

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of virtual meeting held at 2.00pm on 25 November 2021.

Present:

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

Councillor Miller in the Chair

Attending:

Lorraine McMillan, Chief Executive; Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Barbara Clark, Chief Accountant; Fiona Muir, Senior 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 Emma-Rose Drummond, Audit Scotland.

DECLARATIONS OF INTEREST

1820. There were no declarations of interest intimated.

CHAIR'S REPORT

1821. Under reference to the Minute of the meeting of 12 August 2021 (Page 1596, Item 1712 refers), when it had been noted that the Clerk would ask members of the committee to confirm if there were any issues, by exception, that had been raised in the *Audit Scotland COVID-19 Guide for Audit and Risk Committees* on which they wished to seek further feedback or assurances at present, taking account of feedback on various matters already provided, the Chair confirmed that the Clerk had not been requested to pursue any further feedback thus far. He reminded the committee that it remained an option to do so at any point, highlighting that various COVID-19 recovery updates had been, and continued to be, submitted to the Council.

The committee noted that if any member of the committee wished to pursue any specific matters, they should advise the Chair or the Clerk.

2020-21 ANNUAL ACCOUNTS FOR THE COUNCIL'S CHARITABLE TRUSTS AND EXTERNAL AUDIT (INTERNATIONAL STANDARD ON AUDITING 260) REPORT

1822. Under reference to the Minute of the meeting of 23 September 2021 (Page 1645, Item 1759 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 2020-21 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 within the statutory timescale for doing so, especially given the associated challenges faced. Having referred to the positive nature of the External Auditor's report, she confirmed that a way forward had been agreed to address issues specified in the findings, and thanked the Chief Accountant and her team for their contribution to this achievement.

Ms Yule commented on the 2020-21 Accounts and related issues. Having referred to the ISA 260 report, the proposed independent auditor's report and ISA 580 letter of representation which had been provided, she confirmed that the Accounts were unqualified, and had been prepared in accordance with related legislative requirements. Ms Yule 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. Whilst commenting further, she highlighted that the charitable trusts for the Lieutenants Duff Memorial Institute and Endowment for Talented Children and Young People had shown a lack of activity for a number of years which could result in them being considered dormant, and that related actions were being taken. Progress on these would be reviewed as part of the 2021/22 audit. She thanked the officers involved in preparing the financial statements throughout the audit process.

Having heard Councillor Miller refer to the contribution being considered from the Lieutenants Duff Memorial Institute fund towards the refurbishment of Duff Memorial Hall, Councillor Ireland enquired if the scale of the contribution had been confirmed. The Head of Accountancy (Chief Financial Officer) reported that accountants were currently in discussion with the property team to determine what contribution could be made. Regarding the Netherlee Fund, in response to a query from Councillor Ireland, it was confirmed that a fund required to be unused for several years for it to be considered dormant.

The committee agreed to:-

- (a) note the External Auditor's report on matters arising from the audits of the registered charities for 2020-21 under requirements of ISA 260;
- (b) note the amalgamated Annual Accounts for 2020-21 for the seven charitable trusts for which the Council acted as Trustee; and
- (c) remit the report to the Council for consideration.

2020-21 EAST REFRESHIRE COUNCIL ANNUAL ACCOUNTS, DRAFT ANNUAL AUDIT REPORT AND RELATED ISA 260 REPORT

1823. Under reference to the Minute of the meeting of 23 September 2021 (Page 1645, Item 1759 refers), when the committee had noted 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 2020-21; 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 2020-21 reported under ISA 260 requirements. The draft Audit report provided an overview of the main issues arising from the 2020-21 audit.

The Council had received an audit certificate which was unqualified. As it had operated comfortably within budget, it had not required to draw down £3,500k from reserves as planned, but rather made a contribution of £2,027k to the Council's Non-Earmarked General Fund reserve, resulting in a balance of £11,670k as at 31 March 2021, representing an improvement of £5,527k. This equated to 4.5% of the annual budgeted net revenue expenditure, which was slightly above the Council's most prudent target of 4%. However, it was anticipated that the balance would reduce by £3,750k during the current year as a result of budget decisions.

The Council's General Fund reserve balances as at 31 March 2021 totalled £47,264k. This was an increase of £15,803k from the previous year and was mainly due to unspent COVID-19 related grants, largely received towards the end of the financial year. These grants would be used in the current 2021/22 financial year and possibly beyond to meet COVID-19 pressures.

Capital expenditure of £35,084k had been invested, in addition to which there had been an operating deficit of £95k on the Housing Revenue Account, thus decreasing the accumulated surpluses carried forward to that account to £2,221k.

The Head of Accountancy (Chief Financial Officer) commented that the remarks she had made on the Trust Accounts applied also to the Council's main Accounts.

Mr Cornett referred to the documents provided which included a covering letter, the draft audit opinion, the draft ISA 580 letter of representation, and the draft Annual Audit Report, indicating that his comments would focus on the key messages specified in the report.

Whilst referring to the 2020-21 Accounts and related issues, Mr Cornett confirmed that the related audit work was nearing completion, that some usual administrative issues remained to be concluded, and that it was proposed to issue an unqualified auditor's certificate on the Accounts. He made reference to adjustments made to the Accounts, highlighting that some were quite significant in value and over the materiality levels being used. However, he emphasised that what was important was that the adjustments had been agreed with officers and made to the Accounts, that they were not considered unusual, and that they related to one-off issues rather than any systematic or underlying issues of concern. He highlighted that a few of the adjustments were as a result of the very late receipt of guidance from the Local Authority Scotland Accounts Advisory Committee (LASAAC) after the draft Accounts had been prepared, such as on accounting for personal protective equipment.

Mr Cornett highlighted the recommendations made to achieve further improvements. In particular, in relation to taking forward issues identified during the audit, he referred to those relating to the work of the Council's valuer and how the valuer worked with the Finance team.

Whilst making reference to the remainder of the Annual Audit Report which covered wider dimensions, Mr Cornett considered the findings around financial management to be very positive. Regarding financial sustainability, he stressed that in common with every local authority in Scotland and other public sector organisations, the position at the end of the 2020-21 financial year had been somewhat unique. Clarifying further, he explained that the Council had quite inflated level of reserves, but confirmed this was largely due to the late

receipt of COVID-19 funding from the Scottish Government. Consequently, those reserves were largely ring-fenced for that purpose, and masked the ongoing financial challenges faced by the Council which would require some difficult decisions to be taken in future.

Regarding governance and transparency, Mr Cornett considered the report to be a very positive one from an external audit perspective. He commented that the emergency arrangements put in place at the start of the pandemic had been highlighted, and that it had been concluded that these had been appropriate and effective, had worked well, and had supported the continued good governance of the Council. The findings on Best Value were also considered to be positive, not only in terms of the arrangements in place to allow the Council to assure itself on Best Value, but also regarding the response to the Best Value Assurance Report published a number of years ago.

Having referred to the standard letter of management representation to be completed and returned to External Audit, Mr Cornett thanked the Head of Accountancy (Chief Financial Officer), the Chief Accountant and the rest of the finance team for the help and support they had provided throughout the year and regarding the audit, in what had continued to be an unusual and difficult year. He stressed that the approach adopted had very much been a partnership one, which would allow the Accounts to be signed off ahead of the deadline for doing so. Having also thanked the finance team, Councillor Miller thanked Mr Cornett and his team for the positive comments they had made.

The committee agreed to:-

- (a) note the draft Annual Audit Report to the Council and Controller of Audit 2020-21 and the External Auditor's Report on matters arising from the audit of the Council's 2020-21 Financial Statements prepared under requirements of ISA 260;
- (b) note the content of the Council's Annual Accounts for 2020-21 and related comments made; and
- (c) remit the report to the Council for consideration.

INTERIM TREASURY MANAGEMENT REPORT 2021-22

1824. Under reference to the Minute of the meeting of 12 August 2021 (Page 1595 Item, 1711 refers), when the committee had noted the Treasury Management Annual Report for 2020-21, 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 2021-22.

The report explained that in line with the CIPFA Code of Practice on Treasury Management 2017, the Audit & 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 2021-22 was attached to the report for consideration.

Whilst highlighting key aspects of the report, the Chief Accountant confirmed that it showed the Council's debt position and provided related information on movements, investments and borrowing over the first 6 months of 2021-22. She explained that long-term borrowing had been fairly static, with only a small amount of debt paid off. It was confirmed that anticipated borrowing of £30m from the Public Works Loan Board (PWLB) had not been taken due to high levels of short-term investments held, therefore the available headroom in balances with counterparties for the investment of funds until used was restricted.

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%, but would increase gradually as PWLB loans were paid off or reduce as further ones were taken. Short-term investments had decreased slightly due to cash flows in both capital and revenue, reasons for which were outlined.

The Chief Accountant highlighted that the prudential indicators helped confirm that capital investment plans and treasury management decisions remained affordable, prudent and sustainable. In particular, indicators 3 and 4 demonstrated that the Council was operating well within its limits.

Finally, the Chief Accountant commented on amendments to the Council's list of counterparties, confirming that the list had changed slightly from the one in the 2020-21 year-end report, with an increase in the Bank of England deposit limit from £25m to £30m. It was clarified that all investments were restricted to UK bodies with high credit ratings, with the maximum period of investment, in general, restricted to 6 months.

Councillor Ireland thanked the Finance team for their hard work compiling the report and the other reports they had been involved in preparing for the meeting, all of which had been positive.

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.

INTERNAL AUDIT PLAN 2021-22 – IMPLEMENTATION PROGRESS – JUNE TO SEPTEMBER 2021

1825. The committee considered a report by the Chief Auditor regarding progress made on the implementation of the 2021-22 Internal Audit Plan from 1 June to 30 September 2021. It was confirmed that two audit reports in relation to planned 2021-22 audit work had been completed in quarter 2, information on which was provided. Details of five reports which were carried out as part of the 2020-21 and 2021-22 plans were also provided regarding which responses had been received since the last progress report.

Reference was also made to the quarterly performance indicators (PIs) for the section, some of which were not being met due to COVID-19 restrictions on audit work that could be carried out and delays in departments responding to audit queries. The report confirmed that there had been one new request for assistance dealt with using contingency time, which had not resulted in a financial loss to the Council. It was also confirmed that one audit relating to planned 2020-21 audit work was still in progress, in respect of which it was hoped to issue the report soon, and that one high risk recommendation in the Creditor Payments report had not been accepted, details of which had already been provided in the 2020-21 Internal Audit Annual Report.

The Senior Auditor referred to key aspects of the report, including the extent to which various recommendations made had been considered to be low, medium or high risk, and the extent to which they had been accepted by management. She confirmed that the new request for assistance dealt with using contingency time, which had been in relation to the recently implemented annual permit scheme for garden waste, had not resulted in any loss of cash or assets to the Council, and that initial teething problems regarding the scheme appeared to have been resolved.

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In response to Councillor Ireland, the Senior Auditor confirmed that the report that would identify orders over £50k without procurement authorisation had now been made available to procurement for testing and feedback to core systems, and that it was understood that procurement were intending to run the report on a weekly basis. Councillor Ireland welcomed this development.

The committee agreed:-

- (a) not to seek any of the reports issued during the quarter at this stage; and
- (b) otherwise, to note the report and related comments made.

CHAIR