

AUDIT AND GOVERNANCE PANEL.

Minutes of meeting in County Buildings, Wellington Square, Ayr
on 24 September 2020 at 10.00 a.m.

Present: Councillor Martin Dowey (Chair).

Present Councillors Douglas Campbell, Alec Clark, Chris Cullen, Hugh Hunter,
Remotely: Lee Lyons, Helen Moonie and Arthur Spurling.

Attending: E. Howat, Chief Executive; T. Baulk, Head of Finance and ICT; W. Carlaw,
Service Lead – Democratic Governance; T. Simpson, Service Lead – Corporate
Accounting; and J. McClure, Committee Services Lead Officer.

Attending L. Miller, Chief Internal Auditor, M. Inglis, Head of Children’s Health, Care and
Remotely: Justice Services; K. Anderson, Service Lead – Corporate and Housing Policy;
C. Boyd, Service Lead - Risk & Safety; and K. Watt, Deloitte LLP.

1. Opening Remarks.

The Chair took the sederunt and confirmed that today’s meeting was not open to the press and public, which was permissible under the COVID-19 legislation. He also confirmed to Members the procedures to conduct this meeting.

2. Declarations of Interest.

There were no declarations of interest by Members in terms of Council Standing Order No. 17 and the Councillors’ Code of Conduct.

3. Minutes of Previous Meeting.

The Minutes of the meeting of [26 August 2020](#) (issued) were submitted and approved.

4. Action Log and Work Programme.

There was submitted an update of the [Action Log and Work Programme](#) for this Panel (issued).

The Head of Finance and ICT provided an update on the status of the Action Log and Work Programme and advised that item 5 on the Action Log had now been completed.

A Member requested an update on item 2 on the Action Log regarding this Panel receiving regular updates on the work undertaken by the Budget Working Group as he stated that this Panel had a responsibility to scrutinise all Council processes; and the Head of Finance and ICT advised that this would be progressed in the near future, when he had an opportunity to liaise with the Members of the Budget Working Group.

A further Member stated that it would be helpful to have clarity around the processes of the Budget Working Group, however, setting the budget was a political process, therefore the information reported back to this Panel would require to be routine matters on the processes undertaken only.

The Chief Executive then advised that the Budget Working Group was not established by the Council but was a group of Elected Members who met with Officers to discuss the setting of the budget and that the same facility was offered to the Conservative Group. A Member then enquired why then the Budget Working Group was referenced within reports by Officers and the Chief Executive advised that she would take this on board and examine the content of reports.

The Panel

Decided: to note the current status of the Action Log and Work Programme.

External Audit Reports.

5. Best Value Working Group - Updated Action Plan.

There was submitted a [report](#) (issued) of 10 September 2020 by the Depute Chief Executive and Director – People providing the Panel with an updated action plan for the Best Value Working Group.

The Panel, having considered the action plan setting out the Best Value Working Group oversight as attached as Appendix 1 to the report,

Decided: to note the contents of the report.

6. External Audit – Audit Dimensions and Best Value Report 2019/20.

There was submitted a [report](#) (issued) of 17 September 2020 by the Head of Finance and ICT presenting the proposed independent auditor's Audit Dimensions and Best Value Audit report to the Panel to allow the auditor to communicate the matters raised during the audit to Panel Members.

K. Watt, Deloitte LLP advised that this report was scheduled to be considered in June 2020, however, it had been delayed due to the challenges of Covid-19, which had been referenced throughout the report. Having advised that the full impact of Covid-19 was not yet known, she highlighted the key messages within the report.

Following a question from a Member on various recommendations highlighted as high priority, K. Watt advised that these were being built into the medium to long-term plan and, following a further question, confirmed that scenarios experienced by other organisations had been shared with Officers of this Council.

A Member referred to Transforming South Ayrshire (TSA) which had been focussing on ICT projects and commented that the Council was in a fortunate position of enabling staff to work from home having previously invested in IT, which should be commended. This member also referred to the key messages in the report regarding leadership within the IJB and enquired as to the auditor's specific concerns and K. Watt outlined details of the significant case review and the changes to the Senior Management Team.

Following a question from a Member on the recommendations on “Financial Sustainability – Transformation” and the lack of Management response on the recommendation regarding the development of a robust benefits realisation tracker to assess whether the Council had achieved its aims, K Watt advised that this may now be taken forward as part of the detailed plan.

Questions were raised by a Member in relation to:- the process for setting the Capital Budget and the Head of Finance and ICT referred to the section in the report referring to “Financial Management – Capital Programme” which reflected this; whether there had been a change in legislation to allow Councils the opportunity to transfer monies from the Capital Budget to the Revenue Budget and the Head of Finance and ICT advised that the issue being referred to did not impact on the Annual Accounts for 2019/20 and that this was one of several changes being discussed at Scottish and National level but only in the context of a temporary response to the current Covid-19 financial pressures; regarding the Council’s role in relation to the IJB and K. Watt advised that work was still ongoing with the IJB regarding governance to achieve clarity on roles and responsibilities; and regarding benchmarking of the Council Plan and Councillor Clark outlined that the Service and Performance Panel had the opportunity to scrutinise Service Plans and recommendations were then made to the Leadership Panel, if required.

The Member then stated that a recommendation should be made to the Leadership Panel that it refer this report to the Best Value Working Group to note the matters outlined in the report along with this Panel’s concerns; and this was agreed by the Panel Members.

Following a question on “Sector Developments” and how the emerging issues were tracked, the Head of Finance and ICT advised that, as these issues were Covid-19 related, this was uncharted territory, however, advice would be taken from COSLA and the Scottish Government on this; and K. Watt further advised that her colleagues were currently doing research on this matter and that information on this would be shared with Officers as it became available.

Adjournment.

The time being 10.45 a.m., Panel agreed to adjourn to discuss the terms of a Motion.

Resumption of Meeting.

The Panel resumed at 10.50 am.

The Panel, having considered the 2019/20 Audit Dimensions and Best Value Audit Report by Deloitte LLP attached as [Annex 1](#) to the report,

Decided:

- (1) to approve the action plan contained in the Appendices to the Deloitte LLP Interim Audit Report (Annex 1), designed to address the areas of concern which had been highlighted;

- (2) to request that regular updates on progress against the action plan were provided to the Audit and Governance Panel; and
- (3) to recommend to the Leadership Panel that it remit this report to the Best Value Working Group to note the matters raised in the report and the concerns of this Panel.

7. Final Report on the 2019/20 Audit.

There was submitted a [report](#) (issued) of 17 September 2020 by the Head of Finance and ICT presenting the Annual Accounts for the financial year ended 31 March 2020 and the proposed independent auditor's report to Members of the Council to allow the auditor to communicate the matters raised during the audit to the Panel.

K. Watt, Deloitte LLP, having thanked the Head of Finance and ICT, the Service Lead – Corporate Accounting and their staff for their co-operation in allowing the audit to be completed within the timescales, outlined the areas of focus and high risk areas throughout the report and referred to the uncertainty in the valuation of Council properties as a result of Covid-19.

An enquiry was raised by a Member regarding the uncorrected misstatement in the Defined Benefits Pension Scheme and K. Watt advised that this was in relation to a legal judgment that continues to affect the Council's pension liability. Specifically it related to an adjustment to current service costs that was identified very late in the process and that, as this was above the auditor's reporting threshold, this required to be reported, however, it was well below the materiality threshold therefore didn't require to be adjusted in the accounts.

Questions were raised by a Member on:- how Council assets were valued and K. Watt advised on the basis of valuation of Council properties and that this was reflected in the accounts to ensure compliance with the Local Government Code; how confident officers were on the accuracy of the valuation of pension fund assets and liabilities and the Service Lead – Corporate Accounting advised that this figure reflected the liability allocated to this authority at the end of each financial year which included a number of different factors being taken into account and that this caused fluctuations from year to year; the variance in the pension fund liability and the Service Lead – Corporate Accounting advised that this related to the Council's share of the Strathclyde Pension Fund and that the Council continued to pay into the fund and employees made their own contributions; the depreciation percentages and whether the depreciation charges were reflected in the annual accounts and the Service Lead – Corporate Accounting advised that the depreciation percentages allocated would reflect the nature of the assets and the longevity of their usefulness to the Council; and that the depreciation charges were a paper exercise reflected in the income and expenditure statement; and whether the £26.251m commissioned from organisations in which four Elected Members had an interest was commercially sensitive and the Service Lead - Corporate Accounting advised that this mostly related to members serving on other public bodies and a list outlining the figures could be provided.

A Member enquired on the effect Covid-19 had on the number of unrecorded invoices within "Expenditure Recognition" and K. Watt advised that this was a very remote risk, as the number of unrecorded invoices would require to be over 50,000 to be a material risk.

Regarding “Recommendations for Improvement” within the Action Plan, a Member requested an update on the present position and the Service Lead – Corporate Accounting advised that when the balance sheet was produced, it would now be routinely compared with previous years to ensure that assets and liabilities were categorised consistently year on year.

A further Member referred to the process for the valuation of assets and liabilities giving a misconception of the Council’s financial position and the Service Lead – Corporate Accounting advised that the Council was governed by accounting rules and required to carry out valuations in line with the regulations adhered to by all Councils and public bodies. The Member then referred to the valuations within the Asset Management Plan and the Head of Finance and ICT advised that he would liaise with Officers in Asset Management to ascertain when the Asset Management Plan was last updated.

Following a question on whether the recommendations within the report had been actioned, the Head of Finance and ICT advised that regular updates were brought to this Panel and that Deloitte LLP had examined previous recommendations to ensure that they had been actioned.

The Panel, having thanked K. Watt, Deloitte LLP and the Head of Finance and ICT, Service Lead – Corporate Accounting and their staff for this report,

Decided:

- (1) having considered the 2019/20 Annual Audit Report by Deloitte LLP ([Annex 1](#)), noted that the Annual Accounts and Charitable Trust Accounts had an unmodified audit opinion;
- (2) approved the Council’s audited Annual Accounts ([Annex 2](#)) for signature and their subsequent issue by 30 September 2020; and
- (3) approved the Charitable Trusts’ audited Annual Accounts ([Annex 3](#)) for signature and their subsequent issue by 30 September 2020.

8. Annual Update Report - Integration Joint Board (IJB) Performance and Audit Committee (PAC).

There was submitted a [report](#) (issued) of 25 August 2020 by the Chief Internal Auditor providing an annual report for information to the Panel on internal audit work carried out for the Integration Joint Board (IJB) by the South Ayrshire Council and NHS Ayrshire and Arran internal auditors.

Following a question from a Member on the effectiveness of risk management control in respect of the concerns by Deloitte LLP on the leadership of the IJB, the Chief Internal Auditor advised that this report had been written some time ago and that changes to the management structure had now been made.

A Member expressed concerns on the final accounts when there had been an overspend of monies by South Ayrshire Council (after earmarking of funds and partial repayment of monies owed to SAC), however the Health Board had an underspend of an equivalent amount and enquired on the responsibilities of Internal Audit in managing the NHS side of the IJB's budget; and the Chief Internal Auditor advised that she only had responsibility for the internal audit arrangements of the Council and the IJB and when forming an opinion on the IJB, she took into account the opinion of the Council and also liaised with NHS auditors.

A Member expressed concerns that the membership of the IJB's Performance and Audit Committee consisted of members of the IJB, therefore, Members of the Board were also undertaking scrutiny functions; and the Chief Internal Auditor advised that a review of the governance arrangements was imminent. This Member then referred to the roles and responsibilities of the Council and the IJB and how it related to assets, with the IJB being a service user of the Council's assets through a Service Level Agreement and enquired on what control the IJB had over the Council's assets and the Chief Internal Auditor advised that the intention of the governance review was to clarify the roles and responsibilities.

The Panel, having considered the report

Decided: to note the contents of the report.

9. Strategic Risk Management

There was submitted a [report](#) (issued) of 31 August 2020 by the Head of Legal, HR and Regulatory Services updating the Panel on the reviewed Strategic Risk Register - August 2020 ([Appendix 1](#)) in line with the agreed reporting framework.

Following a question from a Member on Risk 5 regarding Adult and Child Protection where there had been a delay due to Covid-19, the Head of Children's Health, Care and Justice Service advised that work was ongoing with the Child Protection Committee and the Adult Support Committee which both reported monthly; and that focus remained robust.

Councillor Cullen left the meeting at this point.

A Member enquired when the Member/Officer Working Group on Brexit would be reinstated (Risk 2) and the Service Lead – Risk and Safety advised that the Head of Legal, HR and Regulatory Services was currently progressing this matter. It was then requested that the Head of Legal, HR and Regulatory Services email Panel Members providing an update of the present position with this Working Group.

Following a question from a Member on the high risk afforded to Risk 7 – Sustainable Development and Climate Change and how these risks were being addressed, the Service Lead – Risk and Safety advised that the risk rating was an objective process; and that Mitigation No. 6 “to ensure Climate Change Adaptation is considered within ARA Risk Register and SAC Directorate Risk Registers” took cognisance of sustainability.

The Panel, having considered the reviewed Strategic Risk Register updated by Chief Officers (attached as Appendix 1),

Decided:

- (1) to note the eleven key risks and endorse the work currently being undertaken or proposed by risk owners to mitigate these risks; and
- (2) to remit the Strategic Risk Register to the Leadership Panel on 27 October 2020 for endorsement.

10. Kyle Day Centre.

There was submitted a [report](#) (issued) of 11 September 2020 by the Chief Executive updating the Panel on progress with the review of decision making in respect of Kyle Day Centre and lessons to be learned.

The Chief Executive provided the Panel with an update on the present position; advised that the issues around this matter related to governance, accountability and the roles and responsibilities of this Council, its Panels and the IJB; and advised that the IJB was the decision making body which directed the Council, however, the Council should be consulted and the view of the Council be taken into account prior to decisions being made.

Following a question from a Member on the completion date of the engagement with service users and their families by Health and Social Care Officers before developing recommendations on the future of the service, the Chief Executive advised that she would request the Director of Health and Social Care to provide an update to Panel Members.

Panel Members thanked the Chief Executive for the progress made in relation to this matter; commented on the lessons that required to be learned from this; and outlined that the review of governance and accountability required to be progressed as a matter of urgency.

The Panel

Decided:

- (1) to note the progress made in respect of the review; and
- (2) to request that the Director of Health and Social Care submit a report on the review of governance and accountability to a Special Meeting of South Ayrshire Council as a matter of priority.

The meeting ended at 12.20 p.m.