

**MINUTE**  
**of**  
**AUDIT & SCRUTINY COMMITTEE**

**Minute of meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 10 August 2023.**

**Present:**

Councillor Andrew Morrison (Chair)	Councillor Annette Ireland
Councillor Tony Buchanan (Vice Chair)*	Councillor David Macdonald*
Councillor Paul Edlin	Councillor Gordon Wallace

Councillor Morrison in the Chair

(\*) indicates remote attendance

**Attending:**

Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Phil Daws, Head of Housing, Property and Climate Change; Michelle Blair, Chief Auditor; Jim Murray, Strategy Manager (Departmental Support Services)(Environment); Gbemisola Taiwo, Housing Services Manager (Property, Capital and Asset Management); Linda Hutchison, Clerk to the Committee; Jennifer Graham, Committee Services Officer; and Liona Allison, Assistant Committee Services Officer.

**Also Attending:**

Grace Scanlin, Ernst and Young.\*

**Apology:**

Provost Mary Montague.

**DECLARATIONS OF INTEREST**

**526.** There were no declarations of interest intimated.

**CHAIR'S REPORT**

**527.** Under reference to the Minute of the meeting of 22 June 2023 (Page 558, Item 495 (ii) refers), when it had been noted that members of the Committee had been asked to confirm, by exception, issues raised within the national External Audit report on the Local Government in Scotland Overview 2023 on which they wished feedback prepared for the Committee, Councillor Morrison advised that a single issue had been raised. This concerned the proposals being explored to increase Council Tax nationally for Bands E to H and, specifically, whether

a net increase in Council Tax collection would be delivered for local benefit or this would result in a lower national settlement from the Scottish Government.

Councillor Morrison reported that the Director of Business Operations and Partnerships had confirmed that a draft response to the ongoing consultation on the Council Tax issue would be submitted to the full Council in mid-September, and that the specific issues raised would be addressed as part of the report on that. As all Members would have an opportunity to discuss the proposed response at the Council meeting, it was considered unnecessary to submit a report on this to the Committee.

The Committee, having heard the Clerk confirm that the proposed response to the consultation was to be submitted to the full Council rather than the Cabinet, noted the report.

### **CLARIFICATION RECEIVED ON QUERIES RAISED AT PREVIOUS MEETINGS**

**528.** Under reference to the Minutes of the meetings of 11 May (Page 514, Item 450 refers) and 22 June 2023 (Page 558, Item 497 refers), when it had been agreed that the Clerk would seek clarification on a number of matters on behalf of the Committee, in the interests of transparency the Committee considered a report by the Clerk summarising the clarification received and circulated on queries raised regarding a consultancy cost related matter and the provision of funding for 1140 hours of early learning and childcare following a child's 3<sup>rd</sup> birthday.

The Committee noted the position.

### **ANNUAL TREASURY MANAGEMENT REPORT 2022/23**

**529.** Under reference to the Minute of the meeting of 23 February 2023 (Page 406, Item 340 refers), when it had been agreed to recommend to the Council that the Treasury Management Strategy for 2023/24 and the policy on the repayment of loans fund advances 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 2023, 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 authority continued to adopt a prudent approach to treasury management, and that stability in borrowing assisted the Council to 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 Head of Accountancy (Chief Financial Officer) highlighted key issues within the report, including comments on why the borrowing undertaken during the year varied from previous estimates. She explained that a number of capital projects had been rescheduled to future years and that borrowing was being delayed as far as possible due to current high interest rates being encountered, as a consequence of which only £10m of borrowing had been required in 2022/23 as opposed to the £65m anticipated.

She highlighted that the Council had operated satisfactorily against all indicators which measured risk, prudence and debt; commented on various specific indicators; and confirmed that capital investment plans and treasury management decisions were affordable, prudent and sustainable. More generally she explained that, arising from the implementation of new

Regulations, the number of Treasury Management reports submitted to the Committee each year would be increasing.

In response to questions, the Head of Accountancy (Chief Financial Officer) confirmed that the improved year end position was partly attributable to receipt of additional interest of approximately £1m due to increasing interest rates, especially towards the end of the financial year which would help address some of the financial challenges facing the Council in the next year or so. Having commented that interest rates were still increasing but expected to reduce in due course, she reported that the level of interest received for 2023/24 might be £300k-£400k higher than predicted. She confirmed that the risk indicator regarding the percentage of variable rate loans being no more than 15% of the total debt outstanding was one set locally, referred to the interest yield on temporary deposits linked to increases in the Bank of England Base Rate, and confirmed that an update on debt incurred by all Scottish local authorities would be provided when information on this became available from Audit Scotland.

The Committee, having heard Councillor Wallace commend the overall position referred to in the report and officers for their management of it, agreed:-

- (a) to note the Treasury Management Annual Report for 2022/23 and associated comments; and
- (b) to **recommend to the Council** that the organisations specified in the report for investment of surplus funds be approved.

## **INTERNAL AUDIT REPORT – REVIEW OF EXTERNAL WALL INSULATION AND ROOFING CONTRACT AND RELATED MANAGEMENT RESPONSE**

**530.** Under reference to the Minute of the meeting of 11 May 2023 (Page 515, Item 452 refers), when it had been agreed that the Internal Audit report on the External Wall Insulation and Roofing Contract Variation be circulated to members of the Committee for their review, the Committee considered a report by the Clerk explaining that it had subsequently been requested that the report and related management response be discussed at a formal meeting of the Committee. The Head of Housing, Property and Climate Change, and other appropriate officers, had been invited to the meeting to answer questions on the report, a copy of which was appended to the report.

Having been invited to make a preliminary statement, the Head of Housing, Property and Climate Change confirmed that all of the Internal Audit recommendations had been accepted. Whilst clarifying what had arisen and the measures taken to prevent it recurring, he explained that in 2022 two quantity surveyor vacancies had been unable to be filled despite a concerted recruitment effort, the normal staffing complement of the section being five people who dealt with around 25 projects in total per annum. In 2022, 35 projects required to be dealt with, including some delayed from 2020 and 2021 due to COVID, requiring the three quantity surveyors in post to deal with approximately 12 projects each. This, coupled with some lack of experience in the team, had placed additional strains on the service. Other issues encountered had included a lack of access by technical officers to specialist software at home during the December 2021 lockdown and for some months subsequently, the need to reassess tenders quickly to secure prices quoted by contractors, and a requirement to accept the terms of a Scottish Government grant and issue the contract in question before the Publicly Available Specification (PAS) 2035 standard referred to in the report was finalised.

The Head of Housing, Property and Climate Change acknowledged that the lack of capacity in the Technical Services Team to progress work should have been highlighted to Housing Services, referring to the importance of doing fewer jobs well than more badly. He also acknowledged that the breach of Contract Standing Orders (CSOs), which required a report

to be submitted to the Cabinet, should have been anticipated but wasn't due to some lack of experience in the team, and commented on a failure to document actions agreed verbally regarding the contract and, therefore, a consequential lack of evidence of decisions made.

He assured the Committee that members of the Technical Services Team, who often worked additional unpaid hours, usually managed contracts well and challenged contractors' work as necessary. Regarding the reference in the Internal Audit report to Housing Officers' unwillingness to indicate how many properties had been expected to be completed under the contract, he commented that rather than an unwillingness, there had been a difference of opinion between Housing and Technical Services on the cost of work per unit.

The Head of Housing, Property and Climate Change confirmed that actions being taken to prevent a recurrence included that the Strategy Manager (Departmental Support Services) would oversee the allocation of all work on contracts which were not yet on site, rather than the Team being approached directly. Having confirmed that a report on the breach of CSOs was submitted to the Cabinet in May 2023, he added that monthly valuation reports would be prepared for review by the Strategy Manager and himself, and that new written procedures were being introduced for clarity. Furthermore, a review was underway regarding which frameworks and which procurement route to use for contracts to secure Best Value, meetings and decisions made would be Minuted, and staff had been instructed to slow down to allow fewer projects to be done better. A quarterly Capital Board chaired by the Director of Environment had also been initiated, staff would be trained initially and annually thereafter on the new CSOs under development and related procedures, and a new more general training regime for the Team covering various issues was in development. The structure of Technical Services was also under substantial review in view of the difficulties encountered in recent years recruiting to various types of posts, as it was predicted these difficulties would continue.

Whilst acknowledging that mistakes had been made, the Head of Housing, Property and Climate Change reported that, through work with the Chief Procurement Officer and on benchmarking, it had been determined that Best Value had still been secured and that the price of the work done was not excessive given the cost of decarbonising properties. He added that the contractor appointed had done work for the Council for a number of years and was well known to it. It was also explained that three different methods for securing this type of work were being piloted, a design and build approach using bills of quantities as in the case of the contract under discussion; design and build using a normal tender; and a separate design and build approach to tendering. These would be evaluated to determine the best approach for installing wall insulation in properties.

The Chair welcomed the clarification provided. In response to him, the Chief Auditor confirmed that all of the Internal Audit recommendations made had been accepted by management, that three were already implemented, and that Internal Audit follow-up work would be done to check this was the case for the others. During the remainder of the discussion, questions were posed and clarification was sought on various issues. It was highlighted that the Committee had a role to ask questions, discuss what went wrong and determine what needed to be done to secure improvement.

Regarding the time pressures at the end of 2021 to award the contract and accept the Scottish Government Grant which provided funding for owner occupiers who subsequently chose to participate in the programme the position on which was unknown at that point, the Head of Housing, Property and Climate Change accepted that a more prudent approach would have been to highlight to the Scottish Government that the Council could not comply with its requirements and to try to secure an extension to the timeline or negotiate on the terms and conditions.

Councillor Wallace acknowledged that issues raised were being addressed, was keen to understand further why some matters had arisen in the first place which seemed relatively straightforward to address, and specifically asked why a tender was issued that was known to be unrealistic and omitted key work. Having commented that the tender was not known to be unrealistic at the time of issue but rather later, the Head of Housing, Property and Climate Change referred to some errors in the bill of quantities developed attributable to inexperience and work being done more quickly than it should. Reference was also made to the need to divert managerial resources to carry out quantity surveyors' tasks given the vacancies in the team, diminished management capacity due to this and other reasons, and the unrealistic expectations placed on the section at the time. He reiterated that the lack of capacity to undertake all work requested should have been highlighted earlier.

Having heard Councillor Ireland welcome both the acceptance of the recommendations and measures being introduced to improve the tender process, she and Councillor Edlin raised queries regarding the number of units to be completed as part of the contract. It was explained that the 126 properties referenced in the tender was an aspirational target requested by the Housing Service, as the exact number of properties on which work could be done was unknown at the time. In keeping with the design and build nature of the contract, this needed to be determined as part of the work done, the final number of units completed being 81 with work on any remaining properties to be carried forward to a future programme.

Councillor Macdonald thanked the Head of Housing, Property and Climate Change for his explanations, argued that all of the teams involved needed to work closely together, and asked if hybrid working was realistic or detrimental for such work. He also sought clarification on when the Head of Housing, Property and Climate Change had found out about the CSO breach and overspend and what his emotional response had been. The Head of Housing, Property and Climate Change's view was that staff shortages, not where they were located, was the main factor. Having looked into what had occurred, he had been satisfied there had been neither malfeasance nor detriment to the public purse, reiterating that Best Value had been achieved. Whilst annoyed, he had established quickly that the problem had not been created deliberately, lack of experience within the team which was working very hard had been a factor, and he had reflected on the scale of the cost of the journey to net zero. Regarding the recruitment difficulties encountered, he reported that there was a shortage of available construction professionals throughout the industry, that the private sector could often offer better overall remuneration packages than the public sector, and that the job evaluation scheme had to be adhered to which determined the grade and relative grades of posts in the Council.

In response to questions about staff training issues raised by the report, the Head of Housing, Property and Climate Change advised that, in this case, NEC training would have been invalid as the contract was not a NEC one. He explained that officers had sometimes been unable to attend training due to both time constraints as a result of workload and training budget constraints. However, following the audit and given the importance of continuous professional development, he was considering the introduction shortly of a regime of mandatory training on a range of issues including frameworks, project management, procurement, new legislation and new technology, and creating protected time for training, possibly collective training. The Chief Auditor reported that follow-up audit work tended to focus on the implementation of specific recommendations, but that she would bear in mind at the follow-up stage what had been said on training at this meeting.

Councillor Edlin expressed some dissatisfaction with the explanations provided, the level of regret expressed and lack of accountability, and supported compulsory training for professionals. Councillor Morrison highlighted that requiring the matter to be discussed, in detail, at this meeting was about accountability, as was Internal Audit checking in due course the implementation of the recommendations. The Head of Housing, Property and Climate

Change argued that he had not made excuses, had tried to explain what had occurred at the time and action being taken, and had articulated how he felt. He was apologetic regarding the management of the contract, but reiterated that Best Value had been delivered, disagreeing with Councillor Edlin's view that a lot of money had been lost.

In response to further issues raised by Councillor Edlin regarding whether the project would have been done when it was had the costs been known better at the outset, and if the project could have been delayed to a future year, the Head of Housing, Property and Climate Change reported that deferral could only have been for a short time and might have resulted in higher costs due to inflation and difficulties engaging suitable contractors as all local authorities and housing providers had a legal duty to comply with the Energy Performance Certificate (EPC) Band B rating by 2032. He stated that all public and private bodies needed to determine how best to decarbonise properties, emphasised the related financial and logistical challenges, and highlighted that starting the work as early as possible helped spread it and the related costs over as many years as possible. He confirmed there had been provision in the Capital Programme for the work, that the cost of it to other local authorities was known for benchmarking purposes, and that evaluating the three possible procurement methods referred to earlier was impossible in the absence of data the contract had started to provide.

Councillor Ireland asked if the failure to address warning signs earlier than October 2022 or the unwillingness or inability to indicate the number of properties expected to be completed referred to in the report were due to a lack of training. The Head of Housing, Property and Climate Change considered the failure to extrapolate figures to forecast the future breach of CSOs attributable to a lack of experience and knowledge of the CSOs, acknowledging the need for additional training on this. The Chief Auditor confirmed her team had a good working relationship with the Environment Department and that, rather than being unwilling to work with Internal Audit, there had been an unwillingness to commit to the number of properties expected to be completed.

In response to Councillor Macdonald who referred to potential public perceptions of what had happened, Councillor Morrison differentiated the types of issues the Committee should and should not discuss. The Head of Housing, Property and Climate Change confirmed that the Internal Audit findings had been discussed with all relevant officers, stressing the importance of considering what had occurred in the wider context of issues such as excessive workload. Councillor Buchanan concurred that some issues could have been handled better, referred to the need for the work on properties by 2032, and welcomed the acceptance of the recommendations made to address issues and improve. Having highlighted there had been no significant loss to the Council, he stressed the value of protecting officers such as through training and addressing workload issues.

In response to Councillor Wallace, the Strategy Manager acknowledged that monthly cost reports should have been prepared, which had not been due to other work priorities. Councillor Wallace welcomed that this was now being addressed. The Head of Accountancy (Chief Financial Officer) added that the issues raised were linked to Treasury Management given the need to assess which projects the Council could realistically deliver, taking cognisance of issues such as staff resources.

The Committee, having heard Councillor Morrison thank the officers who had attended to discuss the report, noted the report and additional information and clarification provided.

## **INTERNAL AUDIT PLAN 2023/24 – IMPLEMENTATION PROGRESS – APRIL TO JUNE 2023**

**531.** Under reference to the Minute of the meeting of 30 March 2023 (Page 459, Item 391 refers), when the Internal Audit Strategic Plan for 2023/24 to 2027/28 had been approved, the Committee considered a report by the Chief Auditor advising of progress on the Internal Audit Annual Plan 2023/24 from 1 April to 30 June 2023. It was confirmed that one audit report in relation to planned 2023/24 audit work had been completed in Quarter 1, information on which had been provided. Details were also provided of audits carried out as part of the 2022/23 and 2023/24 Plans regarding which satisfactory management responses had been received since the last progress report had been submitted.

Reference was also made to the quarterly performance indicators (PIs) for the section, and one new request for assistance dealt with using contingency time relating to Council Tax direct debits being taken early in error, which had been the subject of a report submitted to the Committee in June.

The Chief Auditor referred to key aspects of the report, during which she confirmed that one report on New Council House Builds remained to be issued, the findings of which would be summarised in the next progress report and might be referenced in the Internal Audit Annual Report for 2022/23 to be submitted to the Committee in September. Although the draft report had been completed several weeks ago, the department had requested further time to clarify its factual accuracy before being issued to the Director and had undertaken to complete its response quickly thereafter.

Amongst other things, she clarified that she had chosen to circulate the full report on Council Tax System – Recovery and Enforcement because the recommendations made were either medium or high risk. She also confirmed that discussions were ongoing with HR regarding leavers' data which was raised in a number of audits, and was also being looked at as part of an audit on payroll on which feedback would be provided in a future progress report.

Councillor Morrison referred to the recent audit report on the Council Tax System – Recovery and Enforcement circulated to all members of Committee. Having highlighted that delays in dealing with applications for relief and discounts for example were often the subject of correspondence to Elected Members from constituents, he was curious if other related correspondence to the Council from residents before they contacted their councillor related to conclusions reached in the report. He commented that the new Council Tax system would have been expected to deliver benefits and efficiencies, expressed the view that the conclusions in the Internal Audit report appeared to contradict that to an extent, and queried if this related to the way software was implemented or lack of training for example. Having heard the Chief Auditor comment that there could be a range of factors involved and suggest that Business Operations and Partnerships may be able to comment further, it was proposed that such feedback be sought from the Department.

The Committee agreed:-

- (a) not to seek any of the Internal Audit reports issued during the quarter at this stage;
- (b) to seek comments from appropriate officers on various issues raised regarding the implementation of the new Council Tax system; and
- (c) otherwise, to note the report and related comments made.

CHAIR