Roads: a Follow-Up Report', Councillor Wallace clarified that feedback on the local position relative to the report had been requested for submission to the committee.

Clarification was provided by the Head of Accountancy and Chief Accountant on a range of other issues, including the reclassification of Education Services expenditure and income to Culture and Related Services within the Comprehensive Income and Expenditure Statement, and the review of the asset register leading to the reclassification of assets in the Balance Sheet as common goods assets. Councillor Wallace referred to the interest the committee was taking on an internal control issue linked to payments to care providers.

Mr Howarth highlighted key messages within the Audit Report, including on reserves in the context of the challenging financial position that lay ahead, and on borrowing levels. He referred to the importance of long term financial planning, in respect of which Councillor Grant commented on related difficulties given the way information on grant funding and related clarification were provided to local authorities. Related issues were discussed.

Having referred to the new External Audit team being appointed to the Council, Councillor Wallace thanked Mr Howarth and his team for their input and support over the terms of their appointment as External Auditors to the Council. In response, Mr Howarth thanked the committee and Council's staff for their assistance during his team's tenure as External Auditors, adding that attending various meetings of the committee had been useful.

The committee agreed to:-

- (a) note the content of the Council's Annual Accounts for 2015/16 and related comments made;
- (b) note the Draft Annual Audit Report to the Council and Controller of Audit 2015/16 and the External Auditor's report on matters arising from the audit of the Council's 2015/16 Financial Statements prepared under requirements of ISA 260; and
- (c) remit the report to the Council for consideration.

ANNUAL TREASURY MANAGEMENT REPORT 2015/16

2206. Under reference to the Minute of the meeting of 3 March 2016 (Page 1807, Item 1930 refers), when it had been agreed to note and recommend to the Council that the Treasury Strategy Statement Report 2016/17 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 2016 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.

In response to Councillor McCaskill, the Chief Accountant and Head of Accountancy clarified how the average interest rate on long-term borrowing was calculated.

The committee agreed to:-

- (a) note the Treasury Management Annual Report for 2015/16; and
- (b) recommend to the Council that the organisations specified in the report for investment of surplus funds be approved.

REVIEW OF STRATEGIC RISK REGISTER

2207. Under reference to the Minute of the meeting of 18 August 2016 (Page 2006, Item 2143 refers), when progress made with risk management generally recently had been noted and it had also been noted that a report on the Strategic Risk Register (SRR) would be submitted to this meeting, the committee considered a report by the Chief Executive providing the most recent bi-annual update on the SRR. The register, 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. As well as additions having been made to the register, several risks had been amended to include additional control measures, with others rescored or removed.

It was explained that there were now 32 strategic risks to be considered, 13 of which were evaluated as high, 16 as medium and 3 as low, with some relating to the work of the IJB and the Culture and Leisure Trust. The register continued to align with the Council's key outcomes in the Single Outcome Agreement (SOA) and the current internal and external business environments. Specific reference was made to potential risks associated with Britain leaving the European Union (EU), including uncertainty in financial markets and reduced EU funding.

The Corporate Business Manager commented on the report, including various risks removed from and added to the register and related issues.

In response to questions, the Chief Officer HSCP clarified that, as things currently stood, no financial penalty would be imposed if the new national delayed discharge targets of 72 hours were not met, but that a failure to meet these would create other pressures and that it was possible that financial penalties could be introduced in future. She commented on related investment and the growth in the number of those over 85 years of age in the population. The Corporate Business Manager also commented on various issues, including why the residual risk scores associated with ensuring sufficient catchment places and the delivery of sufficient pre-5 places differed, additional control measures aimed at reducing absence levels, and why the risk score for that and also payment of invoices within the specified timeframe had both been reduced. In response to Councillor Wallace she undertook to ascertain when the payment of invoices over 30 days would be on target.

The committee agreed:-

- (a) that the Corporate Business Manager provide clarification on when the processing of payment of invoices over 30 days would be on target and that the Clerk circulate this on receipt; and
- (b) otherwise, to note the development of the strategic risk register.

EXTERNAL AUDIT REPORT – KEY CONTROLS 2015/16

2208. The committee considered a report by the Clerk on the publication by the External Auditor of a local report on *Key Controls* which, under the committee's specialisation arrangements, had been sent to Councillors Grant and Wallace for review.

The report clarified that key controls operating within six financial systems of the Council had been subject to testing to ensure they were operating satisfactorily, citing examples of assurances sought. Overall the systems of internal control were reported to be operating effectively, but a small number of control weaknesses had been identified on which further detail had been provided. These related to the payroll system; council tax system; and trade

payables element of the care finance system. The External Auditor had noted the related impact on the planned financial statements audit.

Reference was made to three areas of work where formal reliance was to be placed by External Audit on the work of Internal Audit. The detailed review of the 2015/16 Internal Audit Plan was complete and had found Internal Audit's work to be of a high quality, enabling reliance to be placed on its work. Reference was also made to the position on various governance arrangements, including that a review of the Council's Financial Regulations that had commenced in 2014/15 had not yet been formally approved by the Cabinet. The report clarified that as at March 2016 they were being refined with a view to them being submitted to the Cabinet in due course.

Councillor Grant referred to the committee's interest in the implementation of the Care Finance system, following which clarification was provided on employee validation issues. In reply to Councillor McCaskill, the Head of Accountancy undertook to arrange for further clarification to be provided on when a void property officer would be in post and for how long.

The committee:-

- (a) noted that the Head of Accountancy would arrange for clarification to be provided to the Clerk on when a void property officer would be in post and for how long which the Clerk would circulate on receipt; and
- (b) otherwise, agreed to note the report.

HEALTH AND SOCIAL CARE PARTNERSHIP – FINANCIAL DEVELOPMENT PROGRESS REPORT

2209. Under reference to the Minute of the meeting of 21 January 2016 (Page 1743, Item 1869 refers), when issues that had arisen on payments to care providers had been discussed in detail and it had been agreed to consider further the clarification provided at that meeting and what, if any, further action the committee wished to take on the issue in due course, the committee considered a report by the Chief Officer HSCP and Chief Financial Officer HSCP providing an update on progress regarding financial developments within the HSCP, including the implementation of the Care Finance system.

It was clarified that the IJB Performance and Audit Committee had discussed progress on payments to care providers in June, requesting then that an update on financial governance issues be submitted to this committee. The report provided an update on various issues including staff restructuring and transfers to the HSCP, clarifying that the finance team which transferred to the HSCP on 1 April 2016 now reported directly to the Chief Financial Officer, HSCP. Reference was made to recommendations made prior to the transfer associated with the Internal Audit report on Payment to Care Providers, these having been actioned subsequently by the Chief Financial Officer, HSCP. Other issues commented on were the employment of temporary staff to complete implementation of the Care Finance system and a wider review of finance related work being undertaken. Key financial governance related developments for 2016/17 were also itemised.

Regarding progress made implementing the action plan associated with the Internal Audit report on Payment to Care Providers, it was reported that 10 recommendations had been implemented fully with the remaining 13 on target; key messages were listed; and assurances were provided on reporting progress to the IJB Performance and Audit

Committee since December 2015. It was confirmed that progress implementing the full action plan would be reported as part of Internal Audit's follow up work on this issue.

Whilst commenting on the implementation of the Care Finance system, the report clarified that this was monitored by a project board which met monthly, and that all data had been successfully migrated to the system ahead of a revised timetable prepared for this, as had additions service agreements. Some development work remained ongoing.

It was concluded that work had been pursued to ensure robust financial governance within the HSCP, including ensuring that all audit recommendations were fully complied with, and acknowledged that the committee would wish to take assurance from Internal Audit follow up work being done. It was confirmed that the IJB Performance and Audit Committee was continuing to review progress until all audit actions had been fully resolved.

The Chief Officer, HSCP welcomed the opportunity to update the committee, referred to the updates provided to the IJB Performance and Audit Committee, and commented on the possibility of a member of the Audit and Scrutiny Committee being co-opted to that committee through which more regular updates could be provided, which was under consideration.

The Chief Financial Officer HSCP commented on key aspects of the report during which she referred to a range of new legislative requirements that had required to be adhered to, use of the Care Finance system, related modules and the review of the implementation of the action plan prepared relating to the Internal Audit report.

In response to questions, supported by the Chief Officer HSCP, she referred to the staffing structure of the HSCP and related reporting arrangements, and commented on a few weaknesses with the Care Finance system in terms of how it was used locally which had been raised with the software provider and at a related national users group but which had not been experienced in other authorities, due to the way duties were divided for example. She also referred to additional checks and balances introduced and new ways of working to ensure that the problems which had arisen previously could not recur, including segregation of duties and quarterly reconciliations which were considered manageable. She highlighted that steps were being taken to address issues with a view to a line being drawn under the historical issues that had arisen, referred to the use made of the temporary staff referred to in the report, and commented on the data cleansing exercise undertaken and monitoring arrangements. Regarding the deployment of temporary resources, she added that it was hard to determine what normal work level would be, that efficiencies were being pursued regarding invoice processing, that there was a range of other work that needed to be addressed in addition to invoice work, but that risks would not be taken on this area of work.

The committee agreed:-

- (a) to note the progress being made on the action plan resulting from the Internal Audit report on Payment to Care Providers and the wider improvements on financial control and governance; and
- (b) that the follow-up Internal Audit report being prepared and related management response be submitted to a future meeting when available.

EXTERNAL AUDIT REPORT – THE NATIONAL FRAUD INITIATIVE IN SCOTLAND

2210. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *The National Fraud Initiative (NFI) in Scotland* which, under the committee's specialisation arrangements had been sent to Councillors Wallace and Grant for review. The Head of Business Change and Revenues and the Revenues and Business Support Manager had been asked to provide comments and a copy of their feedback was attached to the report.

Having referred to the value and purpose of the NFI, the feedback explained that the national report outlined the early outcomes of the most recent exercise in 2014/15. The NFI outcomes in Scotland were commented on as was the Council's contribution to this and that recovery action was taken locally in all highlighted cases. Other issues referred to included the main areas where overpayments were identified nationally, how issues were progressed locally and related responsibilities, and that mitigating fraud was a matter for each service.

Under reference to the Minute of the meeting of 18 August 2016 (Page 2007, Item 2145 refers), when it had been agreed regarding an Internal Audit report prepared during 2015/16 on Council Tax Reductions and Liability, that it be drawn to management's attention that the committee was not fully satisfied with the response received by the Chief Auditor to a recommendation made on reviewing entitlement to the single person discount (SPD) annually, the feedback included reference to action taken on this issue and related matters, including the turnover of SPDs granted and cancelled each year and how accuracy was achieved through a number of initiatives.

Other issues referred to included the single fraud investigative service, and arrangements underway for the next NFI exercise and related steps being taken. It was concluded that the Council participated fully in the most recent NFI exercise, with reference made to how seriously the Council takes this issue and made arrangements to mitigate fraud and error.

In response to questions, the Senior Auditor referred to the generic nature of the correspondence sent to residents regarding Council Tax bills and related issues. Mr Howarth clarified the scale of the 30 cases highlighted in 2014/15 when SPD had been awarded but was no longer valid compared to the total number of SPDs granted. He also commented on various data sets against which entitlement was checked, limitations of checking entitlement against electoral registers which listed only those who opted to register to vote, and how some authorities were progressing checks linked to credit rating agencies. The importance of minimising the amount of debt written off by the Council was commented on by Councillor McCaskill.

The committee agreed:-

- (a) to note the comments made; and
- (b) that Councillors Wallace and Grant would review the information provided further and determine if they felt any further action to be merited.

PUBLIC SECTOR INTERNAL AUDIT STANDARDS INTERNAL SELF-ASSESSMENT

2211. The committee considered a report by the Chief Auditor on progress regarding compliance with the Public Sector Internal Audit Standards (PSIAS) which was mandatory.

The report referred to the requirement under the PSIAS for the Head of Internal Audit to develop and maintain a quality assurance and improvement programme (QAIP), explaining that CIPFA recommended a checklist to be used for self-assessments and adding that an external assessment was required at least once every 5 years and that non-compliance should be reported to the committee. Having summarised how QAIP was achievable in terms of ongoing monitoring of internal audit activity and periodic self-assessments, the report outlined options for the external assessment.

Having clarified that the results of the first self-assessment had been submitted to the committee in August 2014, the report summarised the findings of the most recent self-assessment carried out for 2015/16 using the recommended checklist, making reference to where improvements had been made, where there were a few areas of non-compliance and partial compliance, and checklist issues that were not applicable.

In conclusion, the self-assessment indicated that the Internal Audit team was 89% fully compliant with the relevant standards and partially compliant with a further 7%, on the basis of which it was concluded that the section operated in general compliance with the PSIAS.

Whilst presenting the report, the Senior Auditor highlighted that the preferred option for external assessment was reciprocal independent self-assessment validation through the Scottish Local Authority Chief Internal Auditors Group (SLACIAG). Subject to approval of this approach, it was anticipated that the Internal Audit section would externally assess another Council during 2016/17 and be assessed itself during 2017/18.

The committee, having expressed support for the preferred option, agreed:-

- (a) to note the outcome of the revised self-assessment; and
- (b) to approve participation in the reciprocal SLACIAG independent self-assessment validation process as outlined at option 1 of the report.

CABINET RESPONSE TO AUDIT AND SCRUTINY COMMITTEE'S INVESTIGATION ON FUNDING FOR COMMUNITY AND VOLUNTARY GROUPS

2212. Under reference to the Minute of the meeting of the Cabinet of 18 August 2016 (Page 1995, Item 2134 refers), when the response to the committee's report on its investigation on funding for community and voluntary groups had been approved, the committee considered a report by the Clerk on the response approved by the Cabinet for the committee's review. Regarding the 21 recommendations made, it was highlighted that the vast majority had been accepted, with comments also provided on those that were not.

Councillor Wallace commented that the way in which some of the recommendations would be progressed had not been specified in great detail, and suggested that a progress report be requested in due course through which he anticipated this would be clarified further.

The committee agreed:-

- (a) to note the response approved by the Cabinet; and
- (b) that the Head of Democratic and Partnership Services, in liaison with others as appropriate, submit a progress report in 6 months to the committee on the implementation of the recommendations that had been accepted.

WORK PROGRESSED BY COMMITTEE SINCE 2012 AND SELF-EVALUATION

2213. The committee considered a report by the Clerk proposing that a short report be prepared on key aspects of its work since 2012 and that a further self-evaluation exercise be progressed in advance of the local government elections in 2017. Reference was made to similar work undertaken prior to the two most recent local government elections.

Councillor Wallace referred to the related support to be provided to complete this work by an officer based in the Corporate Policy Unit.

The committee:-

- (a) agreed that during the forthcoming months a short, focussed report on key aspects of work undertaken by the committee since 2012 be prepared and that a further self-evaluation exercise be completed; and
- (b) noted that Councillor Wallace was currently considering the self-assessment template used before and related documents and intended to provide views to the Clerk on proceeding, the current view being that a quick review of all relevant issues should be completed but with a more detailed focus placed on some key issues.

CHAIR