

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 16 August 2018.

Present:

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

Councillor Miller in the Chair

Attending:

Gerry Mahon, Chief Officer, Legal and Procurement; Michelle Blair, Chief Auditor; Barbara Clark, Chief Accountant; Gill Darbyshire, Chief Executive's Business Manager; Linda Hutchison, Clerk to the Committee; and Jennifer Graham, Committee Services Officer.

DECLARATIONS OF INTEREST

538. Councillor Grant declared a non-financial interest in Item 543 - National External Audit Report – Councils' Use of Arm's Length Organisations on the grounds that she was a member of the Board of the East Renfrewshire Culture and Leisure Trust.

CHAIR'S REPORT

539. The Chair reported, and it was noted, that there were no issues which he wished to bring to the committee's attention at this time.

REVIEW OF STRATEGIC RISK REGISTER AND RISK MANAGEMENT PROGRESS

540. Under reference to the Minute of the meeting of 8 March 2018 (Page 310, Item 336 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 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 the strategic risks had been undertaken by the Corporate Management Team (CMT). In total there were now 30 strategic risks, 11 of which were

evaluated as high and 19 as medium. Risks evaluated as low had been removed from the SRR and would be monitored within departmental or operational registers as appropriate. Relevant significant risks which could impact on achieving the Council's outcomes regarding the work of the Integration Joint Board and Culture and Leisure Trust had been considered.

In addition to referring to risks added to the SRR, information was provided on risk scores that remained high and amended risk descriptions. It was confirmed that although reports on the SRR were submitted to the committee every 6 months and the Cabinet annually, the register was considered a live document and updated continually, with the review of the SRR playing 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. A risk owner for each strategic risk had been identified from amongst the CMT.

Having heard the Business Manager highlight key aspects of the report, Councillor Miller referred to the risk on the outcome of the EU referendum, expressing concern that a further risk, even a low one, associated with a potential further Scottish independence referendum was not specified and suggesting this be considered. Councillor Ireland reminded Members that the committee had raised this in March 2018, in response to which it had been clarified that the CMT had not considered it necessary then. She added that the position on such a referendum remained unchanged and that a review could be requested if the position altered.

Councillor Grant suggested that some of the strategic risks itemised were out with the Council's direct control, questioning their inclusion and citing the example of the risk of an operational or financial failure of a key provider. The Business Manager referred to the importance of considering, in a wide sense, risks facing the authority and preparing adequately to deal with issues that could arise, referring to mitigating actions considered appropriate regarding the example Councillor Grant had raised.

Regarding risk 3.8 on poor environmental performance on implementing climate change mitigation and adaptation measures, Provost Fletcher requested that clarification be sought on why it had been deemed necessary now to add this to the SRR and what specifically the authority was being asked to do, or was not doing, that could impact on climate change. During related discussion, including on the spectrum of opinions expressed on global warming, Councillor Swift acknowledged the range of views that existed on this, cited examples of local factors that might be relevant such as approaches adopted on water drainage, but concurred that the use of more specific wording about the risk might be helpful. Councillor Ireland expressed support for the current wording, adding that the weight of current evidence supported the existence of global warming.

During discussion on risk 4.2, Provost Fletcher commented that violence elsewhere did not necessarily mean it would occur locally. Councillor Swift considered the likelihood of this risk low and the action documented weak. More generally, Councillor Miller questioned if risk likelihood would actually decrease in some cases as suggested through implementation of risk control measures, citing the example of the risk on the reduction of central government funding.

The committee agreed:-

- (a) that feedback be provided to appropriate senior officers on comments made by members of the committee at the meeting on the SRR for consideration;
- (b) that the Business Manager seek and provide further clarification to the Clerk for circulation to members of the committee on the specific nature of the risk added to the register on poor environmental performance in implementing

climate change mitigation adaptation measures; why it was considered necessary to add it; what specifically the authority was being asked to do to impact on climate change; and why the wording used was not more specific; and

- (c) otherwise, to note 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.

ANNUAL TREASURY MANAGEMENT REPORT FOR 2017/18

541. Under reference to the Minute of the meeting of 19 February 2018 (Page 277, Item 307 refers), when it had been agreed to note and recommend to the Council that the Treasury Strategy Statement Report 2018/19 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 2018 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 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 committee, having heard the Chief Accountant, agreed to:-

- (a) note the Treasury Management Annual Report for 2017/18; and
- (b) **recommend to the Council** that the organisations specified in the report for investment of surplus funds be approved.

NATIONAL EXTERNAL AUDIT REPORT – LOCAL GOVERNMENT IN SCOTLAND – CHALLENGES AND PERFORMANCE 2018

542. The committee considered a report by the Clerk on the publication by the Accounts Commission of a report entitled *Local Government in Scotland – Challenges and Performance 2018* which under the committee's specialisation arrangements had been sent to Councillors Miller and Grant for review. The Head of Business Change and Revenue Services, Head of Accountancy (Chief Financial Officer), and Head of HR, Customer and Communications had been asked to provide comments and a copy of their feedback was attached to the report.

The report explained that the Accounts Commission report gave a good overview of the performance issues and key challenges facing local government which the Council recognised and was working to address. It was commented that councils were being encouraged to develop their understanding of changing landscapes affecting their operation; develop long-term financial and scenario planning; and consider the impact on services and users. Further information was provided on data sharing; the new Community Plan, which included the Local Outcome Improvement Plan known as Fairer East Ren; and the Our Vision for the Future Strategy which underpinned work being undertaken and included the Council's headline strategic outcomes, organisational capabilities, and core values.

The Council's long-term approach to financial planning was highlighted, with reference included to the Financial Planning 2018-2024 document approved by the Council earlier in the year. It was further reported that medium-term financial planning was carried out on a 3-year cycle with estimates for the forthcoming year updated annually. Further information was also included such as on plans to achieve the Council's Vision for the Future, the Outcome Delivery Plan and the Council's recently approved ambitious new digital strategy.

The report also highlighted ongoing work within communities and the delivery of priority outcomes, including the establishment of new arrangements to meet legislative requirements of the Community Empowerment (Scotland) Act 2015; the establishment of robust change strategies, planning transformation of services, and support for change; and continuous improvement through ongoing evaluation and reporting.

Regarding references in the report to the Community Plan and working with communities on identifying residents' local priorities and solutions, Councillor Swift commented on a recent meeting he had attended in Newton Mearns at which it had been evident to him that the local community concerned felt that the Council was not listening to or addressing their concerns and was making their lives worse. He expressed the view that the Council was not always acting in a way that reflected quite a few of its communities' views and had, at times, disregarded or acted in a way that opposed them, citing related examples. Thereafter he referred to related discussions he had just held with the Chief Executive, expressing hope that on the basis of these she would create a team to listen to the views of Newton Mearns residents to resolve in a meaningful way issues they had raised. Supported by Councillor Grant, he stated that he hoped to hear more about this in due course.

The committee noted the report and related comments made, including those made by Councillor Swift on the issues he had raised with the Chief Executive on consultation with residents in Newton Mearns on various issues and how some related issues might be taken forward.

NATIONAL EXTERNAL AUDIT REPORT – COUNCILS' USE OF ARM'S-LENGTH ORGANISATIONS

543. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Councils' Use of Arm's-Length Organisations* which under the committee's specialisation arrangements had been sent to Councillors Miller and Grant for review. The Director of Education and Head of Accountancy (Chief Financial Officer) had been asked to provide comments and a copy of their feedback was attached to the report.

The report referred to key messages and recommendations for councils on their use of arm's-length organisations (ALEOs) and considered the findings and implications for East Renfrewshire Council's only ALEO, the East Renfrewshire Culture and Leisure Trust (ERCLT). Although the audit report mainly concerned the establishment of future ALEOs, it had provided an opportunity to revisit systems already in place with ERCLT. Regarding seven key messages specified in the audit report, responses were provided on aspects pertinent to East Renfrewshire.

The report referred to the establishment of ERCLT in December 2014, related financial and operational benefits identified then, and the benefit accrued from the experiences of other local authorities which had established ALEOs. Further information was provided on processes and procedures put in place in the context of the Trust and, where appropriate, suggested next steps. It was clarified that ERCLT's business plan and budget required to be approved by the Council annually and that the Director of Education currently reported on

whether or not best value was being delivered. It was suggested that stronger arrangements were required to review service agreements and explained that the Director of Education had agreed to include this in her annual report on ERCLT in future.

Other issues commented on included setting clear criteria for reviewing ALEOs; considering risks, performance and how it fits with Council priorities; oversight of the performance, financial position and risks associated with ALEOs; the appointment of councillors and officers to boards and related issues; training, support and advice; managing potential conflicts of interest and the relationship with ALEOs; and ensuring funding and performance information are clear and publicly available.

Regarding achievements, reference was made to performance improvements made by the ERCLT since its establishment which included a 5-year high in terms of leisure centre attendances; increased gym membership; and improved customer satisfaction rates. It was concluded that ERCLT was performing well, improving customer experiences, meeting its charitable objectives, and contributing to the health and wellbeing of residents. It was clarified that recommendations outlined in the report to improve support to the Trust and the evaluation of its performance in reporting on best value would be taken forward through an action plan that was being finalised.

Councillor Miller commented on the reference to the Barclay Review through which it had been recommended that business rates relief for ALEOs should end, this recommendation having been subsequently reduced to apply to new ALEOs and new facilities, with any difference in new rateable values of replacement buildings being ineligible for rates relief. Referring to the consultation on the new Eastwood Leisure Centre, he expressed the opinion that information on this issue should have been provided to residents and elected Members. Having referred to the Trust's largest assets and additional funds sought by it over two financial years, he questioned if the Trust had a future if a new build facility was pursued in an alternative location to the current Eastwood site.

The Chief Accountant stated that it was her understanding now that, under the current Barclay Review recommendations, the current level of business rates relief would continue if a new building was for the same purpose, but that any difference between the level of business rates for the current building and the new one would be payable. Councillor Grant commented on her understanding of the position, and that she was anticipating that further clarification would be provided at a forthcoming Trust related meeting she was attending. Councillor Miller added that the Barclay Review recommendations remained to be approved.

During discussion, Councillor Swift commented that any decision on a new leisure centre should be influenced by legislative implications, adding that the Council should not build a new facility then find itself punished by related consequences. He added that he held misgivings about the Trust such as on transparency, regarding which he referred to the accessibility of Board Minutes, and about the interests the Trust served which he argued did not include residents of his Ward who did not support a new centre being built in Broom Park. Councillor Swift also expressed the view that siting a new centre where it was not easily accessible by public transport, including by those living in socially deprived areas it was meant to serve, was contrary to the authority's aims of improving health and reducing inequalities. Other issues he commented on regarding the Trust included financial and budget management matters.

Having heard Councillor Ireland refer to the Trust's achievements as specified in the report, she asked if the action plan under development referred to in the report would be submitted to the committee. Councillor Fletcher referred to discussions with the Trust on adhering to budget and outlined general advantages and disadvantages of Trust led versus Council led services.

The committee agreed:-

- (a) that a copy of the action plan being prepared by the Director of Education, Chief Financial Officer and Chief Executive of the Trust be submitted to a future meeting of the committee; and
- (b) otherwise, to note the report.

INTERNAL AUDIT ANNUAL REPORT 2017/18

544. The committee considered a report by the Chief Auditor regarding the annual report on the activities of internal audit during 2017/18, and providing an independent annual opinion on the adequacy and effectiveness of the Council's governance, risk management and internal controls based on work undertaken in 2017/18.

Councillor Miller highlighted reference in the report to an on-going employee disciplinary investigation and the possible identification of the individual concerned, due to which there was a limit to how much information could be provided on the related matter referred to in the report at present. He emphasised that due to the potential involvement of Councillor Grant, Councillor Ireland and him in any future disciplinary process and/or appeals process as members of the Council's Appeals Committee, it would be inappropriate for the committee to have any detailed discussions on this matter at this time.

Whilst commenting on the successful implementation of the Plan, the Chief Auditor reported that all planned audits had been carried out, except two which had been deferred to 2018/19 on which she clarified the position, and that satisfactory responses had been received to all audits except one where the response date had not yet passed. Having commented on seven internal audit reports regarding which some recommendations had not been fully accepted and the related associated risks and reasons provided by management which had been accepted, she summarised the position on various potential fraud and contingency related issues. She also referred to the excellent working relationship that her section had with External Audit.

Regarding the annual statement on the adequacy and effectiveness of the Council's governance, risk management and internal controls, she confirmed that, based on the information available and work carried out, her opinion was that reasonable assurance could be placed upon the adequacy and effectiveness of these controls in the year to 31 March 2018 except regarding four issues. Whilst itemising and commenting on these further, she explained that all related recommendations had been accepted and that follow-up audit work on these would be carried out in due course. Reference was also made to internal audit performance indicators.

In response to questions, the Chief Auditor reported on stock taking work carried out in relation to the housing maintenance service and a Housing Repairs Audit due to be completed in 2018/19, in relation to which the views of a sample of around 30 residents on the service would be amongst work carried out. More generally she clarified that all audit samples were selected by Internal Audit and not a service under review. She added that Members could contact her if they wished to discuss issues regarding the scope of any audit. Councillor Grant referred to the value of Members taking a direct interest in the scrutiny of services provided by the authority, such as by visiting locations where work is carried out as she had done in the past on occasion.

In response to Councillor Ireland, the Chief Auditor confirmed that follow up work on the contract spend audit would be undertaken in due course on which a report would be

prepared, and that access to any audit report could be provided to Members of the committee on request.

The committee agreed:-

- (a) to approve the statement on the adequacy and effectiveness of the Council's governance, risk management and internal control systems and submit it to the Council; and
- (b) otherwise, to note the internal audit annual report 2017/18.

INTERNAL AUDIT PLAN 2018/19

545. The committee considered a report by the Chief Auditor regarding progress made on the implementation of the 2018/19 Internal Audit Plan from 1 April to 30 June 2018. The report confirmed the number of reports issued during the quarter and that all recommendations had been accepted. Reference was also made to the quarterly performance indicators (PIs) for the section.

Whilst presenting her report, the Chief Auditor highlighted changes to the format arising from the implementation of recommendations made by the External Auditor following the annual review of internal audit and linked to the external assessment of compliance with Public Sector Internal Audit Standards (PSIAS). She clarified that the report now included details of the number of high, medium and low recommendations arising from each audit; the number of recommendations which were not accepted; and a summary of the findings in each case. She invited Members to advise her if they wished her to consider fine-tuning the format further.

The Chief Auditor confirmed that during the quarter some work had been done on completing 2017/18 audits and that four new audits reports had been issued, two of which had not had any recommendations and one of which related to the Trust. She clarified that Trust related audit reports were submitted to the Trust not this committee.

The committee, having heard Councillor Miller reiterate that copies of audit reports could be requested from the Chief Auditor via the Clerk and that it was an option to submit them to the committee for further discussion, agreed:-

- (a) not to seek any of the reports issued in the quarter at this stage; and
- (b) otherwise, to note the report and related comments made.

CHAIR

