

A29. 2020/21 Annual Audit Report to Members and the Controller of Audit

The Committee considered a report by the Director of Corporate and Housing Services presenting the 2020/21 Annual Audit Report by the Council's External Auditors, EY, together with proposed Audit opinion and letter of representation by EY.

The Chief Finance Officer provided background to the Auditor's Report highlighting the key messages.

These focussed on:-

- financial management
- financial sustainability
- governance and transparency
- value for money

The Audit Report set out the Auditor's assessment of the Council's arrangements identifying the degree of risk potentially facing the Council in regard to each (described by red, amber or green colour coding). An action plan showing the potential risk together with management response was set out in an appendix to the Audit Report.

The note also set out the economic consequences the Council was facing as a result of Covid-19 which had affected the financial and operational position.

The Auditor's Certificate was free from qualification.

Grace Scanlin provided a summary of the report by EY.

The committee referred to the vacant position within the Internal Audit Team, which had become vacant in early 2021, and the possible risks this presented to the work of the Internal Audit Team. The Chief Finance Officer clarified that recruitment for an auditor was underway and he hoped the role would be filled in a timely manner.

The report highlighted 'capacity constraints within the Corporate Fraud Team' which members were concerned about and sought for assurance that the team, and wider Finance team, would be resourced adequately. The Chief Finance Officer provided context to the Corporate Fraud Team – it had been impacted by the pandemic as well as long-term sick leave of one of the employees whilst another had reduced their hours. An evaluation of capacity would be undertaken to best determine how to manage backlog. Mr Smail explained that financial pressures meant that the team remained small therefore the inability to recruit more staff to resolve issues. He stated that to achieve maximum impact and effectiveness, managing the limited resources was central to this. The Chief Executive assured that appointments to senior roles were being undertaken in a timely manner with the Chief Finance Officer role being advertised mid-January. Mr Lawrie recognised the

transitional period facing the Finance Team with the retirement of two senior officers and the associated difficulties. In terms of the broader perspective of the Finance Team within the Council, he explained that no further cuts would be brought forward to those services which had previously experienced a cut in finances.

Following a follow-up question on what challenges are faced by the Council when trying to recruit a suitable candidate for the auditor's position, Mr Smail stated that across Public and Private Sectors, there was a lack of available candidates in the market at all levels of management. Market conditions would suggest that there was a greater demand than supply for these roles. Ongoing discussions were taking place between the Chief Finance Officer and the Internal Audit, Risk & Corporate Fraud Manager to consider creative methods of managing this issue – one idea being 'Grow Your Own'. Mr Smail recognised the importance of ensuring the right candidate was selected for the position.

The report noted that 5 contractors had been issuing a 'very high number of invoices' and in 3 instances, there were over 5 invoices every day. Members asked what actions were in place to stop this from continuing. Grace Scanlin, EY, explained that this review was part of early results in data analysis and EY was still in the midst of discussions with the Finance Team on how to manage this. The work of 'Unusual supplier analysis' stemmed from previous uncertainties around certain aspects of the contract and thus the ongoing investigations. Therefore, the work was not yet complete, but once it had, would be submitted to committee. The Director of Corporate and Housing was aware of this particular issue and had implemented a cross-service team to evaluate how best to improve the Council's Purchase to Pay arrangements. Work had already begun to minimise the number of invoices submitted by contractors – this was not enforceable. Work was also ongoing to make the procedure as automated as possible, either through electronic invoices or use of purchase cards, with the purpose to maximise the efficiency of the Purchase to Pay system.

Following on from a statement regarding the stipulation of payment method within contracts, Mr Ritchie clarified this was not always present. He explained that despite the Council acting as a single entity, there were multiple purchase points within. The Council had open dialog with suppliers who submitted a significant volume of invoices to the Council to identify a more efficient method of managing Purchase to Pay arrangements. He noted the impact caused by the pandemic, therefore limiting the progress made.

The committee noted the increased interest rates from the Bank of England and asked if this would have any impact on the Council. The Chief Finance Officer explained that the increased rates were inevitable, however, 0.25% was reasonable considering previous increases having been c15%. In terms of long-term borrowing, interest rates were fixed term and not subject to variable rate. He explained that as a lender, the situation of the Council would have improved with the increased interest rates. Despite the small

negative impact, the rise in interest rates had, it was crucial for the Council to continue to monitor the trend as was being shown in the general inflation of costs of goods.

Members referred to the increase in transmission rate for Covid-19 and the associated isolation caused by this. They asked how the Council could sustain high levels of absences financially, considering the Council was one of the main employers for the area.

Members again highlighted the forthcoming retirement of the Chief Finance Officer and Director of Corporate & Housing Service and expressed concern over the potential impact on the Finance Team and highlighted the HR process as a potential drag on recruitment.

The committee highlighted the key role of the Chief Finance Officer and suggested that perhaps the financial implication of recent decisions had not been fully considered by Services in their reports. On the latter point Mr Smail advised that the finance position had been factored into the reports as part of the corporate process which was followed when reports were developed. Similarly in terms of Capital projects, the Finance Team were centrally involved in the preparation and management of the Capital Programme.

The Report had noted a 'division of responsibilities and oversight between the COTF Programme Management Officer and the Finance function' which had been previously raised as a concern by the committee. It asked if a change in process would be considered. The Chief Executive stated that the objective was to bring forward the new Business Plan as well as the Budget Report in early March 2022 – this would ensure a connectivity between the two. Mr Lawrie explained the importance of ensuring the two were not independent of each other.

The Audit Fees for 2020/21 were yet to be determined as 'Additional audit procedures' was continuing with the Forensics Team – until this work was completed and next steps were agreed upon with the Council, the amount was not determined.

The committee noted that the 'Audit support costs' had reduced from £11,620 in 2019/20 to £10,890 in 2020/21 and asked how this had occurred. Ms Scanlin explained that this was part of the audit fee which was sent to Audit Scotland – it was believed that due to remote working, associated costs were not incurred.

Decision

The Committee:-

- (1) noted the Annual Audit Report for 2020/21, and**
- (2) noted the action plan appended to the Annual Audit Report.**