

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 8 March 2018.

Present:

Councillor Stewart Miller (Chair)	Councillor Annette Ireland
Councillor Barbara Grant (Vice Chair)	Councillor David Macdonald
Provost Jim Fletcher	Councillor Jim Swift
Councillor Charlie Gilbert	

Councillor Miller in the Chair

Attending:

Louise Pringle, Head of Business Change and Revenues; Barbara Clark, Chief Accountant; Michelle Blair, Chief Auditor; Gill Darbyshire, Chief Executive's Business Manager; and Linda Hutchison, Clerk to the Committee;

Also Attending:

Elaine Barrowman and Morven Fraser, Audit Scotland.

DECLARATIONS OF INTEREST

334. There were no declarations of interest intimated.

CHAIR'S REPORT

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

Future Work

- (i) Under reference to the Minute of the meeting of 25 January 2018 (Page 260, Item 293(v) refers), when it had been agreed that reports be sought on issues relating to the allocation of responsibilities to staff, adherence to related procedures and associated pay issues in East Renfrewshire Council in relation to the Glasgow City Region City Deal; and the current position on gritting and how the service might be delivered in future, Councillor Miller confirmed that reports on these issues were being prepared by the Head of Environment (Strategic Services) for submission to the committee on 19 April and 21 June respectively.

The committee agreed to note the report.

REVIEW OF STRATEGIC RISK REGISTER AND RISK MANAGEMENT PROGRESS

336. Under reference to the Minute of the meeting of 28 September 2017 (Page 144, Item 155 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 appended to the report, itemised key risks that required to be considered and associated actions put in place to manage these. Having referred to related operational risk registers in place, the report confirmed that several strategic risks had been amended to include additional control measures and rescored for significance, clarifying that a thorough review of all risks on the SRR had been undertaken by the Corporate Management Team (CMT). In total there were now 27 strategic risks, 9 of which were evaluated as high and 18 as medium. It was clarified that risks evaluated as low had been removed from the Register and would be monitored within departmental or operational registers as appropriate. Relevant significant risks which could impact on the achievement of the Council's outcomes relating to the work of the Integration Joint Board and the Culture and Leisure Trust had been considered as part of the update.

In addition to referring to risks that had been added to the register, information was provided on risk scores that remained high, had increased to medium or high or had been reduced to medium; and risks where the description had been amended. It was confirmed that reports on the SRR were submitted on a 6-monthly basis to the committee and annually to the Cabinet, but that the register was considered a live document and updated continually. It was clarified that the review of the SRR formed a fundamental role in ensuring that the Council met its objectives as detailed in Fairer East Ren, the Modern Ambitious Programme and the Outcome Delivery Plan and that a member of the CMT had been identified as the risk owner for each strategic risk.

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. Other issues commented on included the revised Risk Management Strategy approved by the Cabinet in November 2017.

Having heard the Business Manager highlight key aspects of the report, Councillor Swift referred to the strategic risk specified on the outcome of the EU referendum, expressing concern regarding the lack of similar reference to a risk linked to a potential further Scottish independence referendum, in respect of which he commented on various issues including the potential impact on trade, services and employment. In reply the Business Manager commented that no referendum date had been set, and that the CMT reviewed the SRR constantly and would amend the register if it was considered necessary.

Councillor Swift referred the possibility of raising a Motion regarding this in future. In reply Councillor Miller suggested that, at this stage, it would be more appropriate for the Business Manager to provide feedback to senior officers on comments made on the issue at this meeting. Thereafter, Councillor Ireland, supported by Councillor Macdonald and Councillor Grant who referred to the importance of taking account of the factual position and making a tangible comparison, suggested that if the risk was added to the SRR at some stage in future when considered appropriate, a direct comparison with the impact of the EU referendum would be useful. Councillor Swift expressed the view that a direct comparison could be made at the present time.

Provost Fletcher referred to the range of political views that existed on issues such as this and others, the corporate nature of the register, and difficulty associated with straying into political views in terms of the content of the SRR.

In response to a further issue raised by Provost Fletcher, reference was made to the mechanisms the Council had in place for whistleblowing, how such issues could be raised and were dealt with, and the value of publicising the arrangements periodically which had been done in the past and which it was planned to do again.

Referring to strategic risk 5.1 on the increase of older people in East Renfrewshire due to demographic trends, Councillor Grant referred to the on-going nature of the risk and associated challenges. Regarding risk 1.1 concerning the provision of Early Years places, including provision linked to the new early learning and childcare provision to be introduced, the Chief Accountant referred to related provision within the Capital Programme, in respect of which confirmation of grant was awaited, and related revenue implications which had been considered. It was clarified that implementation of the proposed risk control measures on this issue would result in the risk being reduced from high to medium, and that the Director of Education was scheduled to submit a report to the next meeting of the committee on the publication by Audit Scotland of its report *Early Learning and Childcare* and the associated position locally.

The committee:-

- (a) noted that the Chief Executive's Business Manager would provide feedback to appropriate officers on comments made by members of the committee at this meeting on the SRR; and
- (b) otherwise, noted the development of the SRR, that it was considered to be a live document, and that it would be updated and amended by the CMT as appropriate.

UPDATE ON INVOICE PAYMENTS IN EAST RENFREWSHIRE COUNCIL

337. Under reference to the Minute of the meeting of 17 August 2017 (Page 86, Item 94 refers), when the committee had noted an update on the review and redesign of invoice processing within the Council, including actions taken and being taken to address audit and compliance issues, and agreed that a further update be submitted before the end of the 2017/18 financial year, the committee considered a report providing a further update on the review and redesign of invoice processing.

Having referred to the previous reports submitted to the committee and related discussions, including on the Council's position which had been in the lower quartile of national performance for the percentage of invoices paid within 30 days as reported on through regular performance updates, the report referred to the national performance indicator (PI) on such invoice payments, and related local concerns still held about the PI not being calculated on a like for like basis across local authorities. The report commented on the centralisation of invoices, providing statistics which reflected significant improvement on paying invoices within 30 days for the period 1 March to 31 December 2017, which figures remained subject to audit, compared to other areas. Reference was also made to routine management information now provided to departments.

Having referred to two key audit and compliance issues reported to the committee in August, reference was made to a range of measures implemented to ensure a critical focus

on control and accuracy, and the related internal audit report prepared on the invoice payments process and related management action plan, copies of both of which had been circulated in December to members of the committee. The report commented on the emphasis being placed on improvements but also accuracy and financial control, outlining various steps taken to deliver improvement and reduce error. Amongst other things reference was made to the AP Forensics system, which was now fully operational, and progress made on data cleansing, this issue having been commented on previously.

Comments were also provided on progress on a range of improvement projects. Having referred to good progress being made on the delivery of the audit action plan, the report explained that management was now able to divert critical resource back to the change programme in respect of which an update was provided.

The report concluded that having been amongst the lowest performing councils for the percentage of invoices paid within 30 days, within the last 2 years the position had shifted from some 50-60% of invoices being paid on that basis to an average of 80-90% for 2017/18 to date. It was reported that despite some key issues of audit and compliance reported on in 2017, the service had recovered well, that all high risk audit actions had been completed and that remaining actions were on track, with additional resource having been deployed to ensure compliance and staff having been reminded that financial control and accuracy were of paramount importance. Further stages of automation were now being progressed that would modernise the invoice payments process, reduce demand and minimise scope for manual intervention and error. Although this work had required to be slowed down slightly in recent months to allow critical audit actions to be progressed, it was now being reprogrammed for delivery in 2018/19.

The Head of Business Change and Revenues commenting on key aspects of the report including the significant progress made on payment of invoices timeously, the implementation of the internal audit report management action plan which was on track, checks introduced prior to payments being made, a reduction in errors and the operation and implementation of the AP Forensics system. She also referred to the recent appointment of a new manager within the section.

Councillor Grant, supported by Councillor Macdonald, welcomed the more positive nature of the report and progress made which it was hoped would be maintained. In reply to Councillor Macdonald, the Head of Business Change and Revenues and Chief Auditor explained how the AP Forensics system operated and flagged up issues of various types for further checking. Having heard the Chief Auditor comment that the system had not been used as it should have been, the Head of Business Change and Revenues referred to how this had been addressed and some retrospective checks regarding invoices carried out. Also in reply to Councillor Macdonald, reference was made to the reduction in invoice payment performance levels in 2015/16 and the associated lack of reliance placed on performance information at that time and related issues, including the possibility that actual performance could have been better than reported but that this could not be verified. Real improvement was considered to have been made since then.

Councillor Swift welcomed the improvements referred in the report, following which he referred to staff turnover within the section and related use of temporary staff and motivational and commitment issues, asking how it was being ensured that staff felt valued and were willing to do all that was asked of them. Whilst responding, the Head of Business Change and Revenues referred to the ongoing use of some temporary staff, but more stability within the section anticipated in the months ahead. Whilst referring to the vision for the section, she referred to frank discussions held with those working in it, improvements witnessed in error rates and accuracy following that and expertise within the section, adding

that some employees who had been in the section were no longer there. She confirmed that all those working in the section knew what their own error rate was. In reply to Councillor Macdonald, the Head of Business Change and Revenues clarified how work was selected for checking and referred to options that could be pursued in various circumstances to address poor performance as necessary, including through training.

The committee noted the improvements to performance, the steps towards implementing significant change and the progress made in addressing recent audit and compliance issues referred to in the report.

EAST RENFREWSHIRE COUNCIL – ANNUAL AUDIT PLAN 2017/18

338. The committee considered a report by the External Auditor regarding the 2017/18 Annual Audit Plan. The Plan provided an overview of the planned scope and timing of the audit to be carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice and other relevant guidance.

Based on discussions with staff, attendance at committee meetings and a review of supporting information, the report highlighted the main financial statement issues and risks and also risks of a wider dimensional nature identified for the Council, and audit work planned in relation to these. Various reports to be prepared, including the annual report on the audit, were referred to as were the audit fee and the responsibilities of the committee, Head of Accountancy and appointed Auditor. Having summarised the approach to be adopted on the audit of financial statements, it was clarified that an opinion on them would be given on a range of issues, including whether they gave a true and fair view and were properly prepared in accordance with International Financial Reporting Standards and legislative requirements.

Other issues commented on included materiality levels; the annual assessment of the Internal Audit function that was nearing completion and would be the subject of a separate report; the reliance it was proposed to place on Internal Audit's work and related issues; and the four audit dimensions framing the wider scope of public sector audit requirements.

The report commented on the overall framework for the new approach to auditing Best Value agreed by the Accounts Commission in June 2016 and used for audit work since October that year. It was clarified that the new approach integrated Best Value into the wider scope annual audit, influencing audit planning and reporting, and with Best Value to be assessed comprehensively over each 5 year audit appointment through both ongoing audit work and discrete packages of work. Conclusions and judgements on Best Value were to be reported through various documents, including the Annual Audit Report for the Council.

Having referred to the Best Value Assurance Report (BVAR) for East Renfrewshire published in 2017, it was clarified that audit work in this area in 2017/18 would reduce compared to 2016/17 and be limited to a follow-up of issues raised and in the BVAR action plan. The outcome would inform the External Auditor's Strategic Plan for 2018/19 and following years, progress on improvement and the pace of change during 2017/18 would be reported on, and the results would be reported in the Annual Audit Report.

Reference was made to Housing Benefit performance audits, including plans to carry out a performance audit of the housing benefits service in the Council as part of the 2017/18 audit, and consideration to be given to the local impact of various national audit reports published or to be published. Issues on independence and objectivity, quality control and adding value were also commented on.

Councillor Miller welcomed Ms Barrowman to the meeting, following which she referred to various key aspects of the report. Whilst itemising and commenting on the key audit risks identified which required specific audit testing on which an update would be provided in the Annual Audit Report, it was clarified that a number were not specific to East Renfrewshire. She also commented on the audit fee, the review of Internal Audit, the follow up work to be done on the BVAR report, and the forthcoming performance audit of the Council's housing benefits service. She thanked the Head of Accountancy and her staff for their assistance in preparing the 2017/18 Annual Audit Plan.

During discussion, in response to Councillor Macdonald, Ms Barrowman provided examples of some of the key requirements and implications of the General Data Protection Regulations coming into force on 25 May 2018.

The Committee noted the 2017/18 Annual Audit Plan and timetable for the publication of related documents, including the Annual Audit Report for 2017/18.

NATIONAL EXTERNAL AUDIT REPORT – LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2016/17

339. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Local Government in Scotland – Financial Overview 2016/17* which under the committee's specialisation arrangements had been sent to Provost Fletcher and Councillor Ireland for review. The Head of Accountancy had been asked to provide comments and a copy of her feedback was attached to the report.

The report advised Members on the Council's position relative to the findings, commenting on various income and budgetary matters, including demand pressures faced by the authority, the need for ambitious savings, service provision and related risks, and the focus placed by the Council both on its Modern Ambitious Programme of change and on preventative spend to reduce future budget pressures.

Others issues commented on included the need for and complexities associated with effective financial planning, including those linked to the late announcement of a change in Government grant funding, the intention to publish plans for a 3 year budget for the period 2018/2021, and capital expenditure related matters.

The report referred to a range of issues linked to the financial performance of the Council including that it had operated within budget for the year, the position on reserves, budget setting, previous underspends and related action taken, borrowing, and slippage within the Capital Programme. Reference was also made to financial planning, including the authority's Capital Investment Strategy and the importance of strong leadership and community engagement when taking difficult decisions. It was commented that the Council's recent consultation on its 3 year budget, including the introduction of its budget simulator, had been acknowledged as good practice.

Overall, the report reflected that the Council had been considered to be well placed in terms of addressing the main issues facing Scottish Councils in 2016/17, but would continue to face substantial financial challenges.

Councillor Swift referred to the level of debt associated with the Housing Revenue Account and General Fund Capital Programme and related revenue implications, adding that he had made the assumption that rent levels linked to the new local authority houses to be built would be higher than others and expressing concern regarding the affordability of additional

borrowing in the current financial climate faced. The Chief Accountant confirmed that the costs of proposed borrowing had been taken into account in terms of budget planning.

The committee noted the report.

CHAIR

