

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 14 March 2019.

Present:

Councillor Stewart Miller (Chair)
Councillor Barbara Grant (Vice Chair)
Councillor Charlie Gilbert

Councillor Annette Ireland
Councillor Jim Swift

Councillor Miller in the Chair

Attending:

Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Ross Mitchell, Senior Auditor; Gill Darbyshire, Chief Executive's Business Manager; Linda Hutchison, Clerk to the Committee; and Jennifer Graham, Committee Services Officer.

Also Attending:

John Cornett and Elaine Barrowman, Audit Scotland.

Apology:

Provost Jim Fletcher.

DECLARATIONS OF INTEREST

830. There were no declarations of interest intimated.

CHAIR'S REPORT

831. The Chair referred to comments made previously by members of the committee on the limited resources they could access to allow them to progress fully their valuable role. He reported that a Scrutiny and Evaluation Officer had been appointed from 1 April for a temporary period of one year which would enable the committee to progress some detailed scrutiny work. That officer's role would include supporting investigations and the production of related reports and recommendations for submission to the Cabinet. One of his initial tasks would be to help the committee identify and scope areas of work they wished to progress as part of its work plan for the year ahead.

The committee, having heard the Chair welcome the appointment, noted the position.

REVIEW OF STRATEGIC RISK REGISTER AND RISK MANAGEMENT PROCESS

832. Under reference to the Minute of the meeting of 16 August 2018 (Page 487, Item 540 refers), when the position on the Strategic Risk Register (SRR) and progress with risk management across the Council had been noted, the committee considered a report by the Chief Executive regarding the most recent biannual update of the Register and general progress on risk management.

The SRR, a copy of which was appended to the report, itemised key risks that required to be considered and associated actions put in place to manage these. Having referred to related operational risk registers in place, the report confirmed that several strategic risks had been amended to include additional control measures and rescored for significance, clarifying that a thorough review of all the strategic risks had been undertaken by the Corporate Management Team (CMT). In total there were now 29 strategic risks, 10 of which were evaluated as high and 19 as medium. Risks evaluated as low had been removed from the SRR and would be monitored within departmental or operational registers as appropriate. Relevant significant risks which could impact on achieving the Council's outcomes regarding the work of the Integration Joint Board (IJB) and Culture and Leisure Trust had been considered.

In addition to referring to risks added to the SRR, information was provided on risk scores that remained high; amended risk descriptions; risks which had increased from medium to high; and those which had reduced from high to medium. It was confirmed that although reports on the SRR were submitted to the committee every 6 months and the Cabinet annually, the register was considered to be a live document and updated continually, with the review of the SRR playing a fundamental role in ensuring that the Council met its objectives as detailed in Fairer East Ren, the Modern Ambitious Programme and the Outcome Delivery Plan. A risk owner for each strategic risk had been identified from amongst the CMT.

Having heard the Business Manager highlight key aspects of the report, Councillor Swift referred to the risk of failing to deliver 1,140 hours of free early learning and childcare by August 2020 (Risk 1.1). He reported that an external provider had argued that the Council's approach was destabilising the market and could lead to some private and third sector facilities closing. He considered it important that the risk was reviewed as provision across all sectors was required and account needed to be taken of the financial position of all those operating in this field. Councillor Miller commented that further reference to this might be made at the forthcoming Council meeting.

During discussion on the risk of failure to implement a new core system and anticipated benefits and savings not being delivered (Risk 6.14), in reply to Councillor Grant the Head of Accountancy confirmed the purposes of the system, that discussions with the provider had been ongoing since December, and that it was anticipated that the new ledger, which was one element of the system, would be in place by Summer 2019. Over time, the system was expected to facilitate access to financial information across the authority and deliver savings and efficiencies. It was clarified that when the new system was in place the risk, which was a transitional one, would be reduced.

In reply to Councillor Ireland who referred to the risk of ensuring sufficient catchment places for children and young people in light of new residential development, (Risk 2.3), the Head of Accountancy provided further clarification during which she commented on the allocation of funding for such provision and an assumption that could be made that all children would attend a local authority operated nursery, when this might not necessarily be the case.

The committee:-

- (a) agreed that the Chief Executive's Business Manager provide feedback to appropriate senior officers on comments made by members of the committee at the meeting on the SRR for consideration; and
- (b) otherwise, noted the development of the SRR; that it was considered to be a live document; and that it would be updated and amended by the CMT.

NATIONAL EXTERNAL AUDIT REPORT – LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2017/18

833. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Local Government in Scotland – Financial Overview 2017/18* which under the committee's specialisation arrangements had been sent to Provost Fletcher and Councillor Ireland for review. The Head of Accountancy had been asked to provide comments and a copy of her feedback was attached to the report.

The Audit Scotland report covered budgets and spending; Councils' financial position; an IJB overview; and the financial outlook for local authorities, on each of which the Head of Accountancy had provided comments. The audit report had found that Scottish Government revenue funding, the most significant element for councils, had reduced by 2.3% in real terms in 2017/18. It was explained how Grant-Aided Expenditure (GAE) was calculated, mainly on population-based factors. Although Audit Scotland's findings were valid in terms of ease of finding information about distribution methods, it was felt that the report underplayed the sophistication of the GAE methodology. It was explained that indicators relating to population size were broken down into demographic groups such as the number of both primary and secondary pupils. Regarding education the high proportion of children in the local population and high number of placements in the needs based GAE calculation resulted in the Council attracting a higher allocation than normal for a Council of its size. Other issues commented on included indicators for social care and otherwise, other GAE issues, the correlation between deprivation and funding, other funding accessible to local authorities, and Council Tax changes and the impact of these locally.

Regarding the financial position, reference was made to the use made of reserves and how the Council had restored its unallocated general reserve above its target of 4% by the year end. Having commented on other reserves issues, including how they had been built up over time to address future pressures and those established for specific purposes, it was confirmed that the Council's level of outstanding debt was well below the national average reflecting a prudent approach taken on this but that there were also plans to increase borrowing in future to support the capital programme in an affordable way. It was reported that no equal pay claims remained outstanding locally.

The Audit Scotland report also included an overview on IJBs for 2017/18. It was confirmed amongst other things that responsibility for the operation, finances and governance of integrated health and care services lay with the IJB rather than the Council, that unlike some others the East Renfrewshire IJB had not reported a deficit for 2017/18, and that no additional funding had been required from the Council. Other matters commented on included that the IJB had welcomed a medium-term financial plan for health and care services published by the Scottish Government in 2018.

Regarding the financial outlook, reference was made to various issues including the close to flat cash grant settlement the Council had received in 2018/19 which lacked provision for

demand and inflationary pressures, the Scottish Government's recently declared intention to announce multi-year settlements for councils from December 2019, and ongoing financial constraints expected in future reflecting that most council services were not classified as priorities under the Scottish Government's strategy. The 3-year budgeting approach adopted by the Council, the publication of its Financial Plan, the way in which the Council balanced its budget, the updating of the Capital Plan and the recent approval by the Council of its first Capital Investment Strategy were amongst a range of matters commented on. Reference was also made to how the Council was continuing to transform services, most recently through its Modern Ambitious Programme, which helped meet clients' needs and addressed budget challenges, 70% of savings over the current 3-year plan having been made through efficiencies.

Overall it was concluded that the Council was well placed in terms of addressing the challenges referred to, but that it would continue to face substantial challenges in future.

The Head of Accountancy commented on and highlighted key aspects of the report, following which, in response to questions, she confirmed that the Audit Scotland report was made available to both local authorities and the Scottish Government, and that the Scottish Government took cognisance of concerns and issues raised within such reports. She explained that for many years both COSLA and local authorities had been raising the need for the way in which GAE was allocated to be refreshed, but acknowledged that this was not straightforward as many factors required to be taken into account. Mr Cornett confirmed that the report would be amongst a range of documents and information the Scottish Government would use and reflect on when considering the allocation of funds.

Regarding health and social care integration, it was confirmed that feedback on an Audit Scotland report on progress on this issue had been published relatively recently and that it would be the subject of a report to both the IJB and the Council's Audit and Scrutiny Committee in the near future.

In response to a further question from Councillor Ireland regarding the report which had previously been considered by the committee on 21 February 2019 in relation to the UK withdrawal from the European Union (EU), the Clerk confirmed that the feedback provided had been noted at the meeting but that it was an option for the committee to seek a further update on this issue for submission to a future meeting if it chose to do so at some point.

The committee noted:-

- (a) that it was an option for the committee to request a further report at some point in future, if it wished to, on the implications for the authority of the UK's withdrawal from the EU; and
- (b) otherwise, the report and comments made.

EAST RENFREWSHIRE COUNCIL – ANNUAL AUDIT PLAN 2018/19

834. The committee considered a report by the External Auditor regarding the 2018/19 Annual Audit Plan. The Plan provided an overview of the planned scope and timing of the audit to be carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice and other relevant guidance. It was confirmed that the Plan set out the work necessary to allow the External Auditor to provide an independent report on the financial statements and meet the wider scope requirements of public sector audit, including the audit of Best Value. Reference was also made to the way in which the wider scope of

public audit contributed to assessments and conclusions on the audit dimensions of financial management, financial sustainability, governance and transparency, and value for money and also the way added value was achieved for the Council through external audit work.

Based on discussions with staff, attendance at committee meetings and a review of supporting information, the report highlighted the main financial statement risks and issues as well as risks of a wider dimensional nature identified for the Council, and audit work planned in relation to these. Various reports to be prepared, including the Annual Audit Report, were referred to as were the audit of trusts registered as Scottish charities, the audit fee, and the responsibilities of the committee, Head of Accountancy and appointed Auditor. Having summarised the approach to be adopted on the Annual Accounts, it was clarified that an opinion on them would be given on a range of issues, including whether they gave a true and fair view and were properly prepared in accordance with International Financial Reporting Standards and legislative requirements.

Other issues commented on included other information in the Annual Accounts to be reviewed and reported on; materiality levels; and the annual assessment of the Internal Audit function to ensure it operated in accordance with the main requirements of Public Sector Internal Audit Standards (PSIAS) which would be the subject of a separate report. Having referred to the reliance it was proposed to place on Internal Audit's work and related issues, detailed reference was made to the four audit dimensions framing the wider scope of public sector audit requirements, conclusions on which would help contribute to an overall assessment and assurance on best value.

Whilst making further comments on best value, the report highlighted that work planned during the year included continued follow-up of the Council's response to the 2016/17 Best Value Assurance Report (BVAR), and the actions reported in the Annual Audit Report in 2017/18. Other planned work included considering the Council's arrangements for equal opportunities and carrying out aspects of options appraisals focusing on the Council's Modern Ambitious Programme and Transformation Programme thus far. Reference was also made to Housing Benefit (HB) performance audits including a more strategic approach to be taken to the HB performance audit from 2019/20, the review of the Council's HB service carried out during the 2017/18 audit, and plans to continue to review the relative performance of all councils' HB services throughout the year taking a more risk based and proportionate approach to changes in performance at an individual council level. More generally, issues on independence and objectivity; and quality control were commented on.

Councillor Miller welcomed Mr Cornett and Ms Barrowman to the meeting, following which Mr Cornett made some general comments on the audit approach that had and would be adopted. Thereafter Ms Barrowman referred to various key aspects of the report. Whilst itemising and commenting on the key audit risks identified which required specific audit testing and on which an update would be provided in the Annual Audit Report, it was clarified that a number were not specific to East Renfrewshire. She also commented on the audit timetable, the audit fee, the review of Internal Audit, and follow up work to be carried out on the BVAR report. Ms Barrowman thanked the Head of Accountancy and her staff for their assistance in preparing the 2018/19 Annual Audit Plan.

The Committee noted the 2018/19 Annual Audit Plan and timetable for the publication of related documents, including the Annual Audit Report for 2018/19.

INTERNAL STRATEGIC AUDIT PLAN 2019/20 – 2023/24

835. The committee considered a report by the Chief Auditor on the Internal Audit Strategic Plan for 2019/20 to 2023/24 which included the proposed Annual Audit Plan for

2019/20. It was clarified that the Internal Audit function operated in accordance with Public Sector Internal Audit Standards (PSIAS)

The report explained that the Plan had been prepared following consultation with key partners and clarified, amongst other things, that new audits added to the audit universe included a cyber security checklist. Similarly, some audits had been deleted from the universe as they were no longer applicable, had low risk assessments, or had been merged with other audits. It was clarified that 20 audit days had been included in the Plan for providing an internal audit service to the East Renfrewshire Culture and Leisure Trust (ERCLT), the scope of audits to be carried out using these days having been agreed with the management of ERCLT and members of its Finance and Resources Committee. Resulting audit reports would be issued directly to the Trust's Chief Executive.

Referring to audit needs compared to resources available, the report explained that over the 5-year period of the Plan there was a projected shortfall of 315 audit days which was considered manageable but would be kept under review. The current staffing levels of the Internal Audit section were considered adequate at present, subject to a vacant post being filled in the first quarter of 2019/20, this having been assumed when calculating the number of audit days available. Whilst making reference to one of the performance indicators for the section measuring direct audit days as a percentage of the total days available the target for which was 75%, the report explained that there was a possibility that this would not be fully met. This would be kept under review and reported on quarterly to the committee.

Whilst highlighting key aspects of the report, the Senior Auditor clarified that as well as the report specifying the plan for 2019/20, a schedule reflecting which audits were to be undertaken up to and including 2023/24 had been provided. Having confirmed that climate change was amongst the new audits added to the audit universe, in response to Councillor Grant, he clarified that the relatively high scheduled number of days for the Housing Benefit/Universal Credit audit reflected that the work involved sampling a range of data.

The committee agreed to approve the Internal Audit Strategic Plan for 2019/20 to 2023/24.

CHAIR