

Committee Minutes

Resource Management and Audit Scrutiny Panel

Edinburgh, 4 December 2003

Present:- Councillors Jackson (Convener), Aldridge, Dixon (substitute for Councillor Gilchrist), Maginnis, Milligan, Munro and Wigglesworth (substitute for Councillor Scobbie).

1 Apology

An apology for absence was received from Councillor Child (Executive Member for Sustainability and Finance).

2 Welcome

The Convener (Councillor Jackson) welcomed Ronnie Hinds, the newly appointed Head of Corporate Finance, to this his first meeting of the Scrutiny Panel.

3 Minute

Decision

The minute of the Resource Management and Audit Scrutiny Panel of 6 November 2003 was approved as a correct record.

4 Matters Arising From Minute of 6 November 2003

4.1 The Management and Resourcing of Major Council Investment Projects (item 3)

Decision

To note that the Executive of the Council on 2 December 2003 had approved the Scrutiny Panel's recommendation that the regular six monthly reports on the Council's Strategic Work Programme be referred to

the Resource Management and Audit Scrutiny Panel as part of its approved work programme.

(Reference – Executive of the Council 2 December 2003 (item 28)).

4.2 DSO/DLO Performance Monitoring April 2002-March 2003 and Significant Trading Operations Performance Monitoring April-August 2003 (Month 5) (item 4)

Decision

The Executive of the Council on 2 December 2003 noted that the Scrutiny Panel had acknowledged the increased cost to the Council associated with servicing the growing number of major events being held in the City, and approved the Panel's recommendations:-

- a) That the level of funding required across the Council to meet these increased costs be examined.
- b) To draw the Scottish Executive's attention to the additional costs being borne by the Council.

(Reference – Executive of the Council 2 December 2003 (item 29)).

5 Audited Accounts 2002/2003 and Auditor's Report 2002/2003

Audited Accounts for the Council and DSO/DLOs are submitted to the Resource Management and Audit Scrutiny Panel as part of its audit function.

The Council on 16 October 2003 had considered a report by the Director of Finance on the Council's audited accounts for the 2002/2003 financial year and had noted:

- a) the audited accounts of the Council and the auditor's opinion on the DLO/DSO accounts for the 2002/2003 financial year;
- b) that the External Auditor's report for 2002/2003 would be submitted to a future meeting of the Council; and
- c) that the Director of Finance's report would be considered by the Resource Management and Audit Scrutiny Panel.

The Panel considered the Director of Finance's report together with the External Auditor's detailed report.

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Donald McGougan (Director of Finance) advised the Panel that the External Auditor's report would be considered by the Council on 11 December 2003, however, it would enhance the Panel's consideration if the Council's audited accounts and the External Auditor's Report were considered together and the Panel's decision reported to Council.

Donald McGougan then gave an overview of the Council's Audited Accounts and drew the Panel's attention to the following areas:

- there were no qualifications to the Audit Certificate as detailed on page 58 of the accounts. In addition, the prescribed financial objectives had been met by each of the Council's DLO/DSOs.
- the audited accounts showed an increased general fund balance of £24.907m, of which £12.762m related to earmarked reserves and £12.145m to unallocated reserves. The increase in the general fund balance had arisen from a change in the method of accounting for unspent Revenue Support Grant (RSG) and an increased charge against General Services arising from a review of the year end bank reconciliations.
- Unallocated reserves had reduced to £12.145m again as a result of the increased charge to General Services arising from a review of the year end bank reconciliations and increased monies made available to departments under the budget flexibility scheme.

Donald McGougan then spoke specifically to the External Auditor's report and made the following points:

- the overall conclusion of the Auditor was that the financial stewardship of the Council was of a satisfactory standard in 2002/2003.
- the Auditor had concluded that the financial statements present fairly the Council's financial position and that all of the DLO/DSOs achieved their prescribed financial objectives.
- the Auditor was satisfied that the Statement on the System of Internal Financial Control complied with the Code of Practice on Local Authority Accounting in the United Kingdom (ACOP) and was not inconsistent with the information emerging from normal audit work.
- the Auditor was satisfied that many aspects of a sound Corporate Governance Framework were in place with a framework for the maintenance of corporate and departmental risk registers having been agreed in July 2003.
- the Auditor felt that significant progress had been made in developing a Performance Management and Planning Framework on which to deliver continuous improvement.

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- the Auditor had identified the following areas where there was scope for further improvements to be made to enable the highest standards of financial stewardship, corporate governance and performance management to be achieved:
 - Adoption of an IT Security Policy;
 - Risk Management Framework
 - A full review of Education PPP1
 - Review of Arrangements for Dealing with Offending by Young People
- Financial Reporting Standard (FRS17, Retirement Benefits) was introduced in November 2000 and requires disclosure of information concerning assets, liabilities, income and expenditure related to pension schemes for employees. FRS17 was being introduced on a phased basis over three years, with disclosure for the 2nd year (2002/03), being by way of a note to the Consolidated Balance Sheet. The Council's current net pension liability, at 31 March 2003, was £336.8m which exceeds the general fund reserves of £24.907m. An actuarial valuation will consider the appropriate employer's rates and this together with revenues generated from investments will be utilised to meet the funds commitments.
- Nine key aspects of the Council's performance were assessed against an assessment range of very good, good, fair and unsatisfactory. While the overall standard of the Council was rated as satisfactory, six out of the nine key aspects were rated as good and one was rated as very good.

Fiona Kordiak (Audit Scotland) spoke to her report and explained that part of her responsibility as External Auditor to the Council was to submit a report, at the conclusion of the Audit, to both members of the Council and the Controller of Audit. Her report aimed to summarise all significant matters which had arisen during the course of the Audit and which she felt were worthy of members attention. Fiona Kordiak then drew the Panel's attention to the following areas:

- The overall conclusion of her report was that the financial stewardship of the City of Edinburgh Council in 2002/2003 was of a satisfactory standard.
- A number of key issues for the attention of members was outlined in an Action Plan appended to her report.
- The classifications of performance categories referred to above by the Director of Finance (and piloted in Edinburgh last year) were also now being applied to two other Councils that she was External Auditor for (Perth and Kinross and East Lothian Councils). The assessment range had been increased from three to four, at the request of the Director of Finance, and were similar to the performance classifications used by Her Majesty's Inspectorate of Education.

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- In respect of information systems migrations, the 2002/2003 audit revealed that all the agreed actions arising from the 2001/02 audit had been progressed as planned. All the major projects made substantial progress and many of the major data migrations had taken place. The emphasis within departments affected was now changing from system migration to system operation and maintenance. There was a need to document the new systems and, in particular, to capture some of the knowledge of the project management terms before they dispersed.
- The Council's Risk Management Framework was still at an early stage of implementation, and, until embedded throughout the organisation, the Council was not yet in a position to review the extent to which internal controls are appropriately targeted to areas of established risk. In particular, existing controls required to be reviewed as the Council's systems migration projects progress.
- A review of arrangements for dealing with offending by young people had revealed that in 26% of cases of children on supervision reviewed as part of the survey there were either gaps in service provision or the evidence of continuity was unclear due to poor record keeping. In addition, only 26% of the cases reviewed contained a clearly documented Care Plan as required by statute, compared to a national average of two thirds.

Thereafter, in response to questions from Panel Members, the Director of Finance indicated that:

- A report by the External Auditor on a review of Youth Justice Services was scheduled to be considered by the Resource Management and Audit Scrutiny Panel in March 2004. It had been previously agreed that the Resource Management and Audit Scrutiny Panel should take the lead on this issue but also involve members of the Community Services Scrutiny Panel as appropriate. A suggestion was made that this should perhaps be expanded to include members from the Children and Young People Scrutiny Panel.
- A report on the designation of Significant Trading Operations would be submitted to the Executive early in 2004 as required by the Local Government (Scotland) Act 2003. This report would address whether BlindCraft should be designated as a Significant Trading Operation. In addition, it was hoped that a report on the six-monthly financial outturn for BlindCraft would be reported to the Executive of the Council and this Panel shortly.
- There were no major cost implications associated with implementing an IT security policy. However, the policy would have to be wide ranging and cover a range of issues.

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- In respect of the use of unallocated reserves a report would be submitted to the Executive next cycle on the appropriate level of balances required across the Council in the next three years. The Panel was reminded that the Council required to hold such balances for unforeseen contingencies.

Decision

- 1) To note the decision of the Council of 16 October 2003.
- 2) To note the Council's audited accounts for the financial year 2002/2003.
- 3) To note the Auditor's opinion in the Audit Certificate to the Council's accounts, and on the DLO/DSO Accounts for 2002/2003.
- 4) To note the Auditor's Report for 2002/2003, and the action which had been agreed to address the areas requiring improvement.
- 5) To note the Auditor's Report would be considered by the Council on 11 December 2003.
- 6) To advise the Council of the Scrutiny Panel's decision.

(References – Act of Council no 15 of 16 October 2003; report nos CEC/77/03-04/F & RMA/015/03-04/F by the Director of Finance and the Auditor's report, all submitted.)

6 External Audit Reports Received

The Panel's audit responsibilities include the review of all matters relating to external audit, including action points and reports, and to monitor implementation of external audit recommendations.

The Panel considered a report by the Director of Finance detailing the following five final reports received from the Council's External Auditor during the period 1 July to 30 September 2003:-

- Follow up of the Management of Early Retirement.
- ICT Partnership Management.
- ICT Pathfinder Review of the Trent Payroll System.
- Community Equipment and Adaptations Service.
- Review of Information System Migrations.

Executive Summaries and Action Plans agreed with management to implement the External Auditor's recommendations were appended to the Director's report.

Donald McGougan (Director of Finance) gave a brief overview and summarised the main elements of the five final reports.

Fiona Kordiak and Mark Taylor (Audit Scotland) then spoke to each of the five reports in turn and responded to questions from Panel Members.

Arising from discussions on the Auditor's report on the Community Equipment and Adaptations Service, the Panel highlighted the need, in a wider context, to share management information between Social Work Departments and other relevant agencies.

In respect of the Auditor's report on a Review of Information System Migrations, Councillor Maginnis enquired whether there was any scheme to compensate clients who had encountered financial difficulties as a result of delays in the Revenues and Benefits Migration Projects. In response, Donald McGougan (Director of Finance) explained that while the data migration aspect had gone well other factors had impacted on the Department's ability to reduce the backlog. He indicated he would be prepared to consider any requests for compensation drawn to his attention on a case by case basis.

Decision

- 1) To note the reports received from the External Auditor and the action agreed with management to implement the External Auditor's recommendations.
- 2) That, in order to enhance partnership working, to recommend to the Executive of the Council that COSLA be asked to initiate discussions amongst all Scottish Local Authorities on the development of a strategy and systems to enable the sharing of management information between Social Work Departments and other relevant agencies.

(Reference – report no RMA/016/03-04/F by the Director of Finance, submitted.)

7 Monitoring of Internal Audit

As part of its Audit responsibilities, the Scrutiny Panel considered a report by the Chief Internal Auditor on the performance of the Internal Audit Section during the period 1 July to 30 September 2003.

Ian Stirton (Chief Internal Auditor) indicated that during the above period the Internal Audit Section had carried out work in a variety of sections within the Council and funded bodies, and had produced 23 final reports which had been agreed with management and action plans to implement recommendations put in place. The Internal Audit Section had continued to make a large commitment to the ongoing computer migration projects and had also been involved in the anti-fraud initiatives recently launched by the Council.

The Internal Audit Section had issued two major reports during the period in question, one relating to Investment and Treasury Controls and the other relating to the Edinburgh Schools Private Finance Initiative.

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In respect of arrangements for a second Education PPP Project, Ronnie Hinds (Head of Corporate Finance) indicated that he would sit on the Project Board and ensure that robust measures were put in place to scrutinise the suitability of any companies involved in the process.

Decision

To note the report by the Council's Chief Internal Auditor.

(Reference – report no RMA/017/03-04/F by the Chief Internal Auditor, submitted.)