

MEETING: 10 DECEMBER 2020

MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 26 NOVEMBER 2020

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held via online meeting on Thursday 26 November 2020 at 9.30am.

PRESENT: Tim McKay (Chair)
Andrew Burns
Sheila Gunn
Elma Murray
Sharon O'Connor
Pauline Weetman
Geraldine Wooley

OTHER MEMBERS
IN ATTENDANCE: Christine Lester

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Controller of Audit
Michelle Borland, Business Manager, Performance Audit and Best Value (PABV) (Item 4)
Elaine Boyd, Associate Director, Audit Quality and Appointments (AQA) (Item 8)
John Gilchrist, Manager, AQA (Item 8)
Fiona Kordiak, Director of Audit Services (Items 4 and 5)
Anne MacDonald, Senior Audit Manager, Audit Services (Item 5)
Paul O'Brien, Senior Manager (Technical), PABV (Item 7)
Mark Roberts, Audit Director, PABV (Item 4)
Owen Smith, Senior Manager, AQA (Item 8)
Catherine Young, Correspondence Manager, PABV (Item 6)

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 27 August 2020
4.	Work programme update
5.	Current audit issues in councils
6.	Intelligence report
7.	Accounting and auditing update
8.	* Audit quality interim report 2020/21
9.	Any other business

* This item was considered in a joint session with the Performance Audit Committee.

1. Apologies for absence

It was noted that no apologies for absence had been received.

2. Declarations of interest

No declarations of interest were made.

3. Minutes of meeting of 27 August 2020

The minutes of the meeting of 27 August 2020 were noted, having previously been approved as a correct record by the Commission.

Arising therefrom, the Committee noted advice from the Controller of Audit that:

- In relation to item 4, second bullet point, he was maintaining an interest in developments in Orkney and Shetland Valuation Joint Board following the withdrawal by Shetland Islands Council of services to the Board.
- In relation to item 4, third bullet point, it would be likely that reporting of the impact and distribution of economic stimulus grants would be more of a feature of the Local Government Overview report in 2022 rather than in the forthcoming 2021 report.
- In relation to item 4, fourth bullet point, the impact of the Covid-19 pandemic on councils' governance and decision-making arrangements was a feature of the current issues report at this meeting (i.e. item 5) and would also feature in his Annual Assurance and Risks Report to the Commission in early 2021.
- In relation to item 4, fifth bullet point, there was nothing further to report at this point on the progress of Midlothian Council's Covid-19 recovery measures.

4. Work programme update

The Committee considered a report by the Controller of Audit providing an update on the progress of the Commission's work programme.

During discussion, the Committee:

- In relation to paragraph 7 (council audits currently expected to be completed after the deadline of 30 November), noted advice from the Controller of Audit in response to a query from Geraldine Wooley that he would report further on the progress of the three council audits expected to go beyond this target (namely Clackmannanshire, Glasgow and Highland councils).
- In relation to paragraph 19 (Covid-19 guidance for auditors compiled by Audit Scotland's Professional Support team), noted advice from the Secretary that two forthcoming pieces of guidance – namely 'Balancing the budget in councils' and 'Going concern in the public sector' - would be accompanied by a communication to councils from the Commission Chair advising of their publication and encouraging engagement with auditors on the guidance.
- In relation to paragraph 22 (engagement between Audit Scotland and UK audit agencies in relation to the planning and co-ordination of Covid-19 related audit work), noted advice from the Controller of Audit in response to a query from Sheila Gunn that such engagement has been very fruitful.

Following discussion, the Committee noted the report.

5. Current audit issues in councils

The Committee considered a report by the Controller of Audit on emerging issues and recurring themes, as well as individual issues of interest, in Scottish local authority audits.

During discussion, the Committee noted advice from the Controller of Audit:

- In response to a point made by Pauline Weetman - that two significant audit risks in which the Commission should maintain close interest were the performance of health and social care integration joint boards (covered extensively in the report) and loans fund reprofiling (e.g. paragraph 2 of Appendix 1: Argyll and Bute Council loans fund reprofiling) - that he and auditors were focusing and monitoring such risks closely with a view to reporting appropriately to the Commission.
- In response to a query from Andrew Burns relating to paragraphs 12 and 13 of Appendix 1 (City of Edinburgh Council: impact of the Covid-19 pandemic on arm's length external organisations), that he was monitoring the matter closely across councils and would report as appropriate to the Commission.
- In response to a query from Tim McKay relating to paragraph 21 of Appendix 1 (Dumfries and Galloway Council: termination of its trunk road maintenance management contract), that he would report further on the progress of the ongoing independent investigation on the matter.

Action: Controller of Audit

- In response to a query from Pauline Weetman relating to paragraph 33 of Appendix 1 (Clackmannanshire Council: delay in approval of the annual report and accounts), on the role of the Section 95 Officer in such processes in councils.
- In response to a query from Tim McKay relating to paragraph 36 of Appendix 1 (Falkirk Growth Deal), that he was liaising with the appointed auditor on the implications for the Council's plans of the agreed Deal.
- In response to a query from Pauline Weetman, relating to Appendix 2 (councils' governance arrangements in response to Covid-19), that he would report on good practice in this regard in his Annual Assurance and Risks Report to the Commission in early 2021.

Action: Controller of Audit

- In relation to Appendix 3 (key personnel changes in councils), that Karen Reid, currently Chief Executive of Perth and Kinross Council, would be stepping down following her appointment as Chief Executive of NHS Education for Scotland from 1 February 2021.

Following discussion, the Committee noted the report, taking assurance that the auditors' responses detailed in the report recognises the scope of the risk identified and reflects the impact on planned audit work.

6. Intelligence report

The Committee considered a report by the Secretary providing intelligence about councils from various sources: correspondence to Audit Scotland, the Scottish Public Sector Ombudsman, the Standards Commission for Scotland, and the Scottish Information Commissioner.

During discussion, the Committee:

- Noted advice from the Secretary on ongoing engagement with the Ethical Standards Commissioner on data availability, upon which he would report further.

Action: Secretary

- Noted advice from the Correspondence Manager on the operation and reporting of Audit Scotland's correspondence process.

Following discussion, the Committee noted the report.

7. Accounting and auditing update

The Committee considered a report by the Director of Audit Services advising of the main accounts and auditing developments since the previous paper to the Committee at its November 2019 meeting.

During discussion, the Committee:

- In relation to paragraph 5 (report of Brydon Review of the quality and effectiveness of audit), noted advice from the Director of Audit Services that she would keep the Commission apprised of developments in relation to the UK government's response to this and related reviews.
- In relation to paragraph 11 (Consultation by Financial Reporting Council on a proposed revision to the auditing standard on fraud), agreed that the Audit Scotland response to the consultation be shared with the Commission.

*Action: Director of Audit Services &
Senior Manager (Technical)*

- In relation to paragraph 21 (package of financial flexibilities agreed between the Scottish Government and CoSLA to address funding pressures faced by local government due to Covid-19), in response to a query from Pauline Weetman, noted advice from the Controller of Audit that he would likely report on these flexibilities in the 2022 Local Government Overview report.
- Further in this regard, to note advice from Paul O'Brien that statutory guidance on the accounting of such flexibilities would be developed by the Scottish Government.

Following discussion, the Committee noted the report.

8. * Audit quality interim report 2020/21

The Committee considered a report by the Associate Director, Audit Quality and Appointments (AQA) presenting the result of AQA's work from 1 April to 30 September 2020 to monitor the quality of audit across all audit providers.

During discussion, the Committee:

- Noted advice from the Associate Director that the extended audit deadlines in NHS and local government sectors coupled with revisions to performance audit reporting meant that the audit quality indicator relating to delivery against deadlines, usually reported in this paper, will now be reported in an update paper to the Commission's committees in February 2021 and also in the *Quality of Public Audit in Scotland* report, to be reported to the

Commission in mid-2021.

- Further in this regard, noted advice from the Senior Manager, AQA, on the audited bodies who were not expected to meet the audited accounts deadline of 30 November.
- In relation to paragraph 4 (impact of Covid-19 on audit quality), noted advice from the Secretary in response to a query from Stephen Moore on how such matters will feature in risk reporting
- Further in this regard, noted advice from the Associate Director that such matters will feature in independent audit reviews and in the forthcoming annual audit quality stakeholder survey, both of which will be reported in the *Quality of Public Audit in Scotland* report, to be reported to the Commission in mid-2021.
- In relation to paragraph 17 (reporting of Best Value auditing work in annual audit reports), noted advice from the Associate Director in response to a query from Sheila Gunn that:
 - she had liaised with an auditor on ensuring the correct structure of reporting in this regard
 - she was content that planning guidance for 2020/21 audits, as approved by the Commission, was clear on the requirements on auditors in this regard.
- In relation to paragraph 22 (staff views about time and resources to deliver high quality audit), noted advice from the Controller of Audit (in his capacity as Director of PABV) in response to a query from Tim McKay that he was assured that a review of audit resources in the light of the Covid-19 pandemic would ensure a limited adverse impact on the quality of performance audit work.
- Noted advice from the Associate Director, in response to a point from Geraldine Wooley about the need for more evidence in relation to where “significant improvement” is reported, that she would consider how to ensure more defined assessments, judgements and evidence in future audit quality reporting.

Action: Associate Director, AQA

- Further in this regard, noted advice from the Associate Director, in response to a query from Pauline Weetman, that she would consider how to make a clearer distinction between primary and secondary evidence in future audit quality reporting.

Action: Associate Director, AQA

- Noted advice from the Associate Director, in response to a query from Pauline Weetman, that she would provide in the February 2021 update paper more detailed reporting (including sampling and sector-specific information) on key findings 1 and 2, namely:
 - all annual audit plans (AAPs) now provide clear references to adding value and include required materiality disclosures.
 - all council and most health and social care integration joint board AAPs

provided good descriptions of how Best Value will be addressed as part of the annual audit.

Action: Associate Director, AQA

- Noted advice from Elma Murray that the Audit Scotland Board had met on 25 November and had discussed, as part of consideration of Audit Scotland's budget, appropriate resourcing of the AQA team.
- Noted advice from the Associate Director, in response to a query from Elma Murray, that the Auditor General had been provided with a copy of the report, and had expressed his satisfaction with its conclusions.
- Noted advice from the Associate Director, in response to a query from Elma Murray, that the timing of a proposed review of the audit quality framework to reflect the new Code of Audit Practice would fit with the timescale for the new Code, thus the review is currently scheduled for November 2021.

Following discussion, the Committee noted the report and its conclusions, particularly the conclusions of the Associate Director that:

- The report provides assurance to the Auditor General for Scotland and the Accounts Commission that auditors are preparing high quality audit plans.
- The arrangements for reviewing and reporting on audit quality under the Audit Quality Framework are driving improvement in audit quality with clear evidence that previous recommendations are being implemented.
- Work still needs to be done by auditors to communicate the Best Value work planned in their annual audit plans at other local government bodies.
- Public audit in Scotland is well placed to meet the challenges arising from current reviews of the auditing profession.

9. Any other business

The Committee noted advice from the Controller of Audit, in response to a query from Geraldine Wooley on the impact on the new audit appointments process of press reports on the performance of audit firms, that he would seek a view of the Associate Director, AQA, with a view to reporting further to the Committee.

Action: Controller of Audit

The Committee Chair, having advised that there was no further business for this item, closed the meeting.