

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of virtual meeting held at 2.00pm on 29 April 2021.

Present:

Councillor Stewart Miller (Chair)	Councillor Charlie Gilbert
Councillor Barbara Grant (Vice Chair)	Councillor Jim McLean
Councillor Angela Convery	Councillor Jim Swift

Councillor Miller in the Chair

Attending:

Barbara Clark, Chief Accountant; Michelle Blair, Chief Auditor; Linda Hutchison, Clerk to the Committee; John Burke, Committee Services Officer; and Liona Allison, Assistant Committee Services Officer.

Also Attending:

John Cornett, Louisa Yule and Morven Fraser, Audit Scotland.

Apology:

Councillor Annette Ireland.

DECLARATIONS OF INTEREST

1630. There were no declarations of interest intimated.

CHAIR'S REPORT

1631. Councillor Miller referred to the recent sad death of Ross Mitchell, Senior Auditor, who had attended the committee on a number of occasions, paying tribute to his work within the Council since 1996. On behalf of the committee, he offered condolences to Mr Mitchell's family and former colleagues.

The committee endorsed the tribute paid to Mr Mitchell.

EAST RENFREWSHIRE COUNCIL – ANNUAL AUDIT PLAN 2020/21

1632. The committee considered a report by the External Auditor regarding the 2020/21 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 annual accounts and meet the wider scope requirements of public sector audit, including the audit of Best Value.

Reference was 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. Having commented on the impact of COVID-19 on society, public finances, public audit work and related issues, the report made reference to how added value was achieved for the Council through external audit work. It was explained that the aim was now to issue the independent auditor's report and Annual Audit Report by an updated deadline of 30 November 2021, but also acknowledged this may not be achievable due to ongoing pressures and uncertainties caused by COVID-19 which required a pragmatic and flexible approach to be taken on audit work. Progress would be discussed between External Audit and management as necessary.

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 related audit work planned. It was clarified that there was not considered to be a significant risk of fraud regarding either revenue or expenditure. 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, the Head of Accountancy (Chief Financial Officer) and the 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.

Further issues commented on included other information in the Annual Accounts to be reviewed and reported on; materiality values; 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). 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 the work planned during the year would focus on follow-up of recommendations made previously in the areas of financial planning and financial governance and resource management and equalities. More generally, issues on independence and objectivity; and quality control were commented on.

Whilst commenting on key aspects of the report, Mr Cornett referred to the significant audit risks itemised in Exhibit 1 which required specific audit testing and on which an update would be provided in the Annual Audit Report, clarifying that a number were not specific to East Renfrewshire. He reiterated that potential existed for the Annual Accounts timetable to change due to challenges and uncertainties linked to COVID-19, referring to the intention to discuss progress with the Head of Accountancy (Chief Financial Officer) and Chief Accountant. He stressed that if the 30 November deadline was not met, this would not impact negatively on the Council as it would be made clear that this responsibility lay with External Audit.

Regarding financial sustainability, Mr Cornett explained that the Council was not expected to know the full impact of the pandemic at present, which remained to be fully quantified, but that audit work would consider the Council's ongoing approach to the way forward.

In response to Councillor Miller who highlighted the extent to which reference was made in the Plan to estimated valuations such as regarding property, plant and equipment, commented that these could depend on who was valuing an asset, and referred to the need for a balanced approach on this, Mr Cornett referred to the market valuation of assets and how the property market did not react as quickly to changing circumstances compared to stocks and shares for example. The Chief Accountant reported that the view of the Council's property advisor was that COVID-19 should not have a large impact on property valuations.

Making further reference to financial sustainability, Councillor Swift sought clarification on how close the Council was to closing its £8.5m funding gap. The Chief Accountant confirmed that the 2021/22 budget had been agreed and that the Council had a good track record of implementing planned savings proposals, but that this did not mean there would not be budget issues to address in 2022/23 and subsequently.

The committee noted the 2020/21 Annual Audit Plan and current timetable for the publication of related documents, including the Annual Audit Report for 2020/21.

NATIONAL EXTERNAL AUDIT REPORT – LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW 2019/20

1633. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Local Government in Scotland – Financial Overview 2019/20*, which under the committee's specialisation arrangements had been sent to Councillors Convery and Ireland for review. The Head of Accountancy (Chief Financial Officer) had been asked to provide comments and a copy of her feedback was attached to the report.

It was explained that the Audit Scotland report covered councils' income; their financial position; the financial outlook for local authorities; and an Integration Joint Board (IJB) overview, on each of which the Head of Accountancy (Chief Financial Officer) had provided comments. The audit report had found that revenue funding from the Scottish Government, the largest element of local authority income, had increased by 5.4% in 2019/20, equating to 3.4% in real terms, almost half of which related to the introduction of 1140 hours of early learning and childcare. It was clarified that since 2013/14 revenue funding for local government had fallen by 4.7% in real terms whilst funding for other Scottish Government funded sectors had fallen by only 0.8%, with a growing proportion of local government funding committed to national policy initiatives which reduced local flexibility. The report explained how Grant Aided Expenditure (GAE) was calculated, based on factors such as population, deprivation, crime and rurality. Although the Council had previously benefitted from GAE distribution due to local population growth, there had been an increased focus in recent years on such other factors, with East Renfrewshire now receiving a relatively low level of income from grants and NHS funding reflecting the area's relatively low levels of deprivation.

Whilst commenting on the financial position, the report made reference to planned savings. It was explained that COVID-19 had not had a material impact on the Council in 2019/20, but significant financial impacts had been felt during 2020/21, reasons for which were summarised. These were expected to be covered by Government grants and use of fiscal flexibilities. Details of the impact on 2021/22 were emerging and would be carefully monitored.

Reference was made to the use of reserves, such as how £4.3m and £3.5m of those had been used to help bridge budget gaps in 2019/20 and 2020/21 respectively, in addition to which the

Council had agreed to use a further £3.465m for the same purpose in 2021/22. This would leave the unallocated general reserve level at 2.2% as at March 2022, which was still within the acceptable 2-4% level. Whilst commenting on capital expenditure, the report explained how projects were funded and related issues, and that new investment was focussed mainly on early learning and childcare, City Deal projects, roads and new housing stock. COVID-19 had impacted on some capital projects and related timescales in terms of slippage. In 2019/20 the Council had been the second lowest in Scotland in terms of debt as a percentage of annual revenue budget, but its net debt had increased by 14% and would continue to rise in future reflecting ambitious capital plans.

Regarding the financial outlook, it was reported that total revenue funding to councils in 2020/21 had increased by 1.4% in real terms and 3.4% in cash terms, but the increase was largely ring-fenced for national education and IJB commitments. The Council faced a 6% funding gap compared to the Scottish average of 3% due to range of factors, with various means adopted to close the gap. While multi-year budget planning had been standard practice for some time, UK and Scottish Government settlement figures had only been provided for a single year for 2021/22 with the budget position further exacerbated by the impact of COVID-19. Accordingly, the Council had agreed to set a single year budget for that year and hoped that national multi-year settlements would be published from 2022/23 onwards, allowing it to resume its preferred 3 year budget approach.

Related issues were commented on including medium-term planning at departmental level, the publication of updated higher level financial plans, and how COVID-19 related issues had been monitored as information on pressures and funding streams emerged. The latest estimate was that the funding pressure amounted to almost £9m excluding IJB services, with further funding having been announced which it was understood would cover these pressures in 2020/21. The report commented on other COVID-19 related financial matters, including ongoing financial pressures as the economic and social impacts of the pandemic unwind, £2m of capital receipts already earmarked to help address COVID-19 pressures, and how the position would be kept under review when developing the next 3 year revenue and 10 year capital budget plans. Having referred to a real term reduction in capital grant of 30% between 2013/14 and 2020/21 and confirmed that the Council's capital grant had not increased for 2021/22, the report explained that these factors together with COVID-19 pressures would constrain the Council's ability to invest further in local infrastructure despite interest rates remaining low and continuing work with regional partners to maximise the impact of projects.

The Audit Scotland report had also included an overview on IJBs for 2019/20, which had responsibility for the operation, finances and governance of integrated health and care services rather than councils. It was explained that East Renfrewshire IJB had reported a modest deficit of £0.065m after using £0.519m of reserves to meet unachieved savings, and that the total savings challenge for 2019/20 had been £3.686m, £3.097m of which was within social care and £0.585m within health. Other issues commented on included the accumulation and use of reserves, the 2020/21 budget set by the IJB, COVID-19 related costs quantified for that year which were to be fully funded, and the funding of IJBs more generally. It was reported that the IJB had set its 2021/22 budget in March 2021 although there were many unknowns remaining to be faced as part of the pandemic response and post COVID-19 landscape which would be discussed throughout the year.

It was confirmed that the Chief Officer and Chief Financial Officer remained unchanged since the IJB had been established, putting East Renfrewshire's IJB in a stronger leadership and governance position than some others. The report explained that significant work had been undertaken prior to the pandemic to review the Integration Scheme in line with the legislative requirement for a five year review which, as for others, had been paused due to COVID-19. Work would recommence in 2021/22.

The Chief Accountant commented on and highlighted key aspects of the report, including the pressures the Council continued to face to produce a balanced budget, capital expenditure and related borrowing issues, the financial outlook, service demands, and long-term financial planning.

Councillor Miller commented that the financial outlook for the Council was not positive unless central grant funding significantly increased. Having heard the Chief Accountant, in response to Councillor Grant, refer to the Council's contribution to the "Floors" arrangement in terms of funding, Councillor Convery thanked the officers involved in providing a very thorough and informative report.

The committee agreed to note the report and related comments made.

CONSULTANCY EXPENDITURE AND RELATED LOG

1634. Under reference to the Minute of the meeting of 25 June 2020 (Page 1205, Item 1296 refers), when the committee had noted a report on the log in relation to the appointment of consultants for the 2019/20 financial year, and agreed that further such reports should be submitted to the committee annually after the end of each financial year, the committee considered a report by the Clerk referring to discussions by the committee thus far on such expenditure, and providing feedback on consultancy expenditure for the 2020/21 financial year. A copy of the log was appended to the report, it being noted that with log was also published on the corporate procurement section of the Council's website and updated on a 6-monthly basis.

Councillor Swift proposed seeking confirmation if every contract awarded for consultancy had been awarded in accordance with the guidance in place for this or if any contracts for consultancy had been awarded above a threshold or had migrated towards being above one. He suggested that it would also be useful if future reports on the log provided feedback on consultancy grouped by department and section for ease of review. Both he and Councillor Miller welcomed that information on consultancy was now in the public domain in the interests of transparency.

The committee agreed:-

- (a) that the Clerk seek confirmation if every contract awarded for consultancy had been awarded in accordance with the guidance in place for this or if any had been awarded above a threshold or had migrated towards being above one and circulate feedback on this on receipt;
- (b) to request that future reports on the log provide feedback on consultancy grouped by department and section for ease of review; and
- (c) otherwise, to note the report.

AUDIT AND SCRUTINY COMMITTEE WORK PLANS 2020/21 AND 2021/22

1635. Under reference to the Minute of the meeting of 21 January 2021 (Page 1400, Item 1511 refers), when the committee had noted performance against the committee's updated 2020/21 Work Plan at that stage, agreed that development and implementation of the Plan should continue, and also agreed that a further report on performance against it and on the 2021/22 Work Plan be submitted to a future meeting, the committee considered a report by

the Clerk providing a further update on 2020/21 Work Plan, and seeking approval of the 2021/22 Work Plan to the extent it had been developed thus far. A copy of the updated 2020/21 Work Plan and the proposed 2021/22 Plan formed Appendices 1 and 2 to the report.

It was clarified that both plans had been prepared in accordance with the Scrutiny and Review Guide approved by the Council in June 2019 to help the committee schedule and prioritise its work and in the interests of providing transparency, openness and evidence of the Council's ongoing commitment to demonstrating Best Value and continuous improvement. Having referred to the range of issues considered by the committee, which included recurring reports and those prepared on External Audit reports, the report clarified that the plans were effectively live documents which had been and would be added to as required, such as to include reference to specific investigations and work which the committee agreed to pursue.

The report provided a statement on progress as at 31 March 2021 against the 2020/21 Work Plan, including in-depth work pursued and, for clarity, notes on various issues such as ongoing matters to be considered during 2021/22 and beyond. The draft Work Plan for 2021/22, to the extent it had been possible to develop it, was also presented. Regarding 2021/22, the report summarised the position on the publication of external audit reports, highlighting that Audit Scotland was maintaining a pragmatic and flexible approach which would enable change at short notice as new issues emerged, or current risks changed in significance. The External Auditor had confirmed that there had been some changes to planned reports for the next year with some publication dates remaining to be finalised. The committee's 2021/22 Work Plan would be updated further, in due course, when the position was clarified further.

As had been the case in the past since the committee was first established, it was proposed that a short, focussed report be prepared overviewing work the committee had undertaken during the current Administration prior to the local government elections in 2022. Having clarified that it was recommended that audit committees review their effectiveness periodically through self-evaluation, a view endorsed by the committee in August 2017 when it had agreed that this was useful to help analyse performance and allow improvements to be considered, and had supported a self-evaluation being carried out at least once during the life of this Council, it was proposed that this work also be progressed prior to May 2022.

The committee, having heard the Clerk highlight key aspects of the report and the Chief Auditor confirm why it had not been possible to submit the Internal Audit Strategic Plan to this meeting:-

- (a) noted performance against the committee's 2020/21 Annual Work Plan;
- (b) approved the committee's 2021/22 Annual Work Plan, to the extent it had been developed;
- (c) agreed that, in due course, a short, focussed report on key aspects of work undertaken by the committee since 2017 be prepared, and that a further self-evaluation exercise be completed as part of the 2021/22 Work Plan;
- (d) agreed that the development of the 2021/22 Work Plan continue, with an update submitted to a future meeting; and
- (e) noted that progress in delivering the 2021/22 Work Plan would be reviewed in due course, with a progress report submitted to a future meeting.