

The Highland Council

Minutes of Meeting of the **Audit and Scrutiny Committee** held in the Council Chamber, Council Headquarters, Glenurquhart Road, Inverness on Wednesday, 30 September 2015 at 10.30am.

Present:

Mr R Laird	Mr D Kerr
Mr G Phillips	Mr D Mackay
Mrs M Davidson	Mr G MacKenzie
Mr B Fernie	Mr A MacKinnon
Mr R Balfour	Ms A MacLean
Mr A Baxter	Mr B Murphy
Mr B Clark	Mr T Prag (substitute)
Dr I Cockburn	Mr A Rhind
Mr J Ford	Mr J Rosie
Mr L Fraser	Ms G Ross (substitute)
Mr A Henderson	Mr J Stone

Non-Members also present:

Mr G Farlow	Mr I Renwick
Mr H Fraser	Mr G Ross
Mr K Gowans	Mr R Saxon
Mr B Lobban	Mrs G Sinclair

Officials in Attendance:

Mr S Barron, Chief Executive
Ms M Morris, Depute Chief Executive/Director of Corporate Development
Mr D Yule, Director of Finance
Mr S Black, Director of Development and Infrastructure
Mr W Gilfillan, Director of Community Services
Mr N Rose, Head of Audit and Risk Management
Mr J Batchelor, Head of People and Performance
Mr B Porter, Head of Resources, Care and Learning
Mr S Fraser, Head of Corporate Governance
Mr G Bull, Corporate Property Asset Manager
Ms S Barrie, Acting Programme Manager
Mr S Duncan, Property Risk Management Officer
Ms T Luxton, Area Community Services Manager
Mr B Murison, Revenues Manager
Miss D Sutherland, Audit and Risk Manager
Miss J MacLennan, Democratic Services Manager
Mr A MacInnes, Administrative Assistant

Also in attendance:

Mr S Boyle, Assistant Director, Audit Scotland
Ms M Bruce, Senior Audit Manager, Audit Scotland

**An asterisk in the margin denotes a recommendation to the Council.
All decisions with no marking in the margin are delegated to Committee.**

Mr R Laird in the Chair

1. Apologies for Absence Leisgeulan

Apologies for absence were intimated on behalf of Mr A Duffy and Mr G Rimell.

2. Declarations of Interest Foillseachaidhean Com-pàirt

The Committee **NOTED** the following declarations of interest:-

Item 4 – Ms G Ross - Financial

Item 13 - Mr T Prag – Non Financial

3. Recess Powers Cumhachdan Fosaidh

It was **NOTED** that the Recess Powers granted by the Council at its meeting on 25 June 2015 had not been exercised in relation to the business of this Committee.

4. Internal Audit Reviews and Progress Report Ath-bhreithneachaidhean In-sgrùdaidh agus Aithisg Adhartais

Declaration of Interest – Ms G Ross declared a financial interest in this item on the grounds that a family member was employed as a Teacher at Thurso High School but, having applied the test outlined in Paragraphs 5.2 and 5.3 of the Councillors' Code of Conduct, concluded that her interest did not preclude her involvement in the discussion, other than if there was any specific discussion in regard to Thurso High School in which case she would leave the room.

There had been circulated Report No. AS/17/15 dated 22 September 2015 by the Head of Audit and Risk Management which summarised the final reports issued since the date of the last meeting, together with details of work in progress and other information relevant to the operation of the Internal Audit Section.

During a summary of the current work of the Internal Audit Section, information was provided on Irregularity/Fraud Investigations, Work for other Organisations, Boards or Committees, Advice, Assurance and Other Work and the Scrutiny Working Group. An update was also provided in relation to work undertaken on Corporate Fraud, the current position with regard to Staffing Resources and Vacancies, progress against the 2015/16 Plan and Performance Information in relation to Quarter 1 (April to June 2015) as well as the previous two Quarters.

In regard to the final reports, issues were highlighted as follows:-

Care & Learning – Ben Wyvis Primary School Project (Limited Assurance)

- it was very disappointing that this audit had had to be requested by Members in the first instance;

- there had been a significant number of complaints about the lack of provision of information to Members over the length of the project and this was not acceptable;
- there continued to be anger and disappointment within the communities involved who felt let down by the Council in regard to what had happened with this project;
- there was a need for evidence that lessons had been learned and examples of improvements which had been put in place in order to have confidence that this situation would not be repeated;
- the perceived lack of accountability within this project had been a serious problem and required to be addressed as a matter of urgency;
- there had been many issues of serious concern which Members had tried to highlight over a considerable period of time but these had not been taken forward by Officers and this was unacceptable;
- the Head Teacher and the staff within the School should be commended for delivering the curriculum during this very difficult period;
- further reports on this issue needed to be submitted to both this Committee and the Education, Children and Adult Services Committee to give assurance that the current arrangements for managing school projects were working well which would prevent a similar situation happening again;
- thanks should be conveyed to the Audit Team for producing this very difficult report which had highlighted a list of failures before, during and after the project;
- it had been stated in the report that, due to a lack of resources, this project had not received as much of a presence by Officers as had been required and this was extremely worrying;
- the difficulties of transition for the communities affected by this project could not be underestimated;
- many of the numerous snagging issues at the end of the project had had to be identified by Local Members as opposed to Officers;
- in contrast to what happened in other areas, and as a direct result of the difficulties with this project, there had been no formal Opening of the School and this was a matter of ongoing regret for Members and the local communities;
- there was a need for clarification on when an apology would be issued in regard to this matter, what confidence could be taken that lessons had in fact been learned and whether there was likely to be any form of compensation offered to the communities concerned;
- the reported failures within this project were embarrassing, not least in terms of the waste of public money;
- there had to be robust scrutiny of future projects undertaken by the Council from the outset and through all stages of development;
- there appeared to have been no proper reference to Contract Standing Orders throughout the project and this had to be addressed;
- there was a need to ensure that regular and appropriate training was provided for Officers involved in project management in future;
- it was essential that regular reports on projects being undertaken were submitted to Committees in future so that Members could be kept fully informed and alerted to problems if and when they arose;
- preparation of tender documents was a key issue and the guidelines surrounding this should be reviewed and amended if necessary;

- it appeared from the report that the fundamental principles of project management had been missing from this project and there was perhaps a need to consider having a qualified Civil Engineer in place in future to ensure effective project management processes;
- reference to project 'risk management' should be widened to ensure that 'issues' were also captured and managed;
- whilst discussing the issues which had arisen from this project, it was important to acknowledge that there were good examples of project management within the Council and that a report was to be submitted to the Resources Committee in November which would highlight steps currently being taken to ensure that best practice was followed in future along with proper governance;
- it was imperative that the current scrutiny of this project led to improvement and as such the offer from the Leader of the Council to liaise with Members on proposals to celebrate the learning and teaching within this School was welcomed;
- consideration should be given to putting in place a process whereby Local Members could raise concerns on individual projects and for such projects to be halted if necessary;
- an evaluation of successful projects should be undertaken in future in order to learn from examples of best practice; and
- there was a need for further clarification regarding certain project costs, including the displacement costs, which had been incurred as a result of Officers following up on issues after this School had been opened.

Care & Learning – School Lets Arrangements (Limited Assurance) - during discussion, it was suggested that consideration should be given to local arrangements which were currently in place and specifically to not changing such arrangements where they were working well. It was also considered imperative that lessons were learned from previous reports where necessary and that appropriate training was provided for staff on new policies or changes to current policies.

In addition, a further report to the Education, Children and Adult Services Committee to provide specific information on the use being made of facilities and the periods of time during which they were not used would be helpful.

Care & Learning – Primary School Fund – System Weaknesses (Limited Assurance) – no issues raised.

At this point in the meeting, it was **AGREED** that **Items 12 and 13** on the agenda should be brought forward for consideration now rather than later in the day.

12. Exclusion of the Public Às-dùnadh a'Phobail

Mr D Kerr, seconded by Mr A Baxter, **MOVED** that Item 13 should be discussed in public on the basis that it had been alleged that the information contained within the private report was now in the public domain.

The Chair, seconded by the Vice Chair, moved as an **AMENDMENT**, that Item 13 should be discussed in private in line with the advice received from the Head of

Corporate Governance and the requirements of the Local Government (Scotland) Act 1973 as detailed on the agenda.

On a vote being taken, the **MOTION** received 6 votes and the **AMENDMENT** received 13 votes, with no abstentions, and the **AMENDMENT** was therefore **CARRIED**, the votes having been cast as follows:-

For the Motion:

Mr D Kerr; Mr A Baxter; Mr R Balfour; Mr B Murphy; Mr J Rosie; Mr D MacKay

For the Amendment:

Mr R Laird; Mr G Phillips; Mrs M Davidson; Mr B Clark; Mr L Fraser; Mr A Rhind; Mr B Fernie; Mr T Prag; Mr G MacKenzie; Mrs A MacLean; Ms G Ross; Dr I Cockburn; Mr J Ford

The Committee therefore **AGREED** that, under Section 50A(4) of the Local Government (Scotland) Act 1973, the public should be excluded from the meeting for the following item on the grounds that it involved the likely disclosure of exempt information as defined in Paragraphs 6 and 9 of Part 1 of Schedule 7A of the Act.

13. Internal Audit Review

Ath-bhreithneachadh In-sgrùdaidh

Declaration of Interest - Mr T Prag declared a non-financial interest in this item on the grounds of having been a member of the Advisory Group for Inverness Old Town Arts and a current member of the Inverness City Arts Working Group but, having applied the test outlined in Paragraphs 5.2 and 5.3 of the Councillors' Code of Conduct, concluded that his interest did not preclude his involvement in the discussion.

There had been circulated to Members only Report No. AS/24/15 by the Head of Audit and Risk Management which summarised a final confidential report issued since the date of the last meeting as follows:-

Chief Executive's Office – Governance of Inverness Old Town Arts and Inverness City Arts

Following confidential discussion, the Committee **NOTED** the terms of the report as circulated.

It was also **AGREED** that the Chief Executive would meet with Members to take forward the issues highlighted during the debate.

Item 4 – Internal Audit Reviews and Progress Report - continued

Care & Learning – Records Management (Substantial Assurance) – no issues raised.

Care & Learning – SEEMiS (Reasonable Assurance) – no issues raised.

Care & Learning – Schools - Financial Procedures (Reasonable Assurance) – no issues raised.

Community Services – Management of Housing Voids (Limited Assurance) - during discussion, and with reference to Performance Indicator Exempt (PIE) properties, it was confirmed that Local Members had been unaware that certain properties had this status, including four properties within one street in Caithness which had been surplus to long term requirements since July 2008. In this regard, it was suggested that a report should be submitted to the next Community Services Committee meeting to provide further information on this situation and also to highlight the current position with benchmarking against other Local Authorities in terms of the management of housing voids.

It was also suggested that further information was required on the current position with regard to temporary accommodation within the wider housing portfolio. In this respect, it was confirmed that a separate audit on homelessness would be submitted to a future meeting.

Corporate Development – Verification of Performance Indicators 2013/14 – (Substantial Assurance) – no issues raised.

Corporate Development – Corporate Control of Overtime (Substantial Assurance) - during discussion, and with specific reference to issues raised in regard to Winter Maintenance, it was confirmed that a number of options were currently being considered in order to reduce levels of overtime within the Council.

A correction was also noted in terms of Community Services overtime savings whereby it was confirmed that the figure of '£0.353m' which had been quoted in the report should in fact read '£0.367m'.

Corporate Development/ Finance – Online Payments (Reasonable Assurance) – no issues raised.

Development & Infrastructure – Asset Management (Limited Assurance) - during discussion, reference was made to the exemplary engagement with Members which had been undertaken as part of the Fort William Office Review and it was suggested that this should be used as an example of best practice to be followed in future.

There were no issues raised on the following Finance reports -

General Ledger (Substantial Assurance)

Non Domestic Rates – Billing & Collection (Substantial Assurance)

Council Tax – Billing & Collection (Substantial Assurance)

Treasury Management (Substantial Assurance)

Housing Benefit Payments 2014/15 (Substantial Assurance)

Statement on Internal Control - Matters Arising (Substantial Assurance)

Thereafter, the Committee otherwise **NOTED** the current work of the Internal Audit Section as detailed in the report and the final reports issued since the date of the last meeting.

5. Financial Regulations – Proposed Amendments Ath-sgrùdadh de Riaghailtean Ionmhasail

There had been circulated Report No. AS/18/15 dated 17 September 2015 by the Head of Audit and Risk Management which proposed amendments to the Council's Financial Regulations arising from the introduction of Integra (the Council's new Financial Management Information System) and audit work undertaken to support the Statement on Internal Control as follows:-

Section 21.4 - Existing Text – Payments will only be made on duplicate or photocopied invoices where the Budget Holder has undertaken sufficient checks to ensure that the original invoice has not been previously processed. In respect of Accounts Payable, the invoice should agree to an existing unmatched purchase order although for PECOS orders this is completed as a matter of course. The inability to match a copy invoice should alert the Budget Holder to the possibility that it is a duplicate invoice.

Revised Text – Payments will only be made on duplicate or photocopied invoices where the Budget Holder has undertaken sufficient checks to ensure that the original invoice has not been previously processed. If the invoice relates to a purchase order, it should agree to an existing unmatched purchase order. The inability to match a copy invoice should alert the Budget Holder to the possibility that it is a duplicate invoice. If the invoice does not relate to a purchase order it should be a unique invoice number to that supplier.

Section 21.6 – Existing Text – Where the sum invoiced by a supplier is incorrect, the invoice should be returned to the supplier for alteration. Alternatively, the supplier may issue a credit note which will be processed through the Accounts Payable module of Oracle.

Revised Text – Where the sum invoiced by a supplier is incorrect the invoice should be returned to the supplier for alteration. Alternatively, the supplier may issue a credit note which will be processed through the Purchase Ledger module of Integra.

Section 9.2 – Existing Text – The Director of Finance will ensure that an appropriate framework for budgetary management and control is in place and that regular financial reports are produced in an appropriate format for monitoring purposes.

Revised Text – The Director of Finance will ensure that an appropriate framework for budgetary management and control is in place and that regular financial reports are produced in an appropriate format for monitoring purposes. Service Directors must ensure that revenue monitoring reports contain sufficient explanatory detail, particularly with regard to reporting significant adverse or favourable revenue variances.

*The Committee **AGREED TO RECOMMEND** to the Council the proposed revisions as detailed.

**6. Code of Corporate Governance
Còd Riaghladh Corporra**

There had been circulated Report No. AS/19/15 dated 15 September 2015 by the Depute Chief Executive/Director of Corporate Development which provided an update on progress with delivering the actions agreed in Local Code of Corporate Governance for 2014/15 and presented the Code for 2015/16 (which had been agreed by the Council on 3 September) for further scrutiny.

The Committee **NOTED**:-

- i. the good progress on delivering the agreed actions in the 2014/15 Code of Corporate Governance;
- ii. the Full Assurance provided by the Internal Audit report on the delivery of the 2013/14 Code;
- iii. that the Annual Report and Audited Accounts for the Highlands Charitable Trust would be reported to the Council in October 2015; and
- iv. the Code of Corporate Governance for 2015/16.

**7. Public Performance Reporting – Meeting Annual Audit Direction 2013/14
Aithris air Dèanadas Poblach – A’ Coinneachadh Stiùireadh Sgrùdadh
Bliadhna 2013/14**

Members were advised that Audit Scotland had recently reviewed and reported on the Council’s public performance reporting for 2013/14 and had set out new criteria to support improvement activity.

In this connection, there had been circulated Report No. AS/20/15 dated 25 August 2015 by the Head of People and Performance which confirmed that an action plan had been prepared following review of this report aimed at improving future public performance reporting.

The Committee:-

- i. **NOTED** the content of the assessment as detailed in Appendix 1 to the report; and
- ii. **APPROVED** the action plan as detailed in Appendix 2 and the actions in Paragraph 2.5 of the report.

**8. Scottish Public Service Ombudsman Cases Received by the Council –
Update Report
Cùisean Ombudsman Sheirbheisean Poblach na h-Alba a Fhuair leas a’
Chomhairle – Aithisg as Ùr**

There had been circulated Report No. AS/21/15 dated 16 September 2015 by the Chief Executive which set out the number and types of complaint about the Council which had been determined by the Office of the Scottish Public Services Ombudsman (SPSO) in the period since the last report to the Committee. In this regard, it was confirmed that the SPSO reports could be accessed and read in full at: www.spsso.org.uk

The Committee **NOTED** the terms of the report as circulated.

9. Audit Scotland National Reports Aithisgean Nàiseanta Sgrùdadh Alba

There had been circulated Report No. AS/22/15 dated 11 September 2015 by the Head of Audit and Risk Management which provided details of the National Reports issued by Audit Scotland and the action taken within the Council to address the report findings as follows:-

- Audit Scotland National Report – Borrowing and Treasury Management in Councils (presented to the Resources Committee on 27 May 2015); and
- National Fraud Initiative (presented to the Resources Committee on 26 August 2015);

The respective Committee Minutes had also been circulated for information.

The Committee **NOTED** the action taken by the respective Committees to address Audit Scotland's National Reports on the basis that this provided sufficient assurance that appropriate action had been taken to address the report findings.

10. External Audit Reports Aithisgean Sgrùdaidh bhon Taobh A-muigh

The following External Audit Reports had been prepared by the Council's External Auditors (Audit Scotland) and issued since the last meeting:-

a) Review of Internal Controls 2014/15

During a summary of the report, it was confirmed that the overall assessment by Audit Scotland had confirmed that, with the exception of housing rents, the level of internal control in place within the key systems reviewed had been sufficient to enable planned assurances to be taken for the audit of the 2014/15 financial statements.

In terms of areas for improvement, these included actions under the headings of Cash and Cash Equivalents, Housing Benefits, Housing Rents, Accounts Payable, Council Tax (Discounts and Exemptions), Heritage Assets and Disposals.

During discussion, and with specific reference to Heritage Assets, it was suggested that these should be included on an Asset Register and belong to the Common Good in each case. In this regard, it was confirmed that a report would be submitted to the Resources Committee in due course in order to address the issues raised by Members and to ensure that such assets were properly recorded in future.

b) Annual Audit Report 2014/15 to Members of the Highland Council and Controller of Audit

During a summary of the report, it was confirmed that work on the Annual Accounts was now substantially complete and, subject to the satisfactory conclusion of any outstanding matters and receipt of revised sets of annual accounts for final review, it was anticipated that independent Auditor's Reports would be issued later that day for the Council and for the Charitable Trusts.

In this regard, thanks were conveyed to the Director of Finance and his team for the work which had been undertaken which had resulted in an unqualified certificate being produced.

In terms of significant findings from the audit, reference was made to the Council's ongoing negotiations with Inverness Airport Business Park, Useable Reserves, Planning and Consideration of Savings for future years, Areas for Improvement (including in regard to an ICT project and management of Common Good Funds) and Arrangements for Maintaining Standards of Conduct.

During discussion, thanks were conveyed to Audit Scotland for their work on the unqualified Accounts which had been produced, with reference being made to the improvements in Capital Accounting and the further work required in relation to Housing Rents.

It was also suggested that Audit Scotland could perhaps provide a focus on the financial governance surrounding the Council's Partnership Agreement with NHS Highland in order to provide clarity and assurance for all concerned. In this respect, confirmation was obtained that Audit Scotland would be undertaking work on a national basis which would consider this matter.

Thereafter, the Committee otherwise **NOTED** the terms of the reports as circulated.

10a. Audited Accounts 2014/15 Cunntasan Sgrùdaichte 2014/15

There had also been circulated the Audited Accounts for 2014/15 by the Director of Finance which were **APPROVED**.

11. Scrutiny Review – Attendance Management Ath-bhreithneachadh Sgrùdaidh – Rianachd Neo-làthaireachd

There had been circulated Report No. AS/23/15 dated 14 September 2015 by the Head of Audit and Risk Management which provided the outcome from the Scrutiny Working Group's review of Attendance Management.

There had been also circulated for information the Minutes of the Scrutiny Working Group meetings held on 20 November 2014, 13 February, 26 February, 10 March and 5 May 2015.

The Minutes of the Meeting held on 18 June 2015 had been circulated for approval.

The Committee:-

- i. **APPROVED** the Minutes of the Scrutiny Working Group meeting held on 18 June 2015; and
- ii. **NOTED** the Scrutiny Working Group's report on Absence Management together with the actions to be taken.

The meeting ended at 3.25pm.