

AUDIT AND RISK COMMITTEE

ABERDEEN: 8th June, 2010. Minute of Meeting of the AUDIT AND RISK COMMITTEE. Present:- Councillor Crockett, Convener; Councillor Farquharson, Vice Convener; and Councillors Cassie, Cooney, Donnelly, Greig (substituting for Councillor Reynolds), Hunter, McDonald, Penny, Robertson, John Stewart, Kevin Stewart, Wendy Stuart and John West.

1 DETERMINATION OF EXEMPT BUSINESS

In terms of Section 50(A) (4) of the Local Government (Scotland) Act 1973, the Committee resolved to exclude the press and public from the meeting during consideration of the following items of business so as to avoid disclosure of exempt information of the class described in paragraph 1 of Schedule 7(A) to the Act:- articles 11 and 12.

2 MINUTE OF PREVIOUS MEETING

The Committee had before it the minute of its previous meeting of 27th April, 2010.

The Committee resolved:-
to approve the minute.

3 COMMITTEE BUSINESS STATEMENT

The Committee had before it a statement of business prepared by the Head of Legal and Democratic Services.

The Committee resolved:-

- (i) to delete item 2 (Audit RM-CS/SA/0601, Legal Accounting and Costings);
- (ii) to note that the report relating to item 3 (RM-CC/SA/0708, Allocation of Central Charges) would be submitted to the Committee on 21st September, 2010; and
- (iii) to otherwise note the statement.

4 AUDIT PROGRESS REPORT 2009/10

The Committee had before it a report by Henderson Loggie, external auditor, which detailed progress in relation to the external audit operational plan for 2009/10.

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The report explained that the follow up review for School Lets had been carried forward from the 2008/09 audit plan and that a draft report on the matter had been issued to officers for consideration prior to the final report being submitted to the Committee.

The Committee resolved:-

- (i) to note that the report on the follow up review for School Lets would be submitted to the Committee on 21st September, 2010;
- (ii) to thank officers for their hard work in achieving a positive outcome in regard to the Housing Benefit/Council Tax Benefit subsidy claim from the Department for Work and Pensions; and
- (iii) to otherwise note the report.

5 FINANCIAL STATEMENTS AUDIT PLAN 09/10

The Committee had before it a report by Henderson Loggie, external auditor, which aimed to provide a clear understanding of the approach to the audit of the financial statements for the year ended 31st March, 2010 and provided an update on the interim audit work to date.

The report stated that the Working Papers Requested List had been issued to the Council's Corporate Accounting Manager, which set out Henderson Loggie's understanding regarding the documents the Council had agreed to prepare to assist with the audit. In relation to the interim work to date, Henderson Loggie were satisfied that they had assessed the level of assurance to be gained from the financial control environment at the Council for producing financial accounts for the year ended 31st March 2010. The report appended an action plan which contained recommendations, which had been agreed by Council officers, which were aimed to help strengthen internal controls.

The Committee heard Karlyn Watt, Henderson Loggie, advise that, to date, she had not received a response from the Treasurer nor the External Auditor for the Grampian Valuation Joint Board for assurance on the valuation services provided by the Board to the Council.

The Committee resolved:-

- (i) to note that Henderson Loggie would meet with the Convener and Vice-Convener to discuss the ISA 260 report in order to complete the audit by 30th September, 2010, following which the ISA 260 report would be submitted to the Committee on 23rd November, 2010 for noting;

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- (ii) in relation to the lack of response from the Treasurer and External Auditor for the Grampian Valuation Joint Board to a letter from Henderson Loggie seeking assurances on the valuation services provided by the Board to the Council, to request Henderson Loggie to draft a letter on behalf of the Committee requesting that the information previously requested be provided;
- (iii) to request that an officer from the Grampian Valuation Joint Board attend a meeting of the Committee to provide members with an overview of their function, specifically in relation to the service provided to the Council; and
- (iv) to otherwise note the report.

6 RISK MANAGEMENT PROGRESS UPDATE - CG/10/098

With reference to Article 3 of the minute of its meeting of 3rd December, 2009, the Committee had before it a report by the Director of Corporate Governance which provided an update on the status of the Corporate Risk Register and informed of progress within Services on implementing risk management processes.

The report advised that the red risks within the Corporate Risk Register had been reviewed in March 2010. The updated Corporate Risk Register contained nine red risks compared to twelve from the previous report which indicated that actions had been put in place to mitigate the identified risks. The report outlined five significant changes in the Corporate Risk Register since December 2009 as follows:-

- Risk 1 - "Failure to define corporate priorities" had been removed on the grounds that the Council had agreed an Interim Corporate Business Plan and a project had commenced to complete a four year costed Corporate Business Plan from 2011
- Risk 8 - "Failure to comply with Health and Safety" had been reduced from a red risk to an amber risk on the grounds that a revised Health and Safety Policy detailing responsibilities and accountabilities had been signed by the Chief Executive in February 2010
- Risk 14 - "Failure to align service objectives with corporate objectives" had been reduced from a red risk to an amber risk on the grounds that Service Plans for the new Services had been, or were in the course of being, approved and that these explicitly aligned to the Interim Corporate Business Plan
- Risk 28 - "Failure to identify a material risk facing the organisation" had been removed on the grounds that risk management arrangements had been improved and, following an audit by PricewaterhouseCoopers, an improvement plan was in place

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- Risk 34 - "Failure to realise the benefits of the new Development Plan and embrace the Structure Plan growth strategy through the new Local Development Plan" had been reduced from a red risk to an amber risk on the grounds that good progress had been made on a number of planning matters including the Structure Plan, Master Plans and Local Development Plan Main Issues report

The report explained that progress had been made in developing and embedding risk management arrangements across all Services and that the Corporate Policy and Performance Committee at its meeting on 29th April, 2010 had agreed that each Service Committee would receive and consider the appropriate Service Risk Register on a quarterly basis. A summary of progress and an overview of the Service Risk Registers were contained within the report. The report provided a timetable for reviewing and reporting on the Corporate and Service Risk Registers throughout the remainder of 2010 and early 2011.

The report recommended:-

that the Committee -

- (a) agree that the Corporate Risk Register, as appended to the report, was a fair statement of the significant corporate risks within the Council;
- (b) note the progress to date in updating the Service Risk Registers; and
- (c) agree the reporting and review periods.

The Committee resolved:-

- (i) that the Convener write, on behalf of the Committee, to Aberdeen Journals in relation to the articles in the local press on the report, emphasising that the content of the report had been misrepresented and to express the Committee's disappointment therein;
- (ii) to congratulate staff for their work in compiling Service Risk Registers and the Corporate Risk Register; and
- (iii) to otherwise approve the recommendations contained in the report.

7 DELAY IN COMPLETION OF WALKER ROAD SCHOOL - REFURBISHMENT PROGRAMME - ECS/10/060

With reference to Article 7 of the minute of its meeting of 3rd November 2009, the Committee had before it a report by the Director of Education, Culture and Sport which advised of the reasons for the delay in completing the refurbishment contract of Walker Road School and the additional costs incurred.

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The report advised that following the Torry Schools review in 2003/04, and the decision to close Torry Nursery School with the provision being relocated to the three primary schools in Torry, work was undertaken to refurbish the two-storey block at Walker Road School. In 2005/06, disturbed asbestos had been discovered in the substructure of the school which led to all staff and pupils being relocated to Victoria Road School and Torry Academy. The nursery classes were not affected at this time as they had been operating from the Oscar Road building since the start of the 2005/06 school session.

The Walker Road Primary School contract (6380) was awarded with a start date of 16th October, 2006 and completion date of 21st December, 2007, however during the contract period there had been four significant aspects of work which delayed the programme of work which resulted in a completion date of 15th August, 2008.

The first delay of ten weeks was as a result of significant areas of unreported asbestos having been found during asbestos removal, including a considerable amount of asbestos from previous removal contracts dumped in the basement. The Health and Safety Executive were called in and an investigation commenced. The contractor was instructed to remove the asbestos and separate the asbestos from the previous contract as part of the Health and Safety Executive investigations.

The second delay, which was 28 weeks in total including the first delay of ten weeks, related to the internal demolition work, particularly in regard to the condition of a flat roof and roof supports. The third delay, which did not impact on the contract completion date, was as a result of the contractor being unable to access the boiler plant due to it being located in the main school and as pupils and staff were in the building the work could only be undertaken during the summer holiday. The fourth, and final, delay, which was six weeks in total, was as a result of additional works to the contract in relation to the School Estate Strategy.

In terms of financial implications, the report advised that an additional payment of approximately £147,000 had been made to the contractor for the additional works that had been requested. The report added that there would be a staffing and training resource allocated to support the monitoring and co-ordination of all future building programmes to ensure compliance with previously recommended courses of action, which would ensure that all staff were made fully aware of the requirement to submit a report to committee if a delay of three or more months in the estimated completion of a contract was probable.

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The report recommended:-

that the Committee -

- (a) note the reasons for the delay; and
- (b) note the procedures which had been established to ensure that any further delays of this nature are duly notified to the appropriate Committee as per the Council's Standing Orders.

In response to various questions from members, the Principal Architectural Officer provided the Committee with additional information relating to the project, with particular reference to the discovery of the dumped asbestos and the subsequent intervention and investigation by the Health and Safety Executive.

The Committee resolved:-

- (i) to request officers to send a letter, on behalf of the Committee, to the Health and Safety Executive urging them to redouble their efforts in relation to the investigation regarding the dumped asbestos and identify what could be done if it was discovered that any individual involved was still involved in asbestos removal;
- (ii) to request officers to submit a report to a future meeting on what could be done to influence future legislation on the regulation of asbestos registered companies, and that the report also address what level of liability an individual or organisation would have if they were found to be responsible for the dumped asbestos;
- (iii) to request officers to review the relevant processes and procedures in relation to the monitoring of contracts and report back on lessons learned with a view to making improvements for the future;
- (iv) to instruct officers to report back on the apparent misconception that the Council had to procure interactive white boards from a specific supplier which had led to a delay in the completion of the contract; and
- (v) to otherwise approve the recommendations contained in the report.

8 BANK RECONCILIATION PROGRESS REPORT - CG/10/109

With reference to Article 6 of the minute of its meeting of 27th April, 2010, the Committee had before it a report by the Head of Finance which provided an update on progress to date in relation to the bank reconciliation process and the implementation of the automated bank reconciliation process.

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The report advised that since the last update to the Committee, there continued to be good progress in relation to the bank reconciliation with continuing timely and robust clearance of items from the reconciliation. The comprehensive year-end report on the reconciliations as at 31st March, 2010 was being finalised and final ledger entries were being made. The report explained that the daily tasks in relation to the maintenance of the automated bank reconciliation module continued to be processed by the staff in the team and there was also a manual reconciliation of the income from sports centres across the Council.

The report stated that during May 2010, internal audit had carried out an audit of the bank reconciliations which once finalised would inform external audit to allow them to determine the level of reliance they could place upon the process.

The report recommended:-

that the Committee note the current progress in maintaining the bank reconciliations.

The Committee resolved:-

- (i) to congratulate staff on their work to date in relation to the project; and
- (ii) to approve the recommendation contained within the report.

9 INTERNAL AUDIT OUTSOURCED ACTIVITY PROGRESS REPORT

The Committee had before it (1) a report by PricewaterhouseCoopers which provided a summary of the internal audit reviews undertaken during February, March and April 2010; and (2) a management response from the Director of Corporate Governance in relation to the risk management audit. The key findings for the audits detailed below were contained in the report:-

SERVICE	TITLE
Housing and Environment	Housing Capital and Repairs Budget
Housing and Environment	Internal Management Information
Corporate Governance	Risk Management

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The Committee resolved:-

- (i) to request PricewaterhouseCoopers to circulate implementation dates for the recommendations to all members of the Committee; and
- (ii) to approve the issue of the audit reports and endorse the recommendations for improvement contained therein.

10 REFURBISHMENT OF KEPPLEHILLS GARAGES - REFERRAL FROM HOUSING AND ENVIRONMENT COMMITTEE - H&E/10/065

With reference to Article 15 of the minute of meeting of the Housing and Environment Committee of 25th May, 2010, the Committee had before it, by way of remit (1) the minute extract which contained a resolution to refer the matter to this Committee in order for a full investigation to be undertaken; and (2) a report by the Director of Housing and Environment which provided members with an update on the progress with the refurbishment of the garages and advised of the problems encountered in relation to phase 3 of the project.

Phase 3 of the project, in which it had been proposed to demolish 89 garages and rebuild 58, covered garages that had not been built in a traditional manner but built with precast concrete rather than block concrete. This meant that although the internal dimensions were similar, the overall footprint of the garages was less than those in phases 1 and 2.

The report continued that the first eight of the phase 3 garages had been handed back to tenants on 23rd March 2010 and the following day officers had received complaints stating that the garages were smaller than they had previously been, and that tenants could not get their car doors to open far enough to exit their cars when in the garage. On inspection, it was found that the width of the garages had decreased from 2440mm to 2300mm, which was a loss of 140mm (approximately 5.5 inches). The report advised that this was due to (a) the failure of a lead officer to respond to a request from the appointed contract administrator to check the proposed layout of the phase 3 garages which clearly showed the use of 215mm blockwork to reconstruct the internal and gable walls; (b) the use of 215mm wide blocks to rebuild walls which were originally constructed of precast concrete panels; and (c) the garages being rebuilt on the original concrete bases, which meant that when the wider block work used to construct the new walls, the internal dimensions of the garages was reduced.

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The Committee resolved:-

- (i) to instruct the Director of Housing and Environment, in consultation with the Monitoring Officer, to investigate (a) why the correct procedures had not been followed for this project; (b) why the lead officer did not respond to the contract administrator on the layout of the site which included the size of the blockwork to be used; (c) whether any disciplinary action had been taken in respect of the lead officer; (d) when it was agreed that the lead officer could leave the Council, in regard to the approval of any voluntary severance package, and whether it was known at that point of the errors in relation to the project; (e) whether the Council would be entitled to reclaim any of the money that may have been paid to the lead officer on leaving the Council's employment as a result of the financial cost to the Council of errors in relation to the project; and (f) why the contract administrator did not follow up on the lack of response from the lead officer before the project had commenced; and
- (ii) to instruct the Director of Housing and Environment to submit a comprehensive report on his findings to the Committee on 21st September, 2010.

In accordance with the decision recorded under article 1 of this minute, the following items were considered with the press and public excluded.

11 INTERNAL AUDIT REPORTS ISSUED

The Committee had before it (1) a report by the Internal Audit Manager which appended recently completed audit reports on the services as detailed below; and (2) management statements from the appropriate Director in response to each of the completed reports.

SERVICE	TITLE	DATE ISSUED
Corporate Governance - Finance	Budget Management Process	April 2010
Corporate Governance - Finance	Treasury Management	May 2010
Corporate Governance - Finance	Accounts Receivable	May 2010

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Housing and Environment	Business Planning	Continuity	April 2010
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The Committee resolved:-

- (i) that in relation to Audit CG/SA/0925 (Treasury Management), to note that a report on Treasury Management would be considered by the Finance and Resources Committee on 17th June, 2010 and to request officers to table up-to-date information to that Committee on core banks and implications of the audit report;
- (ii) that in relation to Audit HE/CA/0905 (Business Continuity Planning), (a) to instruct all services to test elements of their business continuity plans on an annual basis; and (b) to instruct officers to submit a report to the Committee on 21st September, 2010, analysing the various security risks identified, particularly in relation to ICT and storage of personal data; and
- (iii) to otherwise approve the issue of the internal audit reports and endorse the recommendations for improvement contained therein.

12 IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS AND RESULTS OF PHYSICAL VERIFICATION

The Committee had before it a report by the Internal Audit Manager which (1) detailed a number of recommendations previously approved in audit reports issued, the implementation of which was overdue; and (2) for selected audits advised on the implementation status checks on recommendations advised by auditees to internal audit as completed.

The Committee received updates from various officers in relation to the audit recommendations affecting their services and considered revised implementation dates where appropriate.

The Committee resolved:-

- (i) that in relation to Audit RM-CC/SA/0803 (Following the Public Pound) to approve the revised implementation date of 30th September, 2010 for all outstanding items;
- (ii) that in relation to Audit CG/SA/0913 (Parking Fines Income Collection - item 4.2.2) to note that the item had been completed;

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- (iii) that in relation to Audit C-CL/SA/0803 (Educational Establishments Financial Controls) to approve the revised implementation date of 31st October, 2010 for all outstanding items;
- (iv) that in relation to Audit HE/SA/0931 (Homelessness - items 4.2.2(i) and 4.2.2(ii)) to note that a report would be submitted to the Housing and Environment Committee in August 2010; and
- (v) that in relation to Audit N-SE/SA/0802 (Schools Catering - item 4.3.2(iii)) to note that the Corporate Accounting Manager would advise the Internal Audit Manager of whether the recommendation had been implemented by the due date.

- **BARNEY CROCKETT, Convener.**