

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 sailing ship on wavy lines representing water. The top-right quadrant shows a stag's head facing left with a cross above its antlers. The bottom-left quadrant shows a beaver. The bottom-right quadrant shows a grizzly bear. 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 23 August 2021 at 10.00 a.m.

Councillors:

Allyson Black
Nigel Harris (convener)
Cecil Meiklejohn
Alan Nimmo
Robert Spears

Officers:

Danny Cairney, Senior Service Manager Corporate Finance
Sophie Dick, Democratic Services Graduate
Douglas Duff, Acting Director of Development Services
Kenneth Lawrie, Chief Executive
Kenny McNeil, Children's Services Resources Manager
Brian Pirie, Democratic Services Manager
Stuart Ritchie, Director of Corporate and Housing Services
Bryan Smail, Chief Finance Officer
Isabel Wright, Internal Audit, Risk, and Corporate Fraud Manager

Also Attending:

Grace Scanlin, EY

A13. Apologies

An apology was intimated on behalf of Councillor Coleman.

A14. Declarations of Interest

No declarations were made.

A15. Minute

Decision

The minute of the meeting of the Audit Committee held on 21 June 2021 was approved.

A16. Falkirk Council Annual Accounts 2020/21 and Falkirk Temperance Trust Accounts 2020/21

The committee considered a report by the Director of Corporate and Housing Services presenting the unaudited Falkirk Council Annual Accounts 2020/21 and Falkirk Temperance Trust Accounts 2020/21.

The Local Authority Accounts (Scotland) Regulations (The Regulations) 2014 requires the Council to submit the Unaudited Annual Accounts of the Council and Falkirk Temperance Trust (the Unaudited Accounts) for the financial year ended 31 March 2021 to the Auditor by the statutory deadline of 30 June 2021. Under the Regulations, a Committee of the local authority, whose remit includes audit and governance functions, must also meet to consider the Unaudited Annual Accounts by 31 August 2021.

The convener remarked that the management commentary was clear and well illustrated and generally more readable.

In regard to the accounts, the committee asked why the number of SJC employees in the £50,000 - £54,999 band had increased from 23 in 2019/20 to 58 in 2020/21 - overall, there was an increase from 129 employees to 159. The Director of Corporate and Housing Services explained that this was in the main due to the annual pay award and incremental wage rises, both of which had taken a number of employees into the higher band.

Following a question, the Chief Finance Officer explained that the regulations required the unaudited accounts to be considered by Council. In terms of Standing Orders this was delegated to the Audit Committee on. The report was before the committee 'for consideration' and therefore members could ask questions of the detail and, if so minded, make comment as part of the formal audit process.

The committee asked why only senior councillor pensions contributions were published in the accounts. Grace Scanlin, EY, explained that the regulations required the remuneration report to include certain information and this included the pensions rights of senior councillors, not all councillors.

Members noted the £2.3m overspend from Children Services in 2020/21, which was due in the main to increased costs for providing external residential care and unachieved budget savings relating to the Closer to Home project. The committee asked therefore what the impact of this would be on the anticipated savings of the project for 2021/22 and if the project would now achieve its anticipated savings by the project end. Mr McNeill undertook to provide a written response.

The Chief Finance Officer added that the budget gap was reflected in the Council's Business Plan and the Council faced challenges ahead. Council of the Future was a fundamental platform to address the financial challenges and would produce a win/win situation because the projects were aimed at reducing cost and improving services. The Closer to Home project was a

good example of this – it had the capacity to deliver change and also to make a difference to our client groups. The COTF Change Programme would not close the gap by itself – other strands such as Zero Based Budgeting would play a part. Members too would face difficult choices in the next budget process – the gap was estimated to be £18m for 2022/23. He added that key variables affecting the scale of the gap would be the pay award and the Revenue Support Grant

The committee turned to the rental income from shop premises and questioned if it had decreased due to the pandemic and if the number of vacancies had altered. The Acting Director of Development Services stated that the portfolio was healthy with the property estate 95% let. Letting had increased as an impact of the pandemic, particularly in industrial premises. The backlog of rent payments was not showing as a budget pressure because actions had been put in place with tenants for repayments.

Members sought for clarity on whether the pandemic had continued to make auditing difficult in 2021/22 and whether the Accounts would be published by the deadline of 30 September (and available to the committee on 20 September for consideration ahead of Council approval). Grace Scanlin stated that the target was the end of October although this could be extended into November. The delay was in the main due to the impacts of Covid and also there had been some 'drag' due to issues that affect all Councils.

Decision

The Committee noted the report.

A17. Council of the Future Risk Register Update

The committee considered a report by the Director of Corporate and Housing Services which provided an update on the COTF change programme risk register which is part of the regular Council of the Future (COTF) reporting cycle. The Programme Risk Register was appended for reference.

The main changes to the risk register were as follows:-

- The overarching COTF governance arrangements provide overarching controls to risk register.
- There had been a move from the 15 risk categories previously reported to the Audit Committee to 7.
- This had been achieved by recognising that the Corporate Risk Register (CRR) comprehensively covered the Council's business plan. Risks that linked the component parts of the business plan (Medium Term Financial Plan, COTF, Workforce Plan and Recovery) were well represented in the CRR. This means risks around Resilience, Short-Term/Low Value Issues, Legal and Interdependencies were now

managed as part of the CRR, and not as discrete risks in the COTF change programme risk register.

- There had also been a grouping of key, connected risks:
- COTF Programme: Governance / Benefits had absorbed previous risk categories of COTF Leadership, Outcomes and benefits and Programme management and governance.
- Information / Technology risks were now combined.
- There had been a mapping of risk categories to match the CRR.
- Each risk had more focused mitigation. It didn't record all the actions that would be in play across the COTF governance framework, as these would be detailed on other programme documentation. It did call out the commitment of the strategic officer Board, the Make it Happen Board, in providing assurance around risk management.
- There had been a shift in certain risk ratings with controls/mitigation:-

Partners - Now an amber rating (previously green)

People - Now an amber rating (previously green)

- Since last report to Audit Committee, there was now ongoing work to fully implement the re-structure of Council and Falkirk Community Trust services and the risk rating of these categories would be monitored as these progresses.
- One red rated risk remained on the risk register, following mitigation – Political and Policy Decisions Political decisions not to support the change programme. CRR Category - Leadership, Decision Making, & Governance

The Director of Corporate and Housing explained that members would be given regular updates about individual ongoing Council of the Future projects.

The risk register would be reviewed every 6 weeks – the Council of the Future board had met in August and had agreed that the CCR Category – Leadership, Decision Making & Governance, COTF Change Programme Risk – Political and Policy Decisions should remain as a high risk.

The committee questioned if any further mitigations could be put in place to reduce the level of risk in regard to CCR Category – Leadership, Decision Making & Governance, COTF Change Programme Risk – Political and Policy Decisions. Mr Ritchie explained that members would begin to receive reports on individual Priority Projects over the next few months. If these were agreed by members, the programme could move forward and the risk would possibly be reduced. He explained that due to risk being considered every 6 weeks and members would be receiving regular updates on projects, a better insight into the risk would be determined. Mr Ritchie explained that it is vital to maximise the amount of information given to members prior to making decisions. He added that the monthly members' briefing would continue thereby increasing the information available to members ahead of any decision making.

Committee focused on the CRR Category – CPP and IJB, COTF Change Programme Risk – Partners/Stakeholders and highlighted that Falkirk Health & Social Care Partnership currently had staff shortages and was a risk. The Chief Executive acknowledged that this was a critical issue within the H&SCP. Falkirk Council had contacted the Chief Officer and offered its support. The H&SCP was in transition with very clear processes and plans but the immediate challenge before the H&SCP was the impact of the pandemic on its staff and its ability to continue to deliver day to day and to deliver strategic change.

The committee noted that a specialist Council of the Future Business Partner was had been employed to 'enhance skills and capability to deliver change programme' and asked for information on the rationale for this. Mr Ritchie advised that 2 or 3 specialist advisers had taken on to support the Programme Management Office – 1 was supporting HR and was a temporary appointment. Similarly, a temporary adviser was supporting finance. Business Partners had been taken on because they offered expertise which was not available and also boosted resources. A further Business Partner would be taken on as a commercial manager.

Decision

The Committee noted the latest iteration of the Council of the Future risk register.

A18. Audit Scotland Fraud and Irregularity 2020/21

The committee considered a report by the Internal Audit, Risk, and Corporate Fraud Manager which provided an overview of a report published by Audit Scotland in July 2021 sharing risks and case studies to support the Scottish public sector in the prevention of fraud.

The review set out a range of key fraud risks that had emerged since the start of the Covid-19 pandemic and provided a number of recommendations that public bodies should have in place to ensure good governance, and which would ensure that counter-fraud arrangements were in place. It also provided information about cases where internal control weaknesses had led to fraud and irregularity with a view to preventing similar issues occurring elsewhere. During 2020/21 external auditors had reported 13 cases of fraud and irregularity across Scotland valued at £0.4m (compared to a national budget of £49bn).

The national report set out 7 recommendations that public bodies should have in place. These were:-

- Having in place appropriate governance and oversight arrangements for counter-fraud.

- Regularly reviewing controls and governance arrangements for counter-fraud to ensure they remain fit for purpose.
- Being alert to emerging fraud risks and where appropriate working with others to help alleviate these risks.
- Considering whether appropriate controls are in place to prevent the risks identified in this report materialising in Falkirk Council.
- Considering whether the weaknesses in internal control that facilitated each case of fraud or irregularity identified in this report may also exist in Falkirk Council, and taking the required corrective action.
- Auditors should confirm that appropriate governance arrangements for the prevention and detection of fraud are in place and that appropriate reviews and amendments of controls have taken place in response to new ways of working.
- Auditors should confirm that internal controls are sufficiently strong to prevent the types of fraud and irregularity highlighted in this report.

The report provides Falkirk Council's Internal Audit, Risk, and Corporate Fraud sections actions, both current and planned for each recommendation.

Additionally, Audit Scotland had grouped the fraud related risks reported to include:-

- Covid-19 funding and re-opening of premises and services;
- Health and Wellbeing;
- IT and cybercrime;
- Governance;
- Procurement;
- Payment; and
- Payroll and recruitment.

The programme of work undertaken by Internal Audit had reported, or would be reporting on, these risk areas in 2020/21 and or 2021/22. A summary of the reviews and the related assurance categories were appended to the report.

Members highlighted the importance of raising awareness to all managers, and not just to senior managers. Often, members suggested it was smaller, less obvious, issues that could cause most damage. The Internal Audit, Risk and Corporate Fraud Manager explained that the team actively sought to raise the profile of corporate fraud across the Council and to inform Services of issues. There was a good culture within the Council of Services notifying Internal Audit of concerns and if, for example there had been changes in client's bank accounts which may be a signifier of an issue. Nevertheless, Mrs Wright added that there was always room for improvement.

The committee asked what mechanisms were in place to measure how and to what extent Services had taken the recommended fraud risk actions onboard. Mrs Wright stated she intended to work alongside the Corporate Risk Co-Ordinator to create a fraud assurance statement. This would allow

Services to highlight what fraud prevention was already in place and intended actions. While it was challenging to cover all potential areas of fraud Mrs Wright confirmed that each of the 7 fraud areas highlighted by Audit Scotland had been covered or would be covered.

Following on from a question about what processes were in place to allow lessons to be learned from closed fraud investigations, the Internal Audit, Risk, and Corporate Fraud Manager stated this was difficult due to the difference in nature of allegations received. However, if a matter was investigated a report would be produced which would be shared with the relevant operational area and a management action plan would be developed. Internal Audit would at a later stage review management actions against the plan.

Decision

The Committee:-

- (1) noted the report and the Internal Audit, Risk, and Corporate Fraud Team response to it; and**
- (2) noted that Services will be asked to review their governance arrangements for the prevention and detection of fraud.**