STIRLING COUNCIL

MINUTES of MEETING of the AUDIT COMMITTEE held in the COUNCIL CHAMBERS, OLD VIEWFORTH, STIRLING on THURSDAY 6 NOVEMBER 2014 at 10.30 am

Present

Councillor Scott FARMER (Convener)

Councillor Neil BENNY
Councillor Graham HOUSTON
Councillor Corrie McCHORD (Substitute)
Councillor Mark RUSKELL
Councillor Jim THOMSON

In Attendance

David Bright, Resilience & Risk Manager, Governance & Resources
Stewart Carruth, Chief Executive
Liz Duncan, Chief Governance Officer
Anne Michelle Ketteridge, Forth Valley & Lomond LEADER Programme Manager
Deborah Kilpatrick, Senior Communications Adviser
Alan Milliken, Assistant Head of Service, Children, Young People & Education
Kevin O’Kane, Audit Service Manager, Governance & Resources
John Risk, Head of Assets & Support
Kevin Robertson, Head of Economy, Planning & Regulation
Kirsty Scott, Communication, Marketing & Events Manager
Sheila McLean, Committee Officer, Governance & Resources (Clerk)

Also in Attendance

Gary Devlin, Grant Thornton, External Auditor
Chris Clements and Julie Gill, Grant Thornton (Item AC119)

AC109 APOLOGIES AND SUBSTITUTIONS

Apologies for absence were submitted on behalf of Councillor Danny Gibson. Councillor Corrie McChord was in attendance as his substitute.

AC110 DECLARATIONS OF INTEREST

Councillor Neil Benny declared a financial interest in Agenda Item 14 – External Audit Reports on Arm’s Length External Organisations (Minute paragraph AC122 refers) – as he was employed by thinkWhere, formerly Forth Valley GIS.

Councillor Mark Ruskell declared a non-financial interest in the same item, as he was a Board Member of Active Stirling Ltd.

AC111 URGENT BUSINESS BROUGHT FORWARD BY THE CONVENER

There were no items of urgent business.
Decision

The Committee agreed to approve the Minutes of Meeting held on 4 September 2014 as a correct record of proceedings.

AC113 INTERNAL AUDIT RISK ASSESSMENT AND PLAN 2014-15: PROGRESS REPORT

A report by the former Head of Governance & Resources provided the Committee with an update on progress made against Internal Audit’s annual plan, including any recent changes. The report also provided details of reports issued since the previous meeting of the Committee on 4 September 2014.

Internal Audit Summary Reports were attached at Appendix 2 to the report. The summary reports set out the background to each review, its scope and objectives, a summary of findings, the audit opinion, and the agreed Service actions in response to Internal Audit’s ‘high priority’ recommendations.

Internal Audit Report Summaries

(a) Education Business Support & Administration

The scope of the review was to undertake a review of the support and administration arrangements for the jointly managed Education Service, management having highlighted issues including duplication of effort and conflicting policies and procedures.

The review identified a number of elements of good practice and did not identify any critical risk findings. A number of recommendations had been made to the Service and an Action Plan agreed.

The audit opinion was that substantial assurance could be given that appropriate support and administration arrangements for the jointly managed service were in place. There were, however, opportunities for the Service to review its processes in order to improve efficiency and effectiveness, enabling more seamless working across the two Education Authorities.

(b) Forth Valley & Lomond LEADER Programme

The scope of the review was to examine the operation of the Forth Valley & Lomond LEADER Programme in the twelve months to 15 October 2014 to provide formal assurance, in line with the obligations under the Service Level Agreement, on issues around grant funding payments, systems and procedural controls, and reporting of information to the Scottish Government.

The audit opinion was that substantial assurance could be given that the controls in respect of the Forth Valley & Lomond LEADER Programme were operating effectively, and that appropriate steps had been taken to ensure that the Programme was being delivered in accordance with EU and Scottish Government regulations and guidelines.
(c) **Performance Management (Corporate)**

The scope of the review was to examine the arrangements in place for the Council to manage and report on key areas of corporate performance.

The report advised that no critical risk findings had been found, however a number of recommendations had been made in respect of lower risk findings and these had been accepted by the Service.

The audit opinion was that substantial assurance could be given that the Council’s corporate performance management arrangements were appropriate and operating effectively.

**Position Statement**

The Committee noted the Position Statement attached as Appendix 3 to the submitted report.

**Decision**

The Committee agreed:

1. to note the findings, risks, recommendations and statements of assurance set out on the Internal Audit Summary Reports attached at Appendix 2 to the submitted report;
2. to note the agreed ‘high priority’ actions, reflecting Services’ responses to the risks and recommendations;
3. to note progress made on the Risk Assessment & Plan 2014-15, as set out in the Position Statement at Appendix 3 to the submitted report;
4. to note the contents of paragraphs 3.1 to 3.3 of the submitted report in respect of the delivery of the reviews included in the current version of the annual Plan.


**AC114 IRREGULARITIES & BENEFIT FRAUD REPORTS: APRIL 2014 TO SEPTEMBER 2014**

A report by the former Head of Governances & Resources summarised actual and potential losses, thefts and other financial irregularities reported to Internal Audit during the period 1 April 2014 to 30 September 2014, and provided an update on the Council’s benefit fraud investigation and National Fraud Initiatives activities in that period.

It was confirmed that the Electoral Register was used to track benefit fraud, and officers undertook to confirm to Members whether or not the enhanced Electoral Register would be used to pursue outstanding Community Charge debt.
Members sought assurance over security issues when USB memory sticks were lost. It was confirmed that data was encrypted, and officers undertook to investigate further and provide more information outwith the meeting. The Chief Governance Officer informed Members of the procedures followed after any referrals to the Records & Information Compliance Team, and advised that she was not aware of any breaches in relation to USB memory sticks.

Decision

The Committee agreed:-

1. to note the Irregularities Report attached at Appendix 1 to the submitted report and additional information in paragraphs 3.1 to 3.3 of the report;

2. to note the Benefit Fraud & National Fraud Initiative Progress Report for April to September 2014, attached at Appendix 2 to the submitted report, and additional information at paragraphs 3.4 to 3.11 of the report.

(Reference: Report by Head of Governance & Resources dated 29 October 2014, submitted.)

AC115 INTERNAL AUDIT: ACTION TRACKING UPDATE

A report by the former Head of Governance & Resources identified progress by Services in implementing actions, with a target date of 30 June 2014 or earlier, taken in response to recommendations set out in Internal Audit reports.

The report also highlighted high priority actions that, as at 24 October 2014, had not been completed.

In response to questions, the Head of Economy, Planning & Regulation undertook to clarify the up to date position on the review and reissue of the Licensing Policy Statement.

Members noted the delay in concluding steps to address the potential risk that could arise from the lack of up to date checks on voluntary drivers, and confirmed that this was not acceptable to the Committee. Officers were instructed to provide a briefing note to Members of the Committee on the current position, following which the Convener would take a decision whether a follow-up report should be brought to the next meeting.

There was also concern at the lack of Service representation at Committee and the Chief Executive undertook to confirm to Directors and Senior Managers that all Services were expected to be represented at meetings of the Audit Committee.

Decision

The Committee agreed:-

1. to note the Action Tracking report at Appendix 1 to the submitted report, which highlighted that there were 37 Internal Audit reports with actions that were outstanding.
2. to note that the reports included 333 actions that had been completed, 13 that had been cancelled, 145 that were on schedule, and 18 that were overdue in terms of their current target dates;

3. to note the report at Appendix 2 to the submitted report, which provided details of the 22 ‘high priority’ actions that were overdue in terms of their original target dates, including Services’ explanations for slippage;

4. to instruct officers to provide a briefing note to Members of the Committee on the current position regarding actions to address the potential risk from lack of up to date checks on voluntary drivers; and to remit to the Convener to decide whether, following receipt of this briefing note, a follow-up report to the next meeting of the Committee was required.

(Reference :- Report by Head of Governance & Resources dated 29 October 2014, submitted.)

AC116 VACANT PROPERTY – ANNUAL UPDATE

A report by the Head of Assets & Support provided an update on the Council’s vacant properties and measures being taken to ensure that the Council’s assets were being managed efficiently in order to minimise the amount of vacant property held by the Council, in accordance with the Council’s Property Asset Management Plan.

Appendix 1 to the submitted report provided details of surplus properties that were currently on the market or under negotiation. Appendix 2 provided an update of properties currently vacant and under development. Vacant development sites and those not yet on the market were shown at Appendix 3.

Decision

The Committee agreed:-

1. to note the list of vacant properties appended to the submitted report and the reasons for property being vacant and not generating a return;

2. to note the action being taken - either re-letting or exploring the disposal potential of vacant properties;

3. to a report coming back to the Audit Committee in November 2015.


AC117 AUDIT SCOTLAND NATIONAL REPORTS UPDATE

The Council’s External Auditors had recommended a formal procedure for reporting Audit Scotland national reports to Elected Members and the Chief Governance Officer had arranged for all such reports to be considered by the Audit Committee.

A report by the former Head of Governance & Resources informed Committee of the publication of a report entitled “Procurement in Councils”, published in April 2014. The report highlighted key issues and made a number of recommendations.
It was agreed that consideration be given to a recommendation regarding training for Elected Members dealing with procurement.

**Decision**

The Committee agreed to note the content of the Audit Scotland national report “Procurement in Councils” and the work underway in Stirling Council as set out in paragraph 3.8 of the submitted report.


**AC118  COUNCIL RISK REGISTER**

A report by the former Head of Governance & Resources presented the Council Risk Register, to enable the Committee to examine significant risks facing the Council and the risk treatments put in place to reduce the risks.

Members were advised that the current Register contained 18 Strategic Risks, compared to 16 at the time of the last report to Committee.

The report included details of emerging risks and provided an update on Service Risk Registers.

In response to comments made by Members, the Chief Executive undertook to give consideration to the risk scoring in relation to the management restructure.

Members noted the recent legal decision regarding the inclusion of overtime in holiday pay and instructed officers to provide a briefing note on any impact this might have on the Council.

**Decision**

The Committee agreed:-

1. to note the Risks within the Council Risk Register with specific attention to risk score/tolerance, treatment actions and target dates;

2. to note the risks highlighted in paragraph 3.1 of the submitted report;

3. to note the Service Risk Register Status update detailed in paragraph 3.4 of the submitted report.

The Armed Forces Day National Event 2014 was held in Stirling on 28 June 2014, attracting an estimated audience of 35,000.

At its meeting on 23 January 2014, the Audit Committee requested officers to conduct a full audit into all aspects of the application for and arrangements to host the event, in order that concerns about governance and transparency could be addressed and the bidding process understood.

Following consultation with the Convener of the Audit Committee, the former Chief Executive commissioned the Council’s external auditors, Grant Thornton, to carry out this work.

A report by the Chief Executive introduced the external auditors’ report, which was presented by Chris Clements and Julie Gill of Grant Thornton.

The external auditors had been invited to offer comment on the suitability of the process which was followed and to identify actions which should have been taken but were not, taking into account not only the Council’s policies and procedures but also best practice and to make recommendations as to how the Council could address any identified weaknesses in the procedure in future.

The Grant Thornton report identified a number of weaknesses and made recommendations as to how these might be addressed. The weaknesses, recommendations and management responses were set out in an appendix to the report.

Some follow-up action points had also been suggested. Following discussion with Grant Thornton, the former Chief Executive had taken the view that further work was not required.

It was highlighted that inconsistencies identified in the report were to be expected when interviewing a number of different people after a significant lapse of time. There was no prospect of the auditors being able to quantify indirect costs of the event, as costs such as officer time had not been recorded. The auditors had obtained sufficient information to enable them to identify weaknesses and make recommendations. Further investigation would be unlikely to lead to additional recommendations, and so would be disproportionate and not cost effective.

Members’ attention was drawn to paragraphs 4.94 and 4.95 of the report, Agenda page 163, where the words “Depute Opposition Leader” should be substituted in place of “Depute Leader of the Council”.

Mr Clements outlined the brief which they had been given, following agreement with the former Chief Executive, which was to establish and consider:

- The timeline of events from the initial approach to the Minister for Defence Personnel, Welfare and Veterans on 20 December 2012 to the announcement of the decision to award this event to Stirling;
- What advice was sought from officers and others and when;
• What account was taken of the potential impact of holding the Armed Forces Day National Event on the same day as another major event and what consultation took place with those organising the other event;

• What approvals were obtained and when.

Members were advised that a number of other areas within the initial brief had been removed as they were considered to be either excessive or had potential impact that was outwith the area of expertise.

Mr Clements expanded on the key findings set out in the report, in relation to:-

• Discussion of and approval of the bid letter
• Different versions of the draft outline programme document attached to the bid letter
• Approval to stay on the shortlist/host National Armed Forces Day
• Approval for funding
• Advice sought from Officers

Other areas of investigation included discussions with the Ministry of Defence (MoD), comparison of the Local Armed Forces Day application with requirements for the National event, awareness of the scale of the event, awareness of the date of the Bannockburn Live event, and costs to the Council.

The report concluded that:-

• There was an apparent gap in the Council’s policies and procedures, as the Council’s Scheme of Delegation and Standing Orders did not contain specific guidance relating to bids of this nature.

• There was confusion over who agreed that the Council apply to host the event and whether or not this was approved prior to submission of the bid letter.

• It would appear that advice had not been sought at the appropriate stage from officers and key individuals with the necessary expertise and experience.

• There was a short timescale between the notification from the MoD that Stirling was on the shortlist and the formal notification of Stirling being awarded the event. There was an option to call a Special Council meeting at that stage, but this had not been taken.

• Council authorisation of the funding provision had been taken retrospectively, and this was not an appropriate procedure.

The key recommendations of the report summarised as follows:-

• Policies and procedures should be updated:-
  
  o to specify which matters should be taken to full Council and who should be responsible for reporting the matter to full Council;

  o to specify which Members and officers could submit bids on behalf of the Council.
• Updated policies should be communicated to all officers and Members.

• It might be appropriate to appoint a centralised bid manager to ensure oversight and consistency in bids.

• For all large scale events, a structured project management approach should be taken at the outset.

• All costs, including indirect costs, should be calculated using the best available estimates and recorded against each project, giving a clear record of the allocation of resources and their related costs.

• A clear process should be in place to ensure effective consideration of bids, key factors relevant to assessment of funding and resourcing requirements, and tracking and follow-up of bids.

Following the investigation, action points had been discussed with officers, who had instructed that it was not considered proportionate, at this point in time, to undertake further work in relation to quantification of costs and review of electronic data, based on cost-benefit expectations.

Members of the Committee addressed a number of questions to the officers from Grant Thornton, and to the Chief Executive.

The officer recommendation in the report by the Chief Executive was to note the contents of the Grant Thornton report. It was suggested that further recommendations be added, inviting Council to consider referring the report to the appropriate body and for a financial report to be presented to the Audit Committee on 19 March 2015 detailing costs of hosting the event.

The Meeting adjourned at 12.35 pm, at which point Chris Clements and Julie Gill of Grant Thornton left the Meeting.

The Meeting reconvened at 12.55 pm with the same Members present.

**Motion**

“That the Committee agrees:-


2. to approve the Management Response set out at Appendix 2 to this report;

3. to invite Council to consider referring the report to Audit Scotland and/or the Audit Commission to see if they have any additional recommendations or comment regarding the lack of due process and diligence;

4. that a financial report be presented to the Audit Committee on 19 March 2014 detailing the direct and indirect costs of hosting Armed Forces Day.”

Proposed by Councillor Jim Thomson, seconded by Councillor Mark Ruskell.
Discussion took place on further referral of the report. Some Members invited the Convener to write to the Accounts Commission, rather than the report being referred by Council.

The view of the External Auditor was sought. He advised that his office had no involvement in the forensic investigation. He was, however able to comment on questions around whether Officers or Members had acted inappropriately, whether this had led to a financial loss to the Council, and whether the Council had acted *ultra vires* by committing spending without proper authorisation, and advised that none of these had been proven.

The External Auditor further confirmed that the findings of the report had been shared with the Accounts Commission. External Audit had taken comfort that the Council was taking forward issues identified in the Action Plan. The lack of transparency did expose the Council to some level of risk, but the end result was that National Armed Forces Day had been a success and both the Council and the Stirling area had come out well from the event.

The Convener accepted the suggestion that he write to the Accounts Commission.

Further discussion took place on how information could be obtained on direct and indirect costs. Officers suggested that it could prove to be time consuming and difficult after the period of time that had elapsed for a reasonable estimate of indirect costs to be calculated. The External Auditor supported the officers’ view that attempting to identify indirect costs could prove costly, and suggested that if this was undertaken, the results would be of limited value as it would only be possible to determine that costs fell within an approximate range.

Members reached consensus without the need for a vote.

**Decision**

It was unanimously agreed:-


2. to note the corrections to paragraphs 4.94 and 4.95, Agenda page 163, substituting the words “Depute Opposition Leader” in place of “Depute Leader of the Council”;

3. to approve the Management Response set out at Appendix 2 to the submitted report;

4. to remit to the Convener to write to the Accounts Commission, to ask if they have any additional recommendations or comment regarding the lack of due process and diligence;

5. to instruct officers to prepare a financial report to be presented to the Audit Committee meeting on 19 March 2015, detailing the direct costs and indicative indirect costs of hosting the National Armed Forces Day Event 2014.

(Reference : Report by Chief Executive, undated, submitted).
AC120 EXTERNAL AUDIT ANNUAL REPORT

The External Auditor introduced the Annual Audit Report, which summarised the findings from external audit work for the year ended 31 March 2014. The Code of Audit Practice highlighted the special accountabilities attached to the conduct of public business and the use of public money. Accordingly, a public sector audit must be planned and undertaken from a wider perspective than the private sector. External Audit was therefore required to provide assurance, not only on the financial statements and annual governance statement, but also on Best Value, use of resources and performance.

The External Auditor commended the Chief Finance Officer and his team for the quality of accounts, which in his opinion were among the finest in Scotland.

Discussion took place on whether the levels of uncommitted reserves balances and the Housing Revenue Account reserve remained appropriate. The External Auditor advised that it was for each individual Council to reach a view on levels. The Council had taken a sensible approach but there were some risks in the system. Members suggested that the Finance & Economy Committee should explore the issue.

Some concerns were raised over the deliverability of the capital programme.

The report noted that good governance arrangements were in place, but that lessons should be learned from the National Armed Forces Day event, as discussed elsewhere on the Meeting agenda.

Performance was generally good across all Services.

The Convener sought assurance that recommendations would be actioned and the External Auditor confirmed that a formal action plan would be submitted to Committee in due course.

Decision

The Committee agreed:-

1. to note the findings of the External Auditor’s Annual Audit Report;

2. to note the External Auditor’s recommendations for improvement set out in Appendix A to the submitted report;

3. to recommend that the Finance & Economy Committee explore appropriate levels of uncommitted reserves balances and Housing Revenue Account reserve;

4. to commend the Chief Finance Officer and his team for the quality of service and reporting provided.

AC121  EXTERNAL AUDIT REPORTS ON THE CHARITABLE TRUSTS FINANCIAL STATEMENTS

A report by the External Auditor advised that, under Section 106 of the Local Government (Scotland) Act 1973, charitable trusts where the Council was the sole trustee were subject to external audit.

Appendices to the report presented external audit findings for the audits for the following charitable trusts:-

- Dunblane (Cemetery) Memorial Garden Trust
- Stirling Council Common Good Fund
- Stirling Council Consolidated Small Charitable Trusts
- The Thomas Brittain Trust

The Committee was advised that External Audit had found the charitable trusts accounts were prepared to a high standard with only minor adjustments arising from audit work.

Decision

The Committee agreed to note the findings of the Audit Findings Report for each charity for 2013-14.


AC122  EXTERNAL AUDIT REPORTS ON ARM’S LENGTH EXTERNAL ORGANISATIONS

Members considered a report by External Audit on Arm’s Length External Organisations, including a follow-up of the Audit Scotland Report ‘Arm’s Length External Organisations (ALEOs): Are You Getting it Right?’

The report focussed on governance arrangements for setting up and monitoring arm’s length external organisations, and included a case study of the set-up of Steadfast Homes LLP, which had concluded that the Council’s procedures complied with Audit Scotland recommendations.

The report noted that External Audit had found the Council was meeting basic practices for the governance of ALEOs and, in three areas, exceeded basic practices outlined by Audit Scotland.

Discussion took place on the roles of Elected Members and Officers when they sat on Arm’s Length External Organisations.
Decision

The Committee agreed:-

1. to note the findings of the report on Arm’s Length External Organisations;

2. to note the recommendations for improvement in Table 1: Our Assessment of the Governance and Accountability Arrangements.


AC123 EXTERNAL AUDIT REPORT ON THE FINANCIAL STATEMENTS

The External Auditor presented a report setting out the findings from the external audit review of the Council’s Statement of Accounts and internal control framework for the year ended 31 March 2014.

As part of the review, external audit had undertaken a review of the IT control environment. The findings of this review were presented in a separate report, attached as an Appendix.

Decision

The Committee agreed:-

1. to note the content of the Audit Findings Report;

2. to note the recommendations made within Appendix A to the report and officers’ planned response;

3. to note the recommendations made within the IT Control Environment Report and the officers’ planned response.


AC124 VIEWFORTH DEMOLITION

At its meeting held on 8 July 2014, the Committee had considered the Irregularities Report, which included a discussion on the theft of copper piping from the Viewforth demolition site.

At that meeting, the Committee had agreed that reports be brought back to the Committee, following receipt of the Police Scotland investigation report into the theft, and covering wider issues in respect of contract management of the demolition and the use and disposal of demolition material.

The Head of Assets & Support presented a report, which included background information on the demolition and mothballing of Viewforth, removal of asbestos from the site, and the handover of the building to the contractor.
Members were given a detailed report on the circumstances around the theft of copper piping from the site, and advised that appropriate security arrangements would be enforced in all Council offices. It was noted that Police Scotland were not able to provide a written report at this time, as the investigation was still open.

The final account for the demolition of Viewforth was still being negotiated with the contractor, as a consequence of delays which were detailed in the report.

Further information was provided on the use and disposal of demolition material, which had been used to provide hardstanding at the Council’s Events Field. Environment Services had advised that the material had a negligible value.

Members considered that a number of questions remained outstanding and instructed officers to present a further report to a future meeting of the Committee, giving an overview of the process and costs of the contract management of the project.

**Decision**

The Committee agreed:-

1. to note the contents of the submitted report;

2. to instruct officers to present a further report on the contract management of the project to a future meeting of the Committee, in consultation with the Convener and Vice-Convener, providing an overview of the process and costs.


The Convener declared the Meeting closed at 2.20 pm.