

Accounts Commission

Financial Audit and Assurance Committee minutes

2012

ACCOUNTS COMMISSION

FINANCIAL AUDIT AND ASSURANCE COMMITTEE

MEETING 10 MAY 2012

MINUTES OF PREVIOUS MEETING

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 9 February 2012, at 10.30am.

PRESENT: Bill McQueen (Chair)
John Baillie
Sandy Cumming
Colin Duncan
Linda Pollock
Graham Sharp
Douglas Sinclair

IN ATTENDANCE: Russell Frith, Assistant Auditor General [Item 5]
Fraser McKinlay, Controller of Audit and Director of Best Value and Scrutiny Improvement (BVSI)
Fiona Kordiak, Director of Audit Services
Gillian Woolman, Assistant Director, LG and Health, Audit Services (Local Government) [Item 4]
Paul Reilly, Secretary and Business Manager
Nick Bennett, Managing Partner, Scott Moncrieff [Item 5]
Karen Jones, Director, Scott Moncrieff [Item 5]

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 1 December 2011
4. Current audit issues in councils
5. Annual audit report in focus: a presentation by the Nick Bennett, Managing Partner, and Karen Jones, Director, Scott-Moncrieff
6. Any other business

1. Apologies

There were no apologies.

2. Declarations of interest

Douglas Sinclair declared in interest in relation to Item 5, as a former employee of Fife Council.

3. Minutes of meeting of 1 December 2011

The minutes of the meeting of 1 December 2011 were approved.

The Committee dealt with the following matters arising from the minutes:

- In relation to item 3 (second bullet point) (council management structures), advice from the Director of BVSI was noted that the Local Government Overview 2012 report would make reference – albeit at a high level – to council management structures

(Action: Director of BVSI)

- In relation to item 4 (Local Government Pension Scheme Pathfinder Project), advice from the Director of BVSI was noted that the Director of Performance Audit would be producing a regular 12-month impact report in relation to the report *The cost of public sector pensions in Scotland*, which would include reference to the Pathfinder Project

- Further in relation to item 4 (fifth bullet point), advice from the Secretary and Business Manager was noted that he would be circulating around Accounts Commission members for their comment an indicative list of proposed speakers for meetings of the Commission. It was noted in this regard that the Commission had agreed at its previous meeting that speaker and development sessions be organised for the days of meetings of the Commission's two committees.

- In relation to item 5 (seventh bullet point) (Current audit issues in councils – staffing numbers movement), advice from the Director of BVSI was noted that he will provide Committee members with latest Joint Staffing Watch figures

(Action: Director of BVSI)

- Further in relation to item 5 (eighth bullet point) (Current audit issues in councils – PFI projects), advice from the Director of BVSI was noted that the cost of servicing debt does include PFI projects

- In relation to Item 7 (first bullet point) (Annual audit in focus – design of next year's annual audit report template), advice from the Director of BVSI was noted that the design process is currently underway, in which he would ensure the involvement of the Committee.

(Action: Directors of Audit Services and BVSI)

4. Current audit issues in councils

The Committee considered a report by the Director of Audit Services outlining emerging issues, recurring themes and individual issues of interest in Scottish councils.

During discussion it was agreed:

- To note advice from the Director of Audit Services that she would circulate the Scottish Parliament Information Centre briefing on the local government settlement
(Action: Director of Audit Services)
- To draw to the attention of the Director of Performance Audit the Committee's interest in the Tax Incremental Financing model, in relation to the ongoing audit on major capital projects in local government
(Action: Secretary and Business Manager)
- That the Directors of BVSİ and Audit Services investigate how to provide the Committee with more detailed information relating to workforce reductions, particularly in relation to numbers of senior management involved compared to other staff
(Action: Directors of BVSİ and Audit Services)
- That the Director of BVSİ consider for inclusion in the *Overview of Local Government 2012* report the issue of the impact of senior manager reductions on the span of corporate management control
(Action: Director of BVSİ)
- That with regard to various ongoing issues associated with City of Edinburgh Council:
 - to note advice from the Director of BVSİ that he would consider how to update the Committee and the Accounts Commission in this regard, including its financial position
(Action: Director of BVSİ)
 - that the local audit team be invited to a future meeting of the Committee
(Action: Secretary and Business Manager)
 - to note advice from the Assistant Director of Audit Services that she recently met the Council's new Director of Corporate Services to discuss the annual audit report.
- To note advice from the Director of BVSİ that he would further investigate the current position with regard to the planned integration of health and social care in Highland
(Action: Director of BVSİ)
- To note advice from the Director of BVSİ that he continued to monitor the situation with Caithness Heat and Power, with a view to submitting a report to a forthcoming meeting of the Commission
- That the Director of Audit Services provide more detail at the next meeting on West Dunbartonshire Council's 'income securitisation' proposal
(Action: Director of Audit Services)
- That the Director of BVSİ provide members of the Committee with an update on the situation with regard to Shetland Islands Council
(Action: Director of BVSİ)

Thereafter the Committee agreed to note the report.

5. Annual audit report in focus: a presentation by the Nick Bennett, Managing Partner, and Karen Jones, Director, Scott-Moncrieff

The Committee considered a presentation by Nick Bennett, Managing Partner, and Karen Jones, Director, Scott-Moncrieff entitled Annual Audit report in focus and the supporting annual report on the 2010/11 audit of a sample council.

During a discussion, it was agreed:

- That consideration be given in the design of next year's annual audit report template to a greater profile for partnership working and thus relevant community planning partnerships
(Action: Director of Audit Services)
- To recommend to the Accounts Commission that it give further consideration to public perceptions of the annual audit report
(Action: Secretary and Business Manager)
- To note advice from the Director of Audit Services that the introduction two years ago of financial ratios into annual audit reports – and their ongoing further development - will allow development of comparative financial information
- To note advice from the Assistant Auditor General that he was currently amidst a quality review of annual audit reports, which includes such issues as report length and content
- Further in this regard, to note advice from the Assistant Auditor General that he would report to a future meeting of the Committee on the outcome of this review
(Action: Assistant Auditor General)
- To note advice from the Assistant Auditor General that the Scottish Government is currently reviewing the Publication of Financial and Other Information by Local Authorities: Code of Practice for Scotland, and this is likely to have an impact on reporting processes
- That the Committee retain a watching brief – informed by the Director of Audit Services – on how councils consider their annual audit reports
(Action: Director of Audit Services)
- Further in this regard, that the Controller of Audit advise at a future meeting about his intelligence requirements in relation to annual audit reports.
(Action: Controller of Audit)

The Committee thanked Nick Bennett and Karen Jones for their presentation and for taking part in the subsequent discussion.

6. Any other business

There was no other business.

ACCOUNTS COMMISSION

FINANCIAL AUDIT AND ASSURANCE COMMITTEE

MEETING 20 SEPTEMBER 2012

MINUTES OF PREVIOUS MEETING

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 10 May 2012, at 10.30am.

PRESENT: Bill McQueen (Chair)
John Baillie
Sandy Cumming
Graham Sharp
Douglas Sinclair

IN ATTENDANCE: Fraser McKinlay, Controller of Audit and Director of Best Value and Scrutiny Improvement
Gillian Woolman, Assistant Director, Audit Services
Dave McConnell, Assistant Director, Audit Services [Item 9]
Paul Reilly, Secretary and Business Manager
John Gilchrist, Manager (Audit Strategy), Audit Strategy [Item 6]
Jim Rundell, Senior Audit Manager, Audit Services [Item 9]

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 9 February 2012
4. Current audit issues in councils
5. Audit Services Group – Impact Report
6. Audit Service Quality Survey – 2010-11 local government audits
7. Separate pension fund financial statements – arising issues
8. Highland lead agency model
9. Significant issues at City of Edinburgh Council
10. Any other business

1. Apologies

Apologies for absence were received from Colin Duncan and Linda Pollock

2. Declarations of interest

It was noted that no declarations of interest were made.

3. Minutes of meeting of 9 February 2012

The minutes of the meeting of 9 February 2012 were approved.

4. Current audit issues in councils

The Committee considered a report by the Director of Audit Services outlining emerging issues, recurring themes and individual issues of interest in Scottish councils.

During discussion it was agreed:

- to note advice from the Secretary and Business Manager that the Commission was visiting Comhairle nan Eilean Siar on 23 May 2012 to discuss the Best Value Audit of the Council, published on 29 November 2011
- to note advice from the Controller of Audit that he was still considering whether to report on the progress of North Ayrshire Council against its Best Value Audit, published on 10 March 2011
- that the Controller of Audit provide more information on the convenership and make-up of the Audit Committee of Orkney Islands Council

Action: Controller of Audit

- that the Assistant Auditor General report on the effectiveness of elected member monitoring of the performance of benefits administration

Action: Assistant Auditor General

Thereafter the Committee agreed to note the report.

5. Audit Services Group – Impact Report

The Committee considered a report by the Director of Audit Services which recorded and shared examples of where Audit Services Group has made an impact in the course of its audit work on 'holding to account and helping to improve'.

During discussion it was agreed:

- to welcome the report
- that the Committee consider such a report on an annual basis

Action: Director of Audit Services

- to recommend to the Accounts Commission that it consider how to receive reports of the impact of all of its work

Action: Secretary and Business Manager

Thereafter the Committee agreed to note the report.

6. Audit Service Quality Survey – 2010/11 local government audits

The Committee considered a report by the Assistant Auditor General summarising the results of the 2010/11 service quality survey for the local government sector.

During discussion it was agreed:

- to note the positive contribution that the survey provides towards the quality of its audit work carried out under appointment by the Accounts Commission
- to note advice from the Assistant Auditor General that the questionnaire would be reviewed in coming weeks
- to this end, that Committee members be consulted about a revised questionnaire
- that the Assistant Auditor General consider how to involve council chief executives in a review of the survey
- that the Assistant Auditor General consider how to obtain council chief executives' views of the quality of service provided by appointed auditors.

Actions: Assistant Auditor General

7. Separate pension fund financial statements – arising issues

The Committee considered a report by the Director of Audit Services summarising information from 2010/11 Local Government Pension Scheme annual reports and annual audit reports.

During discussion it was agreed:

- to welcome the report
- that the Director of Audit Services provide more information on employer default

Action: Director of Audit Services

- to note that performance figures need to be considered against the context of long term performance due to market volatility
- that the Commission consider how to share this information with local authorities

Action: Secretary and Business Manager

- That in doing so, to draw attention in particular to the following:
 - A quorum of two on a pension fund committee may not reflect good practice
 - All contributing local authorities being represented on pension fund committees may reflect better practice
 - That succession planning is a crucial issue worthy of close attention

Action: Secretary and Business Manager

- That the Director of Audit Services investigate the feasibility of providing information on investment management fees

Action: Director of Audit Services

- That the Director of Audit Services investigate the feasibility of providing information showing a weighted average of the proportion of pension funds that are funded

Action: Director of Audit Services

Thereafter the Committee agreed to note the report.

8. Update on Highland lead agency approach

The Committee considered a report by the Controller of Audit providing details of the lead agency arrangement between NHS Highland and Highland Council for adult community care services and children's services, which commenced on 1 April 2012.

The Committee agreed to note the report

9. Significant issues at City of Edinburgh Council

The Committee considered a report by the Assistant Director of Audit Services summarising current issues arising from the audit of City of Edinburgh Council.

During discussion the Committee agreed:

- To note advice from the Assistant Director of Audit Services that:
 - He most recently met the Chief Executive of the Council on 9 May 2012;
 - The annual audit report to members and dialogue with the Audit Committee have consistently highlighted the risks associated with the overall financial position of the Council
 - These issues will continue to be highlighted to the new membership of the Audit Committee
- That the Chair of the Commission and the Secretary and Business Manager liaise to ensure that the Commission are kept informed of the immediate situation

Action: Secretary and Business Manager

- That the Chair and the Controller of Audit liaise to discuss how, beyond the immediate term, the outputs of the annual audit and proposed Best Value Audit of the Council are used to keep the Commission informed of the situation

Action: Controller of Audit

- That the following further information be provided to the Committee:
 - The reports considered by the Council on the Alternative Business Model
 - The advice given by, and the position in the management structure of, the statutory finance officer

- More detailed analysis of the current financial position of the Council, including risks and context
- Updates on any of the issues raised in the paper

*Action: Assistant Director of Audit Services
and Secretary and Business Manager*

10. Any other business

There was no other business.

ACCOUNTS COMMISSION

MEETING 18 OCTOBER 2012

**DRAFT MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE
OF 20 SEPTEMBER 2012**

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 20 September 2012, at 10.30am.

PRESENT: Bill McQueen (Chair)
John Baillie
Sandy Cumming
Colin Duncan
Graham Sharp
Douglas Sinclair

IN ATTENDANCE: Fraser McKinlay, Controller of Audit and Director of Best Value and Scrutiny Improvement
Fiona Kordiak, Director, Audit Services
Paul Reilly, Secretary and Business Manager
Gillian Woolman, Assistant Director, Audit Services [Item 4]
Martin Walker, Assistant Director, Best Value and Scrutiny Improvement (BVSI) [Item 5]
Gordon Smail, Portfolio Manager, BVSI [Item 5]
Kathrine Sibbald, Project Manager, BVSI [Item 5]

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 10 May 2012
4. Current audit issues in councils
5. Project brief – local government overview report 2012
6. Any other business

1. Apologies

Apologies for absence were submitted from Linda Pollock.

2. Declarations of interest

No declarations of interest were made.

3. Minutes of meeting of 10 May 2012

The minutes of the meeting of 10 May 2012 were approved.

Arising therefrom, it was agreed:

In relation to paragraph 4 (current audit issues in councils – Orkney Islands Council), to note advice from the Controller of Audit that there were no outstanding issues of concern in relation to the convenership and make-up of the Audit Committee of Orkney Islands Council.

In relation to paragraph 5 (Audit Services Group – impact report), to note advice from the Secretary and Business Manager that impact issues feature in the Commission's new strategy.

In relation to paragraph 6 (Audit service quality survey – 2010/11 local government audits), to note advice from the Assistant Auditor General that the review of the survey was ongoing, and actions and further information will be communicated to the Committee in due course.

In relation to paragraph 7 (separate pension fund financial statements – arising issues), to note advice from the Director of Audit Services that:

- information in relation to the statements had been provided to local auditors for dialogue with councils.
- information in relation to (i) investment management fees and (ii) a weighted average of the proportion of pension funds that are funded would be included in her report on pension fund financial statements for the current financial year, thus considered by the Committee in 2013.

In relation to paragraph 9 (significant issues at City of Edinburgh Council), to note advice from the Controller of Audit that:

- he was keeping the Chair of the Commission updated with developments in relation to the Council.
- information relating to the Alternative Business Model (i.e. correspondence between the auditor and the Council) were available to members of the Committee.
- he would be considering the annual audit report for the Council and therefore if there is a need to report to the Accounts Commission thereafter on issues arising therefrom.

4. Current audit issues in councils

The Committee considered a report by the Director of Audit Services outlining emerging issues, recurring themes and individual issues of interest in Scottish councils.

During discussion it was agreed:

- That the Controller of Audit provide an update to the next meeting on the number of convener and vice-convener of council audit committees

Action: Controller of Audit

- Further in this regard, to note advice from the Chair that, in implementing its new strategy, the Commission will consider the desirability of communicating its view on such issues directly to councils.
- Further in this regard, to note advice from the Controller of Audit that this issue will feature in annual audit reports.
- That the local government overview report include consideration of issues in relation to bonus payments, particularly in relation to the involvement therein of elected members.

Action: Controller of Audit

- That, in relation to the issue of severance payments, to endorse the proposal of the Controller of Audit that he consider, in conjunction with the Auditor General, an update of the Accounts Commission report from December 1997 'Buy Now, Pay Later', and a widening of its scope beyond councils'.
- Further in this regard, to note advice from the Director of Audit Services that this issue would feature in annual audit reports and thus fall into the scope of the local government overview report.
- In relation to Shetland Islands Council, to note advice from the Controller of Audit that:
 - The Council's draft annual accounts included grouping of the financial statements of the Shetland Charitable Trust as a subsidiary.
 - That Shetland Charitable Trust recently agreed to changes to its constitution to satisfy requirements of the Office of the Scottish Charity Regulator.
- In relation to Highland Council, to note advice from the Controller of Audit that he had been made aware of ongoing technical issues in relation to the draft annual accounts which remained under discussion between the local auditor and the Council. He would provide an update at the next meeting.

Action: Controller of Audit

- That consideration be given to including in the local government overview report issues related to information security and data loss in councils.

Action: Controller of Audit

Thereafter the Committee agreed to note the report.

5. Project brief – local government overview report 2012

The Committee considered a report by the Controller of Audit inviting comments on the draft project brief, *An overview of local government in Scotland 2012*.

During discussion, the Committee agreed:

- To endorse the proposed three-year approach of reporting, as set out in the draft brief.
- To note advice from the Controller of Audit that the timing of publication of the report, in early 2013, would allow the report to reflect issues arising from the ongoing early community planning partnership audits.
- That the issue of welfare reform needs to be given suitable prominence in the report.

Action: Controller of Audit

Thereafter the Committee agreed to endorse the draft project brief.

6. Any other business

The Chair asked the Committee to note that a paper would be considered by the Commission at its next meeting on how to make more effective the meeting arrangements of the Commission.

ACCOUNTS COMMISSION

MEETING 13 DECEMBER 2012

**MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE
OF 29 NOVEMBER 2012**

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 29 November 2012, at 10.30am.

PRESENT: Bill McQueen (Chair)
John Baillie
Sandy Cumming
Colin Duncan
Linda Pollock
Graham Sharp
Douglas Sinclair

IN ATTENDANCE: Russell Frith, Assistant Auditor General
Fiona Kordiak, Director, Audit Services
Fraser McKinlay, Controller of Audit
Paul Reilly, Secretary and Business Manager
Gordon Smail, Portfolio Manager, Best Value and Scrutiny Improvement (BVSI) [Item 5]
Peter Worsdale, Project Manager, BVSI [Item 5]
Gary Devlin, Director, Grant Thornton [Item 7]

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 20 September 2012
4. Current audit issues in councils
5. Local government overview report 2012 - update
6. Accounting and auditing developments
7. Annual audit in focus – a firm's perspective
8. Any other business

1. Apologies

It was noted that there were no apologies for absence.

2. Declarations of interest

It was noted that no declarations of interest were made.

3. Minutes of meeting of 20 September 2012

The minutes of the meeting of 20 September 2012 were approved, subject to

- The revision of the list of those present to exclude Sandy Cumming and Graham Sharp, both of whom had submitted their apologies for absence from the meeting.
- In paragraph 4, first bullet point, deleting “committees” and adding “and scrutiny committees, particularly in relation to the political composition of the committee membership and chair, and how this relates to the political administration of the council”.

4. Current audit issues in councils

The Committee considered a report by the Director of Audit Services outlining emerging issues, recurring themes and individual issues of interest in Scottish councils and joint boards.

During discussion it was agreed:

- In relation to remuneration reports and exit costs, to note advice from the Controller of Audit that the following issues will be considered as part of the joint report in this regard being drafted by him and the Auditor General:
 - Quality and detail of advice in this regard given to elected members.
 - How workforce planning issues featured in local authorities’ consideration in this regard.
 - Terms of contracts of senior officers.

- In relation to the make-up of audit committees:
 - That the Controller of Audit clarify what guidance in this regard is currently available to councils.

Action: Controller of Audit

- That the Commission consider at its next meeting how the issue be brought to the attention of councils.

- To note advice from the Chair that he had requested that future such reports include information on councils’ revenue budget and staff establishment.

Action: Director of Audit Services

- That auditors be requested to ensure that information provided in the report is comprehensive.

Action: Director of Audit Services

- In relation to Dundee City Council, that further information be provided on the ownership of Dundee Energy Recycling Limited.

Action: Controller of Audit and Director of Audit Services

- In relation to Scottish Borders Council, that further information be provided on any procurement issues in relation to the recent data loss case.

Action: Controller of Audit and Director of Audit Services

- That further thought be given to issues surrounding the implications for the public audit model of the increasing use by local authorities of arm's length external organisations for delivery of services.

Action: Assistant Auditor General

5. Local government overview report 2012 - update

The Committee considered a report by the Controller of Audit providing an update on the local government overview report and emerging key messages.

Following discussion the Committee:

- Approved the emerging messages as the basis for a draft report, subject to consideration being given to points raised in discussion

Action: Controller of Audit

- Agreed that thought be given to using the overview report as a basis for engaging in dialogue with the public about issues affecting local government

Action: Controller of Audit and Secretary and Business Manager

- Noted the report and endorsed the timeline proposed therein.

6. Accounting and auditing developments

The Committee considered a paper by the Assistant Auditor General providing information of recent accounting and auditing developments affecting the public sector and particularly local government in Scotland.

Following discussion the Committee:

- Noted advice from the Assistant Auditor General that he was considering how audited bodies can be encouraged to consider brevity in published accounts
- Noted advice from the Assistant Auditor General that he was considering how to consider the issue of different auditing and ethical standards for listed companies and public interest entities, which would involve him seeking the formal view of the Commission
- Noted the report.

7. Annual audit in focus – a firm's perspective

The Chair welcomed Gary Devlin, Director, Grant Thornton, who did a presentation on his perspective of issues in relation to the annual audit. In his presentation, he covered:

- A summary of Grant Thornton's work in England as a result of the changes to the public audit model.
- A summary of the issues arising from the annual audit in the three councils in Scotland for which Grant Thornton has current responsibility (namely Inverclyde, Midlothian and Stirling councils).
- Wider issues arising from the audit from the perspective of Grant Thornton.

Following discussion, the Chair thanked Gary Devlin for attending the meeting.

8. Any other business

It was noted that the next meeting would be on 28 February 2013 at 2.00pm.