

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest is a shield divided into four quadrants. The top-left quadrant shows a city skyline with a diagonal beam of light. The top-right quadrant depicts a stag's head with antlers. The bottom-left quadrant shows a three-masted sailing ship on wavy water. The bottom-right quadrant features a grizzly bear standing on a rocky outcrop. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

Agenda Item 3

Minute

Draft

FALKIRK COUNCIL

Minute of meeting of the Audit Committee held remotely on Monday 12 April 2021 at 10.00 a.m.

Councillors: Nigel Harris (convener)
Cecil Meiklejohn
Alan Nimmo
Pat Reid
Robert Spears

Officers: Douglas Duff, Acting Director of Development Services
Gary Greenhorn, Head of Planning and Resources
Kenneth Lawrie, Chief Executive
Brian Pirie, Democratic Services Manager
Stuart Ritchie, Director of Corporate and Housing Services
Bryan Smail, Chief Finance Officer
Jillian Thomson, Chief Finance Officer – Falkirk Health & Social Care Partnership
Isabel Wright, Internal Audit, Risk, and Corporate Fraud Manager (Acting)

Also Attending: Stephen Reid, EY
Grace Scanlin, EY

A1. Apologies

There were no apologies.

A2. Declarations of Interest

No declarations were made.

A3. Minute

Decision

The minute of the meeting of the Audit Committee held on 9 November 2020 was approved.

A4. Internal Audit Plan 2021/22

The Committee considered a report by the Internal Audit, Risk, and Corporate Fraud Manager (Acting) presenting a draft 2021/22 Internal Audit Plan for approval.

The plan for 2021/22 had been prepared and would be delivered within the context of the impact of the Covid-19 pandemic which would continue to be felt during the course of the year.

The plan allowed for 523 audit days. This was a reduction from the previous 555 audit days and reflected the reduced resources within Internal Audit following the departure from the Council of the Internal Audit Manager.

The plan comprised:-

- Annually recurring Assignments
- Committed Assignments (April - Sept 2021)
- Committed Assignments (October 2021 - March 2022)
- Other Client Work

For the period April - Sept 2021 the assignments would focus on risks arising from the Covid-19 pandemic. Assignments were set out for the period October 2021 - March 2022 although there was a recognition that there would need to be a degree of flexibility in order to be able to react to subsequent changes in the Council's risk profile.

The committee asked for further information on why the number of planned days contained in the plan (523) was less than the previous 555 days. The Acting Internal Audit Manager explained that this was due to the fact that the team was reduced following the departure of the former Internal Audit Manager. Transitional arrangements had been put in place ahead of an appointment. This was likely to be in the near future and so the reduction was in the first quarter of the year only. Overall the reduced number of planned days would not have a significant impact.

The committee then sought assurance that the Internal Audit team had been supported by management throughout the period in which the transitional arrangements had been in place given the reduced staffing levels and the increased workload arising from Covid related matters. The Chief Finance Officer explained that the team worked closely with Services to manage its programme and workload. It was recognised that it could not do all the work that was asked of it, but was able to work with Services to prioritise. Similarly there was close liaison with EY. He considered that once the post of Internal Manager was filled that there would be greater stability in the team.

Following a question Mr Smail confirmed that the internal audit function was a statutory obligation.

The committee then asked for information on the impact of the work for other clients and whether the Council charged for this work. Mr Smail advised that the work for the 'Council family' such as the Health and Social Care Partnership and the Community Trust were not charged. However work for Strathcarron Hospice and Clackmannanshire Council were income generating and costs were covered. The latter two were examples, Mr Smail suggested, of the Council's entrepreneurial workstream.

The committee then asked whether it was likely that work on the impacts of Covid would be limited to the March - October period or whether it was anticipated that the work would be ongoing beyond then. The Acting Internal Audit Manager confirmed that the impacts of Covid would be felt for some time yet and that the plan initially focussed on 3 Covid related audits on Covid costs, business grants, and funds that the Council had responsibility for. The final review in this period would focus on fleet management and monitoring and would review the business needs assessments that had been carried out before new vehicles were taken on during the lockdown period. Other work planned for later in the year, for example the review of Legionella Management arrangements also had a Covid 'slant'. .

Following a question on the break down of the planned audit days, the Acting Head of Internal Audit confirmed that the number of days assigned to annually recurring assignments (175) remained unchanged from previous years.

The committee then asked whether any review of the arrangements for the introduction of Housing First were planned. The Director of Corporate and Housing Services advised that this had been introduced in April 2020 and there was a commitment to report back on the first year to the Executive in August.

The committee noted that Council had agreed to bring the Falkirk Community Trust (FCT) back in-house from April 2022 and asked if the process would result in additional work for Internal Audit. The Acting Head of Internal Audit indicated that the number of days allocated in the plan for FCT had not increased. The time allocated would be utilised for any work arising from the process to bring the Trust back in-house. Internal Audit's role would be to provide an overview and assurance on the process.

The committee noted that upon completing reviews Internal Audit produce recommendations and responsible officers are then required to prepare an action plan in response. Members asked whether there would be negotiations with officers on points of disagreement in regard to the recommendations. Mrs Wright confirmed that the process was two way and Internal Audit would listen to the views of the auditee. Officers would be aware of the Audit Plan and Terms of Reference for an audit before it commenced and there was open communication and dialogue throughout with the auditee.

In response to a statement that it would be difficult to quantify in £ of a number of Council of The Future projects Mrs Wright concurred and reiterated that there would be conversations with officers ahead of any reviews and this would include discussion on the measurements of success for the projects. It was intended that a number of projects would be sampled as part of this piece of work.

The committee then sought assurance around potential fraud relating to Covid related payments such as the Business Grants. The Acting Internal Audit Manager stated that Internal Audit had been involved in reviewing the processes in advance of the grants going live and had been involved since then. The Corporate Fraud team had undertaken reviews pre payment. Mrs Wright also attended regular meetings of the Covid Board and this had been invaluable in understanding issues as they came up. Officers from Corporate Fraud had also attended. Additionally at the end of the process Internal Audit had undertaken spot checks to ensure that procedures and the Scottish Government's guidance had been followed. Mr Smail confirmed that Internal Audit had been heavily involved in the process from designing the controls systems and carrying out audits post event. Additionally Corporate Fraud had been hardwired into the processing of applications and had acted as gatekeeper before any funds were released. It had been reassuring that a few instances of potential fraud had been identified and stopped at source. The Acting Director of Development Services added that comprehensive arrangements to prevent fraud had been put in place and welcomed the support from the Acting Internal Audit manager and her team. Mrs Wright added that the Covid Board had been an opportunity to bring all staff together, to discuss applications and showed the willingness of officers to best support businesses. She added that there had been a great deal of information sharing on other local authority processes and on other attempts at fraud.

Decision

The Committee:-

- (1) noted the resources available to Internal Audit and that the plan was flexible;**
- (2) approved the Internal Audit Plan for 2021/22; and**
- (3) noted that progress would be reported to the Audit Committee on an ongoing basis.**

A5. Annual Audit Plan 2020/21

The committee considered a report by the External Auditor, EY, presenting a provisional Annual Audit Plan 2020/21.

The Accounts Commission had appointed EY as the Council's auditor for a five year period to 2020/21. This had been extended for a further 12 months to include 2021/22.

In addition to the audit of financial statements EY would also undertake audits in regard to the four dimensions of the wider scope audit, namely:-

- Financial Management
- Financial Sustainability
- Governance and Transparency
- Value for Money

The report set out a number of developments which would affect Local Government in 2021/21. These were:-

- Political uncertainty
- Accounts Commission Overview
- Fiscal Flexibilities
- Budget Setting Process for 2021/22

In addition the Council would be the subject of a Best Value audit during 2021/22 and it was intended that a Best Value Assurance Report would be presented to the Accounts Commission by the end of 2021. The most recent Best Value audit had been in 2015 (with a follow up in 2018).

A timetable for the audit process together with the Audit fees were set out in appendices to the report.

In regard to the Audit dashboard the committee asked whether Covid had had an impact on the processes for the valuation of property, plant and equipment. The Chief Finance Officer advised that the valuation had been problematic in 2020, but a way forward had been agreed with EY following discussions. More generally Covid had demonstrably had an impact on the valuation of assets in the private sector, in particular in privately owned retail units and office blocks. There had been less of an impact on the Council's assets. The Acting Director of Development Services added that in some areas such as warehouses and storage facilities there had been an increase in interest and demand. The Council didn't own many town centre retail units and therefore hadn't been impacted to the same extent as private owners. The housing market had largely held up during the pandemic although he cautioned that the full impact of the pandemic may not have been felt yet. He added that for any property transactions the Council engaged with the District Valuer.

Following a question on fiscal flexibilities, Mr Reid advised that this was a developing area and Councils were awaiting information from the Scottish Government and COSLA before deciding which, if any, to engage. He also confirmed following a question that the audit fee included fees for specialists.

The committee then asked Mr Reid for further explanation on the risk of 'possible constructive obligations created by political statements' and advised that this was a potential risk that was relevant to the public sector and the audit would ascertain if statements made had an impact on the accounts.

Mr Reid then stated that in terms of reporting the focus was on performance reporting and value for money. Updated performance reporting and scrutiny arrangements had been put in place following the 2019/20 audit and these would be reviewed this year. Additionally EY would work with the Council to follow up agreed actions following the investigation undertaken in 2020 in regard to whistleblowing and corporate fraud.

The committee sought clarification from Mr Reid on whether the audit and the best value review would be independent of each other whether they would be complementary or distinct pieces of work, noting that the Council was emerging from the pandemic and was in the recovery phase with many critical services continuing to be delivered. It would therefore be preferable to avoid duplication of workload for officers. Mr Reid stated that he shared the committee's concerns and added that the best value review had been deferred from 2020 to 2021 for these reasons. It was important that the review was carried out, however, given that the most recent best value review had been in 2015 (with a follow-up in 2018). He confirmed that the audit work and best value review would very much be complementary pieces of work with the work on the financial statements, governance, value for money etc. forming the field work for the best value review. The work would be collegiate and he recognised the need to be both flexible and pragmatic. He fully recognised that service delivery was critical at this time and would work with officers to obtain a balanced approach.

Decision

The Committee noted the report.

A6. Corporate Risk Management Update

The Committee considered a report by the Director of Corporate and Housing Services providing an update on corporate risks and assurance arrangements.

The report provided updates, as appendices, in regard to:-

- Corporate Risk Dashboards
- Corporate Risk Register (including all Covid-19 risks)
- Risk Improvement Plan and Performance indicators.

The Committee was asked to consider the report and to refer it to the Executive for review and approval.

Following a question on the risks around the Council's recent decision to bring Falkirk Community Trust in-house Mr Smail confirmed that the register would be revised to include these risks under a discrete heading.

The committee then asked if the risks around staff working from home had been captured within a risk category. The Director of Corporate and Housing Services confirmed that these fell within the 'HR Management and Workforce planning' risk category. Mr Ritchie added that regular staff surveys had been undertaken throughout the pandemic on issues such as mental wellbeing and practical issues such as use of IT equipment when working from home. Additionally a number of listening events had been held and an action plan had been developed.

The committee noted that Audit Scotland had highlighted cybersecurity as a risk area when employees worked from home and sought assurance that adequate measures were in place to protect the Council from attacks.

The committee noted that while the Equalities risk category was an area of high risk corporately an Internal Audit review had provided limited assurance. The Chief Executive confirmed that an action plan had been developed by Internal Audit and the Services and this was due to be considered by the Corporate Management Team later in the day.

The committee also commented on the large number of governance groups (20) detailed in appendix 1 to the report and questioned whether they were necessary or effective. The Chief Executive stated that following a similar question at committee in 2020 he had asked for a review of all working groups to ensure that current groups were necessary. The list would be reviewed on an ongoing basis.

Decision

The Committee:-

- (1) noted the report; and**
- (2) referred the report to the Executive, for further consideration and approval of appendices 1-3 to the report.**

A7. Review of Whistleblowing & Fraud Investigation Procedures

The Committee considered a report by the Director of Corporate and Housing Services advising of a review of Whistleblowing and Fraud Investigation Procedures and of the intention to establish reporting arrangements into the Audit Committee.

In the 2020/21 Annual Audit report the Council's External Auditors, EY, had recommended the Council should review the Whistleblowing Policy and Anti Fraud and Corruption Strategy to ensure that they remained in line with good

practice across the sector. The review would also establish reporting arrangements into the Audit Committee.

The review would also encompass relevant documents including:-

- Financial Regulations
- Contract Standing Orders
- Code of Practice
- Register of Interests and Gifts

Decision

The Committee agreed that the proposed review of the Whistleblowing Policy and Anti Fraud and Corruption Strategy is undertaken with the outcome reported back in June.