

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of virtual meeting held at 2.00pm on 26 November 2020.

Present:

Councillor Stewart Miller (Chair)	Councillor Charlie Gilbert
Councillor Barbara Grant (Vice Chair)	Councillor Annette Ireland
Councillor Angela Convery	

Councillor Miller in the Chair

Attending:

Lorraine McMillan, Chief Executive; Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Michelle Blair, Chief Auditor; Barbara Clark, Chief Accountant; Anthony Jenkins, Brexit Coordinator; Linda Hutchison, Clerk to the Committee; and Liona Allison, Assistant Committee Services Officer.

Also Attending:

John Cornett, Pauline Gillen and Morven Fraser, Audit Scotland.

Apologies:

Councillors Jim McLean and Jim Swift.

DECLARATIONS OF INTEREST

1437. There were no declarations of interest intimated.

CHAIR'S REPORT

1438. The Chair reported, and it was noted, that there were no issues which he wished to bring to the committee's attention at this time.

2019/20 ANNUAL ACCOUNTS FOR THE COUNCIL'S CHARITABLE TRUSTS AND RELATED EXTERNAL AUDIT OPINION AND INTERNATIONAL STANDARD ON AUDITING (ISA) 260 REPORT

1439. Under reference to the Minute of the meeting of 25 June 2020 (Page 1200, Item 1291 refers), when the committee had noted that the final Annual Accounts for the Council's

charitable trusts and related documents would be submitted to this meeting, the committee considered a report by the Head of Accountancy (Chief Financial Officer) explaining that the audit of the 2019/20 Annual Accounts for the seven charitable trusts for which the Council acted as Trustee had been completed, and submitting a copy of these for consideration. The External Auditor's report on the trusts, completed in compliance with ISA 260, was also submitted for consideration.

The Head of Accountancy (Chief Financial Officer) welcomed that the audit had been completed by the end of November in line with the revised timetable for this, especially given the associated challenges faced. She thanked the Chief Accountant, the accountancy team, the core systems team and the Auditors for their joint contribution to this achievement, not only in relation to the trusts, but also in terms of the Council's main Annual Accounts.

Whilst referring to the 2019/20 Accounts and related issues, Ms Gillen confirmed that, in keeping with normal practice, some comments on the audit of the charitable trusts had been included in the main Annual Audit Report relating to the Council. Having referred to the ISA 260 report and ISA 580 letter of representation which had been provided, she confirmed that the Accounts were unqualified, with no issues having been identified during the audit.

Ms Gillen explained that during the audit of the 2018/19 Accounts, a difficulty had been identified obtaining audit evidence in support of some of the payments made from trust funds, but no such issue had been found for 2019/20 with supporting paperwork having much improved. As reflected in comments in the Annual Audit Report to the Council, she highlighted that some of the trusts had not made any awards in the past 6 years, acknowledging however that there were issues associated with the nature of the funds that made it difficult to amalgamate them or make them dormant. In response to Councillor Ireland, she confirmed that the actions requested last year regarding the Netherlee School 1937 Endowment Trust had been implemented.

The committee agreed to:-

- (a) note the External Auditor's report on matters arising from the audits of the registered charities for 2019/20 under requirements of ISA 260;
- (b) note the amalgamated Annual Accounts for 2019/20 for the seven charitable trusts for which the Council acted as Trustee; and
- (c) remit the report to the Council for consideration.

2019/20 EAST RENFREWSHIRE COUNCIL ANNUAL ACCOUNTS, DRAFT ANNUAL AUDIT REPORT AND RELATED ISA 260 REPORT

1440. Under reference to the Minute of the meeting of 25 June 2020 (Page 1200, Item 1291 refers), when the committee had noted the unaudited Annual Accounts for 2019/20 and that a report on the final Accounts and associated draft Annual Audit Report to the Council and the Controller of Audit would be submitted to this meeting, the committee considered a report by the Head of Accountancy (Chief Financial Officer) regarding the Annual Accounts for 2019/20, the associated draft Annual Audit Report prepared by the External Auditor which would be issued in final form after the financial statements had been certified, and a further report by the External Auditor on matters arising from the audit of the Council's financial statements for 2019/20 reported under ISA 260 requirements. The draft Audit report provided an overview of the main issues arising from the 2019/20 audit.

The Council had received an audit certificate which was unqualified. As it had operated comfortably within budget, it had not required to fully draw down £4,312k from reserves as planned, but rather only £911k. The Council's Non-Earmarked General Fund reserve had therefore decreased by £911k, resulting in a balance of £9,643k as at 31 March 2020. This equated to 3.8% of the annual budgeted net revenue expenditure, which was slightly below the Council's most prudent target of 4%, but better than forecasted when the budget had been set for 2020/21.

Capital expenditure of £50,844k had been invested, in addition to which an operating surplus of £598k had been made on the Housing Revenue Account, thus increasing the accumulated surpluses brought forward to that Account to £2,316k.

Mr Cornett referred to the documents provided which included the ISA 260 report and ISA 580 letter of representation. Whilst referring to the Accounts and related issues, he confirmed that it was proposed to issue an unqualified auditor's certificate on the Accounts.

Referring to significant findings from the audit of the financial statements, Mr Cornett made reference to the inclusion of an Emphasis of Matter paragraph in the independent auditor's report relating to the valuation of land and buildings for the Council for 2019/20. He clarified that the Council's valuer had used the Royal Institute of Chartered Surveyors (RICS) guidance as a basis for the valuation work, declaring in certificates a degree of significant uncertainty regarding the valuations due to the impact of COVID-19. He confirmed that appropriate disclosures had been made in the Accounts, with External Audit simply wishing to draw attention to this as it was considered fundamental to users' understanding of the Accounts. Mr Cornett stressed that this issue was not particular to the Council and likely to be in common with most, if not all, council audits across Scotland and the UK this year, as well as all public sector and commercial audits because of the uncertainties created by COVID-19.

Mr Cornett made reference to adjustments made to the Accounts associated with the impact of the McCloud Pension adjustment on pension fund disclosures, clarifying that this should be the final adjustment the Council needed to make going forward. He commented that an adjustment had also been made to reflect the Clyde Valley Waste Treatment arrangements to reflect the Council's share of the valuation of that asset.

Mr Cornett stressed that the Accounts and supporting papers presented to the External Auditors had been of a very high standard, and that the help and support provided by the finance team during the audit had been very good also, particularly from the Head of Accountancy (Chief Financial Officer), the Chief Accountant and the rest of the team. He added that, given the challenges of remote working, the audit process had progressed as well as it could have, with useful learning points identified by all parties. It was explained that moving forward, there was a wish to retain some practices that had worked well this year.

Whilst making reference to the remainder of the Annual Audit Report which covered wider dimensions such as financial management and financial sustainability, Mr Cornett commented that strong arrangements were in place and used well to support financial management and decision making within the Council. He referred also to the challenges around financial sustainability moving forward, especially in view of COVID-19 on which reflections had been provided in the Annual Audit Report, adding that it was recognised that issues referred to may have moved on since the report was prepared at a point in time. A recommendation had been made to reflect COVID-19 in the Council's financial plans moving forward, but it was recognised that there was a sequence of events to be completed to be able to do so which would be influenced by issues such as the continued impact of COVID-19 and decisions made by the UK and Scottish Governments. Mr Cornett highlighted that financial planning would be an iterative process moving ahead, due to the scale of change, and one which would not be completed by this time next year, albeit some progress would be expected to have been made.

He expressed the view that the revised governance changes made by the Council in response to COVID-19 had been both effective and transparent in terms of decision making. Comments had also been made in the Audit Report on Best Value, in terms of the Council's own self-assessment and following up previous work from the Best Value Assurance Review a few years ago.

Councillor Miller welcomed Mr Cornett's views regarding officers which were shared by Elected Members. The Head of Accountancy (Chief Financial Officer) concurred that an excellent effort had been made to complete the audit by the revised deadline, that much uncertainty remained, and that issues would not be fully resolved in the forthcoming year. She confirmed that the Accounts would be considered by the Council later in the day, outlining the new arrangements made to sign these electronically.

The committee agreed:-

- (a) to note the draft Annual Audit Report to the Council and Controller of Audit 2019/20 and the External Auditor's Report on matters arising from the audit of the Council's 2019/20 Financial Statements prepared under requirements of ISA 260;
- (b) to note the content of the Council's Annual Accounts for 2019/20 and related comments made; and
- (c) to remit the report to the Council for consideration.

INTERIM TREASURY MANAGEMENT REPORT 2020/21

1441. Under reference to the Minute of the meeting of 13 August 2020 (Page 1226, Item 1318 refers), when the committee had noted the Treasury Management Annual Report for 2019/20, and recommended to the Council that the organisations specified in that report for investment of surplus funds be approved, the committee considered a report by the Head of Accountancy (Chief Financial Officer) on treasury management activities for the first six months of 2020/21.

The report explained that, in line with the CIPFA Code of Practice on Treasury Management 2017, the Audit and Scrutiny Committee was responsible for ensuring effective scrutiny of the Council's treasury management activities. In accordance with that requirement, the interim Treasury Management Report for 2020/21 was attached to the report for consideration.

Whilst highlighting key aspects of the report, the Chief Accountant confirmed that the Council's prudent treasury management position had allowed it to cope with the additional cash flow demands arising from COVID-19, especially on grant payments to businesses and the self-employed. Long term borrowing had been fairly static, with only a small amount of debt paid off during the period covered by the report. Some short term borrowing had been pursued in the summer to allow for peaks in creditor payments.

The Chief Accountant clarified that in accordance with the Council's strategy on variable rate loans not exceeding 30% of the total debt outstanding, this had peaked at just over 7% in the first 6 months of 2020/21, and would increase slowly as Public Works Loan Board (PWLB) borrowing was repaid, or reduced as further PWLB loans were taken. Other issues referred to included a slight decrease in short term investments due to capital and revenue cash flow; daily expenditure and income fluctuations as reflected in short term balances; and the prudential indicators which helped confirm that capital investment plans and treasury management decisions remained affordable, prudent and sustainable. The Chief Accountant

highlighted that indicators 3 and 4 demonstrated that the Council was operating well within its limits, despite the inclusion within the projected outturn figures of the Council's share of the new Clyde Valley Waste Plant liability. She clarified that the list of counterparties for which approval was sought had been amended slightly from that referred to in the 2019/20 Annual Report, reasons for which were outlined.

The committee agreed:-

- (a) to **recommend to the Council** that the organisations for investment of surplus funds be approved in accordance with Appendix 2 to the report; and
- (b) otherwise, to note the report and related comments made.

WITHDRAWAL FROM THE EUROPEAN UNION - UPDATE

1442. Under reference to the Minute of the meeting of 13 August 2020 (Page 1227, Item 1319 refers), when the committee had agreed that a further update on the UK's exit from the European Union (EU) be provided following 31 October 2020, this being the deadline set by which an agreement required to be reached between the EU and the UK subject to formal ratification, the committee considered a joint report by the Directors of Corporate & Community Services and Environment, providing a further update on the UK's exit from the EU and work within the Council in response to this.

The report confirmed that the UK had ceased to be a member of the EU on 31 January 2020, entering a transition period then until 31 December 2020. Both parties still remained in talks regarding the future relationship between them from 1 January 2021 onwards, despite the deadline of 31 October having passed.

An update was provided on the work of the Council's well-established Brexit Working Group (BWG), which was now being convened more frequently, the membership of which had been expanded since the previous update had been provided and now included representation from Environmental Health and Trading Standards.

It was highlighted that the ongoing response to COVID-19, coupled with heightened risks of disruptive weather, meant that an end to the transition period on 1 January 2021 was far more likely to see concurrent risks realised, and require issues to be considered also by the Council Resilience Management Team (CRMT). Reference was made to the Brexit Risk Register which was updated regularly; and multiple disruptive scenarios considered during a concurrent risk exercise on 17 November. The latter had been attended by officers from East Renfrewshire, Inverclyde, Renfrewshire and West Dunbartonshire Councils to enable discussions on mutual aid, general sharing and best practice to take place. The purpose and operation of a national Multi Agency Coordination Centre (MACC) to be established and led by Police Scotland, to act as a national strategic command for incidents, was also referred to.

Having commented on a range of other ongoing issues under consideration, such as by COSLA and local authorities, which included the EU Settlement Scheme, the report concluded that whilst the COVID-19 response had impacted on the regularity of Brexit related work, many of the related procedures and preparations were well established, having been implemented for previous Brexit deadlines. It was reported that the pressures of there being no deal at the end of the transition period had been exacerbated due to COVID-19.

The Brexit Coordinator confirmed that discussions still remained ongoing between the UK and the EU on various issues, and highlighted that the BWG was now meeting fortnightly. He commented on scenarios discussed at, and the value of, the concurrent risks exercise that

had been carried out which would inform further discussions locally, including by the CRMT. Whilst referring to the uncertainties surrounding the final outcome of the talks between the UK and EU, he referred to the MACC being established by the Scottish Government.

Reference was made to an update due very shortly from the Home Office on the EU Settlement Scheme in terms of the position in East Renfrewshire, on which the Brexit Coordinator undertook to provide an update the following week for members of the committee.

Councillor Miller, supported by Councillor Ireland, highlighted that businesses disliked uncertainty. Thereafter, in response to Councillor Grant who supported local companies securing contracts and sought clarification on tendering beyond the transition period, the Brexit Coordinator advised that the exact arrangements would be subject to the outcome of the ongoing discussions between UK and EU, but that as of 1 January the arrangements could be as they are just now, at least initially. In relation to the Working Time Directive, the Brexit Coordinator advised that, subject to a deal being reached between the UK and EU, there was expected to be continuity of legislation for a period of time in the first instance pending any future changes to it being made.

In response to Councillor Ireland, the Brexit Coordinator confirmed that he would be happy to share a report on the concurrent risks workshop with the committee after it had been submitted to the CRMT. He also clarified that it was hoped to increase publicity and promote further the EU Settlement Scheme locally when some of the restrictions relating to COVID-19 were relaxed, such as through the use of posters which was available from the Home Office and deploying resources available through the Council's own Communications Team.

The committee, having considered how it wished to proceed, agreed:-

- (a) to note that the Brexit Coordinator would provide further information shortly to the Clerk for circulation to members of the committee on the EU Settlement Scheme in respect of East Renfrewshire on receipt from the Home Office;
- (b) that a further update be provided to a future meeting of the committee, including on the outcome on the concurrent risks workshop, following the conclusion of negotiations between the UK and EU; and
- (c) otherwise, to note the report and related comments.

INTERNAL AUDIT PLAN 2020/21 – IMPLEMENTATION PROGRESS - JUNE TO SEPTEMBER 2020

1443. The committee considered a report by the Chief Auditor regarding progress made on the implementation of the revised 2020/21 Internal Audit Plan from 1 June to 30 September 2020. It was confirmed that only one audit report in relation to planned 2020/21 audit work had been issued in quarter 2, information on which was provided. Details of three audit reports relating to 2019/20 audit work were also provided in respect of which management responses had been received.

Reference was also made to the quarterly performance indicators (PIs) for the section, one of which was not being met due to COVID-19 restrictions on audit work that could be carried out, although some audit work was continuing. The report confirmed that there had been two new requests for assistance dealt with using contingency time, neither of which had resulted in financial loss to the Council. It was also explained that the reduced and revised Internal Audit Plan would be kept under review, with any further adjustments brought to the committee's attention as required.

Whilst commenting on the report, the Chief Auditor confirmed that officers in her section were continuing to provide assistance to other sections to help respond to the COVID-19 emergency, such as to help process business grants. She also referred to a significant risk that the internal audit targets would not be met for 2020/21 due to COVID-19 related restrictions, undertaking to provide further updates on this to the committee. The Chief Auditor also reported that she now intended to submit a report to the next meeting on further revisions to the Internal Audit Plan, particularly as it had just come to light that there would now be fewer audit days available than anticipated.

The committee agreed:-

- (a) not to seek any of the reports issued during the quarter at this stage;
- (b) to note that the Chief Auditor would submit a report to the next meeting on further amendments to the 2020/21 Internal Audit Plan; and
- (c) otherwise, to note the report and related comments.

AUDIT SCOTLAND COVID-19 GUIDE FOR AUDIT AND RISK COMMITTEES AND RELATED COMMENTS

1444. Under reference to the Minute of the meeting of 24 September 2020 (Page 1271, Item 1369 refers), when the committee had agreed that a report on the issues raised within the *COVID-19 Guide for Audit and Risk Committees*, published by Audit Scotland in August 2020, be prepared and submitted to this meeting, the committee considered a report by the Clerk, on the feedback provided.

It was confirmed that the Guide highlighted the wide impact of the pandemic on society, the strength of the associated response of public sector bodies, and that COVID-19 had exacerbated many pre-existing risks and challenges they faced. It also emphasised the crucial and increasingly important role of audit and risk committees, suggesting key issues for them to consider to focus attention on the short-term challenges faced in the response phase of the pandemic.

It was clarified that the Guide posed a series of questions to assist auditors and public bodies effectively scrutinise and provide challenge in key areas requiring additional focus at present, categorising these under the headings of internal control and assurance; financial management and reporting; governance; and risk management. To enable the committee to consider the position on each question posed, feedback had been sought and received from the Corporate Management Team (CMT) and other senior officers, a copy of which was appended to the report. It was clarified that the Performance and Audit Committee of the Integration Joint Board was also considering issues raised within the Guide.

The Clerk highlighted key aspects of the report and the considerable effort made by the CMT and other senior officers to provide comments on the various questions within the Guide. She invited the committee to consider the feedback received and any further action deemed appropriate.

In response to Councillor Grant who asked Mr Cornett for his views on the report and the way forward, he commented that a very comprehensive response had been prepared providing the type of assurances the committee ought to be looking for. He highlighted that the challenge moving forward would be how the environment might change under COVID-19 and other factors. Having acknowledged the resource required to provide detailed feedback, he

suggested it would be useful for the committee to remain alert to how those changes might impact upon assurances received from officers, taking account of the committee's terms of reference. He also suggested that it would be useful to ascertain if there was a route to receiving assurances on how the challenges impacted upon the partnership arrangements between the Council and other bodies, and how COVID-19 was impacting on those other organisations and possibly therefore the Council.

The committee, following discussion:-

- (a) agreed that a further update be provided in due course, around March or April 2021, in respect of which the Clerk would liaise with members of the committee to ascertain which specific issues they wished to seek feedback and focus on, or seek further assurances about, at the appropriate time; and
- (b) otherwise, noted the report and related comments.

CABINET RESPONSES TO AUDIT AND SCRUTINY COMMITTEE INVESTIGATIONS ON INCOME GENERATION AND COMMERCIALISATION; AND CLIMATE CHANGE

1445. The committee considered a report by the Clerk, submitting for review the responses approved by the Cabinet on the recommendations made by the Audit and Scrutiny Committee on both Income Generation and Commercialisation; and Climate Change.

The report confirmed that, following the submission of the report on the committee's investigation on Income Generation and Commercialisation to the Cabinet on 5 December 2019, following a slight delay due to the impact of COVID-19, a response had been considered and approved by the Cabinet on 24 September 2020. It reflected that all 12 of the committee's recommendations had been agreed, and that despite the challenges of dealing with COVID-19 related issues, work had been started in many of the areas, with future work planned in due course.

It was also confirmed that the final report on the committee's investigation on Climate Change had been completed early in 2020 but that, due to the position on COVID-19, its submission to the Cabinet had been delayed to 13 August 2020. It was confirmed that the committee had made 24 recommendations, a key one being that the Council's strategy on climate change be renewed. As the recommendations had been known for some time, the Cabinet had considered a report in response by the Director of Environment at the same meeting outlining a proposed approach for the development of a Climate Change Strategy and Action Plan, particularly in view of the recommendations arising from the Audit and Scrutiny Committee's work. It was clarified that the Head Environment (Strategic Services) had already indicated that he intended to submit a further report to the Cabinet early in 2021 on developments.

Having highlighted key issues within the report, the Clerk invited the committee to consider when it might wish to review progress on implementation of the recommendations that had been accepted from both investigations. Regarding the report on income generation and commercialisation, and in line with one of the recommendations that had been accepted, it was proposed that an invitation now be extended from the Chair of the committee to the Chair of the Performance and Audit Committee of the Integration Joint Board to share information and discuss good practices arising from the review.

During discussion, Councillor Miller proposed that an update on the implementation of the recommendations on Climate Change be submitted in November 2021. Regarding the recommendations on income generation, Councillor Grant asked if it was known if any of the suggestions made to generate new income, or maximise potential from existing arrangements,

had been taken forward by the Environment Department. The Clerk reported that she did not know the definitive position, although she understood some were not necessarily considered viable, but that the definitive position might not be known for some time.

Councillor Grant referred to the new Christmas lights displayed in some parts of the authority and sought clarification on related funding, if they had been sponsored commercially, and if there was a possibility of other initiatives been sponsored in such a way. Having referred also to work completed at Fairweather Hall car park and the possibility of work of the type there being sponsored and recognised, more generally she encouraged anyone with any ideas of this type or other ways of maximising income generation to suggest these to the appropriate party.

Having heard the Clerk comment that she was not aware of how the Christmas lights had been funded, the Head of Accountancy (Chief Financial Officer) commented that she was not aware of any local sponsorship having been received and the financial challenges for local businesses doing so this year in the current situation. More generally she commented that such suggestions could be worth considering in future. Councillor Ireland confirmed that the new lights had been funded through the Scottish Government's Town Centre Regeneration Fund, to complement those funded by the Business Improvement District.

Having heard Councillor Ireland seek an update on the suggestion made on asset management and taking a more commercial approach to managing vacant buildings given the role of the commercial landlord, the Chief Executive sought the committee's forbearance on seeking this update, as the team involved was fully committed at present looking at issues relating to schools, such as ventilation, and would also be called upon during the forthcoming months to address a range of COVID-19 related issues. She also referred to challenges facing the property market and the value of allowing that market to settle a little before an update was sought.

Referring to all of the recommendations made within the report on income generation and commercialisation, Councillor Miller stated that his preference was for a report to be submitted to the committee on the position on all of them in November 2021, rather than an earlier date, suggesting why this was most appropriate to allow progress to be made. The other members of the committee concurred that this was an acceptable way forward.

The committee:-

- (a) noted the responses approved by the Cabinet to the Audit and Scrutiny Committee's investigations, including the extent to which the recommendations had been accepted;
- (b) agreed that reports be submitted to the committee in November 2021, on progress on implementation of the recommendations accepted by the Cabinet;
- (c) noted that an invitation would now be extended from the Chair of the Committee to the Chair of the Performance and Audit Committee of the Integration Joint Board to share information and discuss good practices arising from the Income Generation and Commercialisation review; and
- (d) otherwise, noted the report and comments made, including that it would be useful for anyone with any ideas regarding income generation maximisation, such as through potential sponsorship, to suggest these to appropriate parties.

