

MINUTE of MEETING of the AUDIT COMMITTEE of WEST LOTHIAN COUNCIL held within COUNCIL CHAMBERS, WEST LOTHIAN CIVIC CENTRE, on 18 DECEMBER 2017.

Present – Councillors Chris Horne (Chair), Bruce Fairbairn (substituting for Damian Timson), Lawrence Fitzpatrick, John McGinty, David Tait and Noel Lawlor, Lay Member.

Apologies – Councillor Damian Timson

In attendance

Graham Hope (Chief Executive), James Cameron (Head of Education - Learning, Policy & Resources), Donald Forrest (Head of Finance and Property Services), Craig McCorriston (Head of Planning, Economic Development & Regeneration), Julie Whitelaw (Head of Corporate Services), AnnMarie Carr (Customer Service Manager), Nicola Gill (Public Transport Manager), Tony Irvine (Senior Planning Officer), James Millar (Governance Manager), Alison Raeburn (Service Officer), Stuart Saunders (Senior Compliance Officer), Kenneth Ribbons (Audit, Risk and Counter Fraud Manager), S Reid and N McPherson (EY)

1. DECLARATIONS OF INTEREST

There were no declarations of interest made.

2. MINUTE

The committee approved the minute of its meeting held on 25 September 2017 as being a correct record.

3. INTERNAL AUDIT PROGRESS

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager providing details of the progress in relation to the internal audit plan for 2017/18.

The report outlined the work undertaken to ensure the effectiveness of control over key risks to the council.

The committee noted the proposed amendment to the 2017/18 internal audit plan as outlined. An audit of the Social Policy risk CF001 "Assault or injury to staff, or malicious allegation, by service user" was included in the 2017/18 Plan. However, the Governance and Risk Board had commissioned Gallagher Bassett, the council's risk consultant, to carry out a review of personal safety in Social Policy. It was proposed therefore not to proceed with this audit at this time and that further work would be considered depending upon the outcome of the Gallagher Bassett review. It was therefore proposed to replace this in the 2017/18 audit plan by carrying out an audit of the Social Policy risk SP010 "Injury, death, or abuse to service user".

It was recommended that the Audit Committee:

- Notes that the 2017/18 internal audit plan remains on target to be completed; and
- Agrees to an amendment to the 2017/18 internal audit plan as set out in section D.5 of the report.

Decision

1. Noted the terms of the report; and
2. Agreed to the amendment to the 2017/18 internal audit plan as outlined within section D.5 of the report.

4. COUNTER FRAUD PRESENTATION

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager, which advised that a request was made to the Senior Compliance Officer at the meeting of the Audit Committee on 30 June 2017 to provide members with further details of the work of the Counter Fraud Team. Accordingly, a presentation was prepared providing an overview of the work undertaken by the Counter Fraud Team to assist the work of the committee.

A presentation was then given by the Senior Compliance Officer. He provided details of the Counter Fraud Team and outlined the work carried out by the team which included:

- Maintaining the council's Whistleblowing process;
- Conducting investigations into allegations of fraud, theft, corruption, embezzlement, bribery or any other allegations of criminal acts within the council;
- Administering the biennial National Fraud Initiative (NFI) data matching exercise working in partnership with Police Scotland and other Local Authorities; and
- Providing counter fraud advice and delivering fraud training sessions and communications.

It was estimated that 5.5% of total Public Sector spend was lost to fraud each year. Examples of case studies carried out within West Lothian Council were then provided. Finally, the committee was advised that robust policies and procedures were in place to reduce the risk of fraud, theft and wrongdoing within West Lothian Council.

The committee thanked the Counter Fraud Manager for the informative presentation.

It was recommended that the Audit Committee notes the work of the

Counter Fraud Team.

Decision

Noted the contents of the report and the presentation by the Counter Fraud Manager.

5. RISK ACTIONS ARISING FROM AUDIT AND INSPECTION REPORTS

The committee considered a report (copies of which had been circulated) providing an update of the progress made in implementing agreed actions arising from audit and inspection reports.

The committee was advised that a report was submitted to the Audit Committee on 30 June 2017 setting out the findings of the risk actions that had been endorsed by The Board and entered into Pentana, in accordance with the agreed protocol, which were due to be completed by 31 March 2017 and which were still outstanding. The report and appendix presented to the committee constituted an update on the actions carried out.

There were 12 outstanding risk actions highlighted, of which 1 related to Audit Scotland and 11 related to internal audit. Oversight of outstanding risk actions by the Audit Committee would help to facilitate their completion.

In response to questions from members, the committee was provided with more information as follows:

In relation to the use of the Sanserver, it was confirmed that the new Objective records management system was an improvement on Meridio and that the actions outstanding were on track for completion by 31 January 2018.

In relation to invoicing procedures and controls in Trapeze the committee was advised that one action had now been completed and that confirmation had recently been requested from Internal Audit as to the suitability of a new procedure before the second one was signed off.

In relation to bus shelter advertising, it was explained that all that remained to do was to have the formal contract variation document signed.

In relation to the cleansing and destruction of former employee records, the committee noted the complications caused by the Historic Sexual Abuse Inquiry, and that officers were considering a process of archiving rather than destruction.

In relation to housing capacity shortfall, the committee was assured that the position was considered monthly at Senior Management team meetings, and periodically by the Executive Management Team and the Corporate Management Team.

It was recommended that the Audit Committee considers the outstanding risk actions and notes that failure to timeously implement agreed actions could impact adversely on performance and/or achievement of council objectives.

Decision

Noted the contents of the report.

6. INTERNAL AUDIT OF THE ADMINISTRATION OF SCHOOL MEDICATION

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager providing details of the outcome of an internal audit of the administration of school medication within Education Services.

The report advised that in accordance with the internal audit plan for 2017/18, an audit has been undertaken of the administration of school medication within Education Services. The resultant audit report was attached as an appendix to the report which included an action plan containing agreed management actions. The audit carried out concluded that control of the administration of school medication within Education Services was unsound.

The Audit, Risk and Counter Fraud Manager then responded to questions from members of the committee.

The Head of Education (Learning, Policy and Resources) undertook to provide an update on the progress with the agreed actions to the next meeting of the Audit Committee scheduled to be held on 19 March 2018.

In response to questions from members, officers confirmed the problems were due to failures to apply the existing policy and then failure to review compliance. The previous Validated Self-Evaluation had not been successful in this case. As explained in the report and appendix, new procedures had been implemented. A Compliance Officer had been designated. The system called RIVO would be used for incident reporting. Thirty percent of schools would be visited by the Compliance Officer. A central register was being maintained. Central support was available, training was being delivered and training records retained. The issues had been communicated to all head teachers and that would be reinforced through Head Teacher Leadership Meetings and through the Head Teacher Induction Programme. If required, disciplinary action would be taken. A new policy and procedure was being developed in consultation with NHS Lothian.

It was recommended that the Audit Committee notes that control was considered to be unsound.

Decisions

1. Noted the recommendation in the report; and
2. Agreed that an update would be provided at the next meeting of the committee by the Head of Education (Learning, Policy and Resources) on the progress made with the agreed actions.

7. INTERNAL AUDIT OF THE ADMINISTRATION OF FINANCIAL INSTRUMENTS

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager providing details of the outcome of an internal audit of the administration of financial instruments within Planning, Economic Development and Regeneration.

The report recalled that in accordance with the internal audit plan for 2017/18, an audit was undertaken on the administration of financial instruments within Planning, Economic Development and Regeneration.

As local planning authority, the council was responsible for ensuring provision was made for end of life restoration of major mineral extraction and wind farm development sites. This included ensuring that adequate third party contingency cover was made available to provide an alternative means of financing restoration in the event of a developer or landowner failing to meet their restoration obligations. The resultant audit report was attached as an appendix to the report which included an action plan containing agreed management actions. The audit carried out concluded that control required improvement.

In relation to the deposit of money for the Pates Hill development, the committee was advised that the money had been deposited but that records were incomplete. There was now documentary evidence that the funds were available, but at a slightly reduced level since part had been released on partial completion of the developer's obligations. The new software mentioned had gone live ahead of schedule, and it would provide automated reminders and warnings.

It was recommended that the Audit Committee notes that control was considered to require improvement.

Decision

Noted the contents of the report.

8. REPORT TO MEMBERS AND THE CONTROLLER OF AUDIT ON THE 2016/17 AUDIT

The committee considered a report (copies of which had been circulated) by the Head of Finance and Property Services providing details of the outcome of the 2016/17 audit which included a summary of the key points

arising from the Annual Audit Report. West Lothian Council's Annual Accounts for Year ended 31 March 2017 was attached at Appendix 2 to the report.

The report highlighted the operating performance of the council in 2016/17, the reserves and balances held by the council and the investment and performance in relation to the capital budget.

The committee noted that the Auditor provided an unqualified opinion on the council's financial statements for 2016/17. The Auditor concluded that the council has generally sound financial management arrangements in place and that there was good recognition of the challenges in the future. The Auditor made 14 recommendations following the audit and the management response to these was set out in appendix F in the Annual Audit Report to Members and the Controller of Audit, which was attached at Appendix 1 to the report. As noted, some elements of recommendations 8 and 9 were most appropriately considered by elected members of the council, and these were now complete.

In conclusion, the audit represented the first carried out by Ernst and Young LLP for West Lothian Council. Since the start of the council in 1996, external audit has been conducted by Audit Scotland and the change has inevitably meant challenges for the council and our new auditors. Overall, council officers and auditors have worked together professionally and constructively and would review the experience this year to identify areas of learning and improvement for future years.

Officers then responded to questions from members of the committee. The Head of Finance & Property Services undertook to provide members with details relating to independent fixed asset valuations. Members were advised that there was now no overlap between memberships of West Lothian Leisure Advisory Committee and West Lothian Leisure Board of Directors, and that there were now clearer reporting arrangements in place for both service and financial performance. The council's process for voluntary severance was explained, including the need for a business case to demonstrate pay-back within a short period of time and regular reporting to members through committee. The change in external auditors was noted and the challenges that had raised, but the committee was advised by the Head of Finance & Property Services and EY that a good working relationship had been established. The Audit, Risk & Counter Fraud Manager confirmed that he could reconcile the annual internal audit report with the plan as approved and prioritise planned audits when presenting the plan.

It was recommended that the Audit Committee:

1. Considers Ernst and Young LLP's 2016/17 Annual Audit Report (Appendix 2);
2. Considers the 2016/17 Annual Accounts (Appendix 2); and
3. Notes the management response to the action plan contained within the Annual Audit Report and the progress that has been

made in implementing the agreed management actions.

Decisions

- Noted the recommendation in the report;
- Noted that the Head of Finance and Property Services undertook to advise members on independent fixed asset valuations; and
- Noted that the Audit, Risk & Counter Fraud Manager would reconcile the annual internal audit report with the plan as approved and prioritise planned audits when presenting the plan for approval.

9. LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW 2016/17

The committee considered a report (copies of which had been circulated) by the Head of Finance and Property Services providing a summary of the report *Local Government in Scotland Financial Overview 2016/17* published by the Accounts Commission on 28 November 2017. The report also outlined officer responses to the points included in the scrutiny tool for councillors.

The report advised that The Accounts Commission's *Local Government in Scotland Financial Overview 2016/17* report outlined the major financial challenges facing local government. The report highlighted that councils were increasingly showing signs of financial stress as while funding had reduced, costs and demands had increased. In addition, a rising proportion of funding was directed to national priorities, which was making it difficult for councils to identify and deliver savings to balance budgets. The following appendices were attached to the report:

- Appendix 1 – Summary of CIPFA Building Financial Resilience Report
- Appendix 2 – Measures Taken by Councils to Close Funding Gaps in 2017/18
- Appendix 3 – Local Government Financial Overview 2016/17 Scrutiny Tool for Councillors

The overview report summarised a number of key messages for councillors and highlighted the implications for West Lothian Council. It was agreed that the established integrated approach to corporate and financial planning should continue for the five year period 2018/19 to 2022/23. It was also acknowledged that the financial position facing the council was very challenging therefore officers were required to undertake preparatory work on options for future potential savings, which included continuing to monitor the challenges and pressures ahead to ensure that resources were targeted towards achieving the council's priorities as demonstrated by the quarterly budget model update presented to the Partnership and Resources PDSP.

West Lothian Council has a solid base to address the challenges that would be faced in delivering key priorities. This was acknowledged in the

auditor's report on the 2016/17 financial accounts where it was concluded that the council has generally sound financial management arrangements and the council's financial position was generally sound. Although the council has significant cost pressures associated with demographic change, it has a good basis to address this challenge through having an established process for aligning the financial strategy to priorities.

The Accounts Commission believes that councils who demonstrated effective leadership and robust planning would be in a better position to manage the challenges ahead. Consideration of the issues within the report, and the detailed responses to the scrutiny tool, would assist in ensuring that the council continued to be well placed to deliver agreed priorities within reduced financial resources

The committee noted the difficulties for public bodies caused by setting only annual budgets and the advice from the Head of Finance & Property Services that the council needed to put in place at least a medium-term financial strategy, as it had previously agreed to do.

It was recommended that the Audit Committee:

1. Notes the key messages included in the report; and
2. Notes officer responses to the points raised within the councillors scrutiny tool which could be used by elected members to help them better understand the council's financial position and to scrutinise financial performance.

Decision

Noted the recommendation in the report.

10. AUDIT SCOTLAND - PRINCIPLES FOR A DIGITAL FUTURE: LESSONS LEARNED FROM PUBLIC SECTOR ICT PROJECTS

The committee considered a report (copies of which had been circulated) by the Head of Corporate Services providing a summary of the Audit Scotland report entitled "Principles for a Digital Future: Lessons learned from public sector ICT projects". West Lothian Council Gap Analysis report was attached as an appendix to the report which identified areas for improvement in the management of Council ICT projects.

The report advised that Audit Scotland published a report in May 2017 entitled "Principles for a Digital Future: Lessons Learned from Public Sector ICT Projects". The report draws on the recommendations from previous Audit Scotland reports on failed Scottish public sector ICT projects and experiences from around the world. The report recognised the importance of effective digital processes in supporting transformation of public services, but noted that public authority ICT projects and programmes were not always successfully managed. A set of common themes and issues were identified, which were developed into "Principles for Success" to be considered by all public sector organisations when

planning and implementing digital programmes and projects.

The Council was able to evidence good practice in many of the areas highlighted in the Audit Scotland report in relation to the delivery of ICT Projects. The actions which were set out in the gap analysis report could further improve governance around change programmes.

During the course of the discussion members of the committee recommended that consideration should be given to including some work in the Internal Audit Plan 2018/19 on the process for preparing and signing off on project briefs.

In response to questions from members, the Head of Corporate Services explained the process that would be followed to develop actions across all services through the ICT Project Board. Project briefs were reviewed by appropriate advisers, such as Legal Services. She confirmed that although PRINCE2 was the project management tool used for IT projects there were others available which might better suit other types of council projects.

It was recommended that the Audit Committee:

1. Notes the key findings and recommendations of the Audit Scotland report; and
2. Notes the areas for improvement identified in the gap analysis report attached at Appendix 1.

Decision

- Noted the recommendation in the report; and
- Agreed that the internal audit plan should include some work in relation to the issues raised in the report.

11. AUDIT SCOTLAND - EQUAL PAY IN SCOTTISH COUNCILS

The committee considered a report (copies of which had been circulated) by the Head of Corporate Services providing a summary of the findings of the Accounts Commission's report on Equal Pay in Scottish Councils.

The report advised that The Accounts Commission undertook an audit of equal pay activity across Scottish Local Government, focusing on five main themes which were outlined within the report. The audit was carried out using a mixture of face to face meetings with six sample councils and requested specific information from all 32 councils. The survey for costs covered the financial periods 2004/05 to 2015/16. The outcome report was published in September 2017, a copy of which was attached as Appendix 1 to the report.

The report summarised seven key messages resulting from the audit and the key findings relevant to West Lothian Council.

The public sector equality duty requires public authorities to take a proactive approach to tackling discrimination. A key action from the report was for councils to ensure that they were fulfilling their public sector equality duties in relation to equal pay. West Lothian Council has a clear commitment to equal pay, which was set out in its Equal Pay Policy statement.

Finally, it was noted that the council was in a strong position with respect to its historical management of equal pay claims and has a clear plan to deal with the small number of claims still remaining. The ongoing governance and oversight of equal pay was robust and in line with the Audit Commission recommendations.

It was recommended that the Audit Committee notes the key findings and recommendations of the report.

In responding to questions, the Head of Corporate Services confirmed that the council was actively engaged in settling historic claims. The committee was advised that appropriate arrangements had been made to cover the cost of settling those historic claims, but that if new claims were made then additional arrangements, based on risk assessments, would have to be made.

Decision

Noted the recommendation in the report.

12. COUNTER FRAUD REPORT FOR FIRST SIX MONTHS OF 2017/18 (APRIL TO SEPTEMBER)

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager providing details of the performance and activities of the Counter Fraud Team (CFT) during the first half of financial year 2017/18.

The report provided details of the Annual Counter Fraud Plan 2017/18 which was approved by the Audit and Governance Committee on 27 February 2017. The main activities of the Counter Fraud Team (CFT) involved maintaining the council's whistleblowing process, conducting investigations into allegations of fraud and irregularity, working in partnership with Police Scotland, administering the biennial National Fraud Initiative (NFI) data matching exercise, providing counter fraud advice, and delivering fraud training sessions. A summary of the counter fraud training sessions delivered in 2017/18 (April to September) was provided in appendix 2 in the report.

The committee was advised that cases where fraud and irregularity was established in the reporting period were summarised in Appendix 1 to the report and considered in private, exempt in terms of Paragraphs 1, 6 and 14 of Schedule 7A of the Local Government (Scotland) Act 1973 on the grounds that it involved the likely disclosure of exempt information.

A summary of all CFT performance indicators was provided in Appendix 3 in the report.

The report highlighted the performance and activities of the Counter Fraud Team during the first half of financial year 2017/18. The work of the CFT was carried out in accordance with the council's Anti-Fraud and Corruption Policy, Whistleblowing Policy and in accordance with the council's zero tolerance approach to fraud.

The Audit, Risk and Counter Fraud Manager confirmed in response to questioning that there had been no reporting to committee on individual cases because those completed had not been considered significant enough to require to be brought to the committee.

It was recommended that the Audit Committee notes the performance and activities undertaken by the Counter Fraud Team during the first half of financial year 2017/18.

Decision

Noted the recommendation in the report.

13. PRIVATE

The committee resolved under Section 50(A)(4) of the Local Government (Scotland) Act 1973, that the public be excluded from the meeting during consideration of Appendix 1 to the Counter Fraud Report for the First Six Months of 2017/18 on the grounds that this involved the likely disclosure of exempt information under Schedule 7A of the Act.

14. COUNTER FRAUD REPORT FOR FIRST SIX MONTHS OF 2017/18 APPENDIX 1 (SUMMARY OF FRAUD/IRREGULARITY ESTABLISHED IN 2017/18)

The committee considered Appendix 1 to the Counter Fraud Report (Summary of Fraud/Irregularity) for the first six months of 2017/18 (April to September) which was deemed to be exempt under Paragraphs 1, 6 and 14 of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as it involved the likely disclosure of exempt information.

The committee noted that seven investigations established that a fraud or irregularity had taken place. These investigations substantiated allegations such as theft of cash, undeclared criminal convictions, procurement fraud and sickness absence fraud. The total value of fraud and irregularity established by the CFT was £15,260.93. Where relevant, an action plan was agreed with the service to help improve internal controls in these areas. The cases where fraud and irregularity were established in the first six months of 2017/18 were summarised in Appendix 1 to the report.

It was recommended that the Audit Committee note the summary of

Fraud/Irregularity outlined in Appendix 1 to the Counter Fraud report for the first six months of 2017/18.

Decision

Noted the Summary of Fraud/Irregularity for the first six months of 2017/18 (April to September).