

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 26 October 2022.

Present:

Councillor Andrew Morrison (Chair)	Councillor Annette Ireland (*)
Councillor Tony Buchanan (Vice Chair)(*)	Councillor David Macdonald
Councillor Paul Edlin	Councillor Gordon Wallace

Councillor Morrison in the Chair

(*) indicates remote attendance

Attending:

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

Also Attending:

John Boyd and Louisa Yule, Audit Scotland; and Rob Jones, Grace Scanlin; and Melanie McAdam, Ernst and Young.

Apology:

Provost Mary Montague.

DECLARATIONS OF INTEREST

181. There were no declarations of interest intimated.

2021-22 ANNUAL ACCOUNTS FOR THE COUNCIL'S CHARITABLE TRUSTS AND EXTERNAL AUDIT (INTERNATIONAL STANDARD ON AUDITING (ISA) 260) REPORT

182. Under reference to the Minute of the meeting of 23 June 2022 (Page 60, Item 36 refers), when the committee had noted the content of the unaudited Annual Accounts for 2021-22 and that a report on final Annual Accounts for the Council's charitable trusts and related documents would be submitted to a future meeting, the committee considered a report by the Head of Accountancy (Chief Financial Officer) explaining that the audit of the amalgamated 2021-22 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 October within the statutory timescale for doing so, despite challenges faced. Having referred to the positive nature of the External Auditor's report, she thanked the Chief Accountant, her team and the External Auditors for their contributions to this achievement. More generally, she thanked all past and present members of the External Audit team for their work over the past six years, and the positive working relationship that officers had enjoyed with them. She stated that she looked forward to working with the new External Audit team from Ernst and Young over the next five years, representatives of which were attending their first meeting of the committee.

Councillor Morrison requested that the committee's appreciation for the work done by the Head of Accountancy (Chief Financial Officer), the Chief Accountant and her team, to meet the statutory deadline, be placed on record.

Ms Yule commented on the 2021-22 Accounts and related issues. Having referred to 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 requirements. 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 several years which could result in them being considered dormant, confirming that related actions were being taken in the current year. She thanked the Trustees and officers involved in assisting with the audit.

In response to Councillor Morrison, the Head of Accountancy (Chief Financial Officer) confirmed that, through discussions with officers within the Education Department, potential beneficiaries for the remaining funds within the Endowment for Talented Children and Young People had been identified. It was hoped that a definitive proposal would be forthcoming, and expected that the remaining funds would be used within the current financial year.

The committee agreed to:-

- (a) note the External Auditor's report on matters arising from the audits of the registered charities for 2021-22 under requirements of ISA 260;
- (b) note the amalgamated Annual Accounts for 2021-22 for the seven charitable trusts for which the Council acted as Trustee; and
- (c) remit the report to the Council for consideration.

2021-22 EAST REFRESHIRE COUNCIL ANNUAL ACCOUNTS, DRAFT ANNUAL AUDIT REPORT AND RELATED ISA 260 REPORT

183. Under reference to the Minute of the meeting of 23 June 2022 (Page 60, Item 36 refers), when the committee had noted the content of the unaudited Annual Accounts for 2021/22 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 2021-22; 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 2021-22 reported under ISA 260 requirements. The draft Audit report provided an overview of the main issues arising from the 2021-22 audit.

The Council had received an audit certificate which was unqualified. It had operated within budget, with Directors again taking action to avoid non-essential expenditure during 2021-22 to provide more flexibility to address the significant financial difficulties to be faced in coming years. It had not required to draw down £3,750k from reserves as planned, but rather made a contribution of £102k to the Council's Non-Earmarked General Fund reserve, resulting in a balance of £11,772k as at 31 March 2022, representing an improvement of £3,852k. This equated to 4.4% of the annual budgeted net revenue expenditure, which was slightly above the Council's most prudent target of 4%. However, £5,253K of this had already been committed in balancing the 2022-23 budget.

The Council's General Fund reserve balances as at 31 March 2022 totalled £46,189k. This was a decrease of £1,075k from the previous year and was mainly due to the utilisation of the Modernisation Fund and a decrease in unspent grants.

Significant COVID-19 related spend of £14,474k had been incurred, of which £6,390k was funded from the reserve set up at the end of 2020/21. Further funding had been received during the year allowing additional contributions to be made to the COVID reserve, resulting in a year-end balance of £14,085k, representing an in year increase of £1,270k

Capital expenditure of £35,901k had been invested. In addition, there had been an operating deficit of £354k on the Housing Revenue Account, thus decreasing the accumulated surpluses carried forward to that account to 1,867k.

The Head of Accountancy (Chief Financial Officer) confirmed that the remarks she had made on the Trust Accounts applied also to the Council's main Accounts, reiterating that it had been a great achievement to meet the October deadline for preparing these.

Mr Boyd referred to the documents provided which included the draft audit opinion, the draft ISA 580 letter of representation, and the draft Annual Audit Report. He clarified that his comments would focus on the key messages specified in the report covering both the financial statements audit and the four audit dimensions framing the wider scope of public audit as set out in the Code of Audit Practice, namely financial management, financial sustainability, governance and transparency, and value for money.

Referring to the 2021-22 Accounts and related issues, Mr Boyd reported that it was proposed to issue an unqualified auditor's certificate on the Accounts, confirming there had been no significant modifications or issues in relation to the audit of these, and referring to some adjustments agreed with officers and made to the final Accounts. He highlighted that a significant area of focus had been estimates and judgements, highlighting comments in the Annual Audit Report on an increased risk of material misstatement regarding the valuation of property, plant and equipment associated with revised auditing standards on which auditors were now expected to place more focus. There were no issues identified arising from that work.

Whilst making reference to the wider audit dimensions, Mr Boyd explained that both a summary and detailed comments had been provided, with there being no significant issues to which the committee needed to be alerted. The Council was considered to have effective and appropriate financial management arrangements in place, but financial challenges faced by all councils were reflected in the Report, such as regarding inflation and economic uncertainty.

Regarding governance and transparency, Mr Boyd commented that the report reflected on the establishment of the arrangements following the local government elections. The report also commented on how the Council demonstrated value for money and achieved Best Value, regarding which there were no significant issues to report to the committee.

Mr Boyd referred to the Action Plan detailed in Appendix 1 to the report reflecting detailed observations identified during the course of the audit, all of which had been accepted by officers and for which response dates had been provided. He confirmed that implementation of the recommendations made in the previous year had also been reviewed.

Mr Boyd thanked the Head of Accountancy (Chief Financial Officer), the Chief Accountant and her team for their support during the audit, referring to the unique challenges of completing it predominately remotely. He also thanked all those who had supported the Audit Team during the past 6 years, confirming that handover arrangements to Ernst and Young were being put in place to ensure a smooth transition.

Councillor Macdonald highlighted reference within the report to the extent to which procedures for detecting fraud and irregularities were in place, seeking the External Auditor's view on how such issues could be identified more readily and effectively, and referring to significant attempts made in the past to defraud money from the Council. Mr Boyd confirmed that the auditor's responsibilities, under auditing standards, required a focus to be placed on the risk of fraud, including consideration of the Council's arrangements to prevent and detect this or material misstatement in the financial statements, which included looking at the internal control environment, key systems and processes in place, the work of Internal Audit, and the Council's involvement in the National Fraud Initiative. Ultimately this helped target External Audit work on where there was considered to be a risk of material misstatement in the Annual Accounts. Where there were considered to be control improvements or enhancements, recommendations were made, such issues having been referred to in the Management Report the committee had considered in September. Mr Boyd confirmed that none had been considered significant enough to impact on the audit opinion.

In response to Councillor Ireland who asked what proportion of the Lieutenants Duff Memorial Institute Fund would be contributed to the current improvement work at Duff Memorial Hall and when any such payment would be made, the Head of Accountancy (Chief Financial Officer) clarified that liaison was taking place with Property and Technical Services on this, that work on the Hall had continued from 2021-22 into the current financial year, and that when the final cost of the work had been confirmed, it would be determined how much of the balance of the Fund could be used in the current financial year.

Also in response to Councillor Ireland who sought clarification on the General Fund underspend and what assurances could be given that there would not be an underspend in 2022-23 in light of the difficult financial decisions that required to be taken, the Head of Accountancy (Chief Financial Officer) confirmed that the outturn position for 2021-22 had been a managed one, referring to deliberate action taken to achieve a significant underspend. Regarding 2022-23, having referred to financial challenges faced such as on inflation, she explained that revenue budget monitoring reports were currently indicating over rather than under expenditure at the year end, as a consequence of which all departments had been asked again to focus on essential expenditure only to ensure a balanced budget was achieved to avoid exacerbating problems at the end of the financial year.

Regarding the comprehensive income and expenditure statement, Councillor Morrison sought clarification on the actuarial gain in the Pension Fund evaluation. Mr Boyd confirmed the basis on which it was calculated, that annually actuaries estimated the Council's share of the Pension Fund's assets and liabilities based on forecasted pension costs, and that the figures reflected volatility in that liability, with the shift in the liability reflected in the Council's balance

sheet. A combination of factors contributed to this, as did changing assumptions on issues such as life expectancy. Such movements were reflected in the Pension reserve, with the annual pension contribution cost reflected in the General Fund. Related issues were commented on.

The committee agreed to:-

- (a) note the draft Annual Audit Report to the Council and Controller of Audit 2021-22 and the External Auditor's Report on matters arising from the audit of the Council's 2021-22 Financial Statements prepared under requirements of ISA 260;
- (b) note the content of the Council's Annual Accounts for 2021-22 and related comments made; and
- (c) remit the report to the Council for consideration.

CHAIR

