

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 21 April 2016.

Present:

Councillor Barbara Grant (Vice Chair)
Councillor Charlie Gilbert
Councillor Gordon McCaskill

Councillor Tommy Reilly
Councillor Ralph Robertson

Councillor Grant in the Chair

Attending:

Michelle Blair, Chief Auditor; Linda Hutchison, Clerk to the Committee; and Ron Leitch, Committee Services Officer.

Also attending:

Esther Scoburgh, Audit Scotland.

Apologies:

Councillors Gordon Wallace (Chair) and Paul O'Kane.

DECLARATIONS OF INTEREST

2026. There were no declarations of interest intimated.

CHAIR'S REPORT

2027. The Chair reported, and it was noted, that there were no issues which she wished to bring to the committee's attention at this time.

EAST RENFREWSHIRE COUNCIL – ANNUAL AUDIT PLAN 2015/16

2028. The committee considered a report by the External Auditor regarding the 2015/16 Annual Audit Plan. The report referred to the approach adopted by Audit Scotland to discharge its responsibilities as External Auditor to the Council.

The Plan summarised planned audit activity. This included an audit of financial statements and providing an opinion on whether or not they gave a true and fair view of the financial

position of the Council as at 31 March 2016; its income and expenditure for the year ending 31 March 2016; and also whether or not the accounts had been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on local authority accounting in the United Kingdom. Planned work also included an audit of the financial statements and provision of an opinion on the charitable trusts where the local authority was the sole trustee; and reporting the findings of the shared risk assessment process in the Local Scrutiny Plan which would summarise identified scrutiny risks and/or any changes to the Local Area Network's (LAN's) assessment since the previous year. Reference was also made to a review and assessment of the Council's governance and performance arrangements in various key areas including internal controls and the adequacy on internal audit; provision of an opinion on a number of grant claims and returns; reporting the National Fraud Initiative arrangements and results; and the collection of relevant financial and performance information to inform Audit Scotland's national reports.

Having commenting on various responsibilities and the audit approach to be adopted, the report referred to a conclusion reached that the Council's internal audit service continued to operate in accordance with the Public Sector Internal Audit Standards, and had sound documentation standards and reporting procedures in place. It was clarified that the External Auditor would place formal reliance on internal audit's work on three issues to support its audit opinion on the financial statements and, in its wider governance and performance audit work, planned to review the findings and consider other areas of internal audit work on issues which included the Local Government Benchmarking Framework. Thereafter, more generally, reference was made to materiality issues, planned reporting arrangements, and matters pertaining to quality control, independence and objectivity.

The report also highlighted the main risk areas identified for the Council, categorising some as financial ones, such as regarding income, consolidation of the Integrated Joint Board (IJB) and Leisure Trust Group Accounts, and the Care Finance System; and referring also to wider dimension issues and risks, such as the financial position and funding gap and Creditor departmental changes. Regarding national performance audit studies in respect of which the External Auditor would carry out work to collect relevant information to inform these, issues on which work would be progressed were itemised. It was also clarified that an opportunity would be requested to discuss with members of the committee the Audit Scotland Paper "Financial Reporting and Scrutiny: Why Accounts Matter" prior to the committee's meeting in August when the draft Annual Accounts would be considered.

Appended to the report was a list of planned audit outputs in diagrammatic form; a list of the significant audit risks, related sources of assurance received and audit work proposed; and a progress report on action plan points referred to in the 2014/15 Annual Audit Report.

During further explanation, Ms Scoburgh commented on various sections of the Plan, in the course of which she clarified that the Annual Audit Report, including the International Standard on Auditing (ISA) 260 report to those charged with governance, would be submitted to the committee on 29 September and that the full Council would be asked to approve the audited Accounts later that same day. She also referred to the informal meeting to be convened with members of the committee to discuss the Audit Scotland report "Financial Reporting and Scrutiny: Why Accounts Matter", forthcoming Best Value work to be undertaken in respect of the Council regarding which the authority would be one of six to be reviewed using a revised approach, and the External Audit fee agreed.

Responding to Councillor McCaskill who referred to the risk identified linked to slippages in time taken to make creditor payments, Ms Scoburgh referred to the risk of reputational damage to the Council and of suppliers potentially withdrawing from contracts if they were not paid timeously. She added that she understood that the situation identified was being

addressed with improvements having been made, that the issue was not a serious concern at present, and that a report on internal controls to be published in due course would comment on the position. In reply to Councillor Grant, she referred to a related Statutory Performance Indicator, explaining that it was only if the issue continued to be ongoing that there would be a likely impact on the Council's Best Value assessment.

In response to Councillor Grant who referred to the committee's interest in the Community Health and Care Partnership (CHCP) scheduled payments issue and provider contracts matter that had arisen, her related concerns and the importance of the issues identified not recurring, the External Auditor referred to the cessation of scheduled payments, the new CareFinance system, a related review of initial implementation of the system which was underway and would be reported on, and related discussions at meetings of the IJB and its Performance and Audit Committee. Supported by the Chief Auditor, she confirmed that £213k had not been recovered from a provider on a matter regarding which a contract dispute had arisen, reiterating reasons for this. Related issues were discussed during which Councillor Robertson commented that reference to the cessation of scheduled payments had been made at the recent briefing session for Members on the Council's Modern, Ambitious Programme (MAP).

On a more general issue, it was noted that it had been clarified that External Audit reports on HSCP matters would continue to be brought to the committee's attention.

The committee noted:-

- (a) that the annual discussions between the committee and External Auditor on issues relating to the Council's Annual Accounts prior to their certification based on International Standard on Auditing 260 as well as discussions on the Annual Accounts for 2015/16 and the Annual Audit Report to the Council and Controller of Audit for 2015/16 would take place at the meeting of the committee on 29 September 2016;
- (b) that, in advance of that, a report on the unaudited Annual Accounts for 2015/16 would be submitted to the committee on 18 August 2016;
- (c) that the External Auditor would provide a copy of the IJB Annual Audit Plan 2015/16 to the Clerk for circulation to Members of the committee for information;
- (d) that the Clerk would liaise with the External Auditor regarding the informal meeting to be convened between the External Auditor and Members of the Committee at which the Audit Scotland report "Financial Reporting & Scrutiny: Why the Accounts Matter", copies of which had been circulated to Members, would be discussed; and
- (e) otherwise, the Annual Audit Plan 2015/16.

INTERNAL AUDIT STRATEGIC PLAN 2016/17 – 2020/21

2029. The committee considered a report by the Chief Auditor on the Internal Audit Strategic Plan for 2016/17 to 2020/21 which included the proposed Annual Audit Plan for 2016/17. Comments were provided on staffing resources within the Internal Audit section and how these impacted on the implementation of the Plan.

The report explained that the Plan had been prepared following consultation with key partners and clarified, amongst other things, that new audits added included those on payments for schools; cash for kids; the City Deal Initiative; and capital project management. Audits deleted as they were no longer applicable or had low risk assessments included those on civic hospitality; construction industry tax; and the Leader Programme.

Regarding the establishment of the Community and Leisure Trust, it was confirmed that 20 audit days had been included in the plan for providing an internal audit service to East Renfrewshire Community and Leisure (ERCL) in respect of which a draft Service Level Agreement (SLA), which remained to be signed, had been prepared. The scope of audits to be carried out was to be agreed at a later date and reports prepared were to be issued directly to the Chief Executive of ERCL.

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 265 audit days which was considered manageable but would be kept under review. Some audits had been rescheduled to ensure planned audits for 2016/17 could be met through the estimated days available and the current staffing level within the section was considered adequate. Regarding a performance indicator requiring actual direct audit days as a percentage of total days available to be 75% or greater, it was explained that the proposed Plan was based on a number of estimates such as for sickness and training. Based on currently available information, it was possible that this indicator might not be achieved. The situation was to be kept under review and reported quarterly to the committee.

The Chief Auditor was heard regarding the report during which she referred to provision made for fraud and contingency related work, and the need to provide assurances to Glasgow City Council, as the lead authority for the Glasgow & Clyde Valley City Deal initiative, on projects carried out within East Renfrewshire.

In response to questions, the Chief Auditor referred to the limited financial transactions associated with the IJB, the nature of audit work associated with it, and the difficulty of estimating days required for audit work in this first year of operation of the Board. Supported by the External Auditor, she clarified that her team and the NHS audit team would continue to carry out audit work on operational issues relating to the Council and NHS respectively as before, and referred to assurances that would be taken from that work. Related issues regarding audit work for the IJB were commented on, including the establishment of processes, sharing of best practice and reporting lines.

Other issues discussed included that the Chief Auditor would keep the committee updated on progress achieving the performance indicator for her section referred to above, and the types of issues that might fall to be reviewed under provision within the Plan for fraud and contingency work.

The committee agreed to approve the Internal Audit Strategic Plan for 2016/17 to 2020/21.

CHAIR