

ABERDEENSHIRE COUNCIL

AUDIT COMMITTEE

SKYPE MEETING, 25 MARCH, 2021

Present: Councillors R Cassie (Chair), A McKelvie (Vice-Chair), N Baillie, A Bews, A Buchan, S Calder, M Ewenson, W Howatson, A Kloppert, S Leslie, D Lonchay, M Roy, and I Sutherland.

Apologies: Councillor H Smith.

Officers: Director of Business Services; Chief Internal Auditor (Interim); Acting Legal Services Manager (Governance); Acting Head of Finance; Business Strategy Manager (F McCallum); HR Manager (K Hopwood); Housing Manager; Pay and Reward Manager; Principal Engineer, Roads, Landscape Service, and Waste; Roads & Landscape Service Manager; Roads, Landscape Services & Waste; Support Services Manager, Business Services; and Committee Officer (J McRobbie).

In attendance: Ms G Woolman, Audit Director, Audit Services; and Ms A MacDonald, Senior Audit Manager, Audit Scotland.

1. DECLARATION OF MEMBERS' INTERESTS

The Chair asked for Declarations of Interest. No interests were declared.

2. STATEMENT ON EQUALITIES

The Committee **agreed**, in line with the Council's legal duty under section 149 of the Equality Act 2010 in making decisions on the attached reports:-

- (1) to have due regard to the need to:-
 - (a) eliminate discrimination, harassment, and victimisation;
 - (b) advance equality of opportunity between those who share a protected characteristic and persons who do not share it; and
 - (c) foster good relations between those who share a protected characteristic and persons who do not share it; and
- (2) where an Equality Impact Assessment is provided, to consider its contents and take these into account when reaching a decision.

3. MINUTE OF MEETING OF AUDIT COMMITTEE OF 4 FEBRUARY, 2021

There had been circulated and was **approved** as a correct record the Minute of Meeting of 4 February, 2021.

4. PROGRESS WITH ACTIONS FROM PREVIOUS AUDIT COMMITTEE MEETINGS

There had been circulated a report dated 17 March, 2021 by the Director of Business Services, outlining progress with actions agreed at recent meetings of the Committee, and detailing items of business which should have been considered by the Committee in normal circumstances but had been delayed due to the Covid-19 pandemic.

Having heard from the Director of the detail of the updates, the Committee **agreed** to note for their interest the report.

5. INTERNAL AUDIT REPORTS

There had been circulated a report dated 9 March, 2021, by the Chief Internal Auditor (Interim), providing updates on (a) 2 new Internal Audit Reports, (1) Roads Stocks, (Report No. 2109, February, 2021) and (2) Building Maintenance Stocks (Report No. 2117, March, 2021) and (b) the remaining outstanding actions from previous audits.

The Committee heard further from the Chief Internal Auditor (Interim) that whilst both new audits related to stock takes for the year ending 2019/20, some actions would be applied in the current financial year. Physical stocktaking counts had been inhibited by Covid-related restrictions, but alternative methods were being progressed with the services.

In respect of Audit No. 2109, Roads Stock, the Principal Engineer advised that it had been a challenging year for staff, with seven storemen responsible for 11 depots and the annual stocktake work scheduled just as the Covid restrictions were applied in the last fortnight of March, 2020. Measures were in place to address issues of staff absences and build in resilience.

There was discussion of officers' confidence, in the absence of stock control checks, for slow moving stock and write-offs, when compared to the baseline of previous years.

In respect of Audit No. 2177, Building Maintenance Stocks, (March, 2021) where again the report noted that procedures were in place and appeared to be being followed, the Committee heard further from the Housing Manager of the improvements already made in implementing previous audit recommendations, with a service restructuring currently ongoing which would look to give a geographical responsibility across the Shire, working to minimise errors and with a focus on training and a greater number of checks where shortfalls in performance were identified.

There was discussion of the software needed to assist in accuracy; the calculation of gross and nett values; the reduction in the number of stock lines to remove possible inaccurate reporting, alongside the aim to move to a standard piece of stock across the whole of Aberdeenshire; the monitoring required for each of the Council's repair vans, currently 106, increased to meet social distancing requirements, as effectively stores; the support for staff in inputting the required information as part of their field

work; and the need for the Head of Finance to be assured about the process for input into the year-end balance sheet.

It was highlighted that the results related to the previous year's activities, so that improvements made would be more clearly demonstrated in the coming year as the processed bedded in further.

In respect of the outstanding recommendations from previous Audit reports, the Committee heard from the Chief Internal Auditor (Interim) that 72 actions remained incomplete, with a large number related to covid-associated delays. Strategic Leadership Team were to undertake a review of outstanding actions, and associated risks, beyond that which had been carried out for covid related delays and any changes would be reported to Committee for consideration.

In respect of Report No. 2037, Compliance with Procurement Legislation and Regulations, the Committee heard from the Support Services Manager, Business Services that although ongoing work, to be reported to the Service Leadership Team, was still to be concluded on reviewing retrospective purchase orders, managers intervened if repeat occurrences, or where happening with no obvious justification.

On the issue of Timesheets and Allowances, Report No. 2040, the Committee heard from the HR Manager that the amendment to the online form to allow compliance with recording in-work rest break exemptions in line with the working time directive had been overlooked but was now in hand.

In respect of Report No. 1950, Travel and Subsistence, the Committee heard from the Pay and Reward Manager, Finance, that it was intended to report to Strategic Leadership Team in April 2021 options to show the link between WorkSmart and Travel and Subsistence guidance.

The Chief Internal Auditor (Interim) reported that the issue relating to Vehicle Management Services (VFM), Report No. 2028, ensuring that goods receipts were confirmed and evidenced, had been completed.

In respect of Report No. 2024, Sign Shop, the Committee heard from the Principal Engineer, Roads, Landscape Services, and Waste that the outstanding actions had now been submitted to Internal Audit for closure, and that those actions due by the end of April, 2021 were progressing in line with the expected due date.

There was discussion of progress with the Live Life Aberdeenshire (LLA) Business Unit, Report No. 2026, to be concluded by the end of February, 2021, on Performance Measuring and Reporting and the Chief Internal Auditor advised that an update would be brought to the next meeting of the Committee.

In respect of the schedule of procurement in line with Financial Regulations for tenders associated with Quarries, Report No. 1839, the Principal Engineer, Roads, Landscape Services, and Waste confirmed that works with Commercial and Procurement were continuing, after an extended period of discussions and with temporary arrangements in place, to have the new suite of tenders issued by April/ May, 2021.

Having discussed the issues raised in the report and its attached appendices, the Committee **agreed:-**

- (1) in respect of Road Stocks, Report No. 2109, to be assured;
- (2) in respect of Building Maintenance Stocks, Report No. 2117, being partially assured, that an update report be submitted in five months;
- (3) to be assured in respect of Outstanding Actions on (a) Compliance with Procurement Regulations, (b) Timesheets and Allowances, (c) Travel and Subsistence, (d) VMS, and (e) Sign Shop, as detailed above;
- (4) that officers report on the Live Life Aberdeenshire Performance Reporting and Monitoring to the next meeting of the Committee;
- (5) to note that in respect of Report No. 1839, tenders were being progressed and would be in place April/May, 2021; and
- (6) to note, in all other respects, the terms of the report.

6. INTERNAL AUDIT PLAN 2021/22

There had been circulated a report dated 9 March, 2021 by the Chief Internal Auditor (Interim), requesting Members' consideration of a proposed Audit Plan for 2021/22.

There was discussion of the capacity within the Internal Audit team to support the proposed work, and the reasoning supporting the proposed concentration of work in the later quarters of 2021, to allow the first the completion of some work originally scheduled for 2020/21; the need to review risk management and business continuity plans, when these were less fluid in response to the current impact of Covid-19; whether the planned audit of the printing contract would identify under- and overspends in the agreed budgets; the process for the recovery of sundry debts in 2020, under ongoing monitoring for review by the Head of Finance and any shortfalls factored into the financial monitoring forecasts; the review of cyber resilience in terms of infrastructure, not systems; the planned workshop to be held in terms of IR35, the process through which services and suppliers had their employment status determined as to whether they required to pay tax via the Council; and the timing, and attendant risk, of the proposed audit of rent arrears.

Having reviewed and commented on the report and its attached appendices, the Committee **agreed:-**

- (1) to approve the 2021/22 Internal Audit Plan as detailed in the report;
- (2) to note that changes to the plan may be required as the year progresses;
- (3) that an update on the previous report on Cyber security be provided to Members via Ward Pages; and
- (4) to note the workshop on IR 35, to be held in April, 2021.

7. INTERNAL AUDIT PROGRESS WITH 2020/21 AUDIT PLAN

With reference to the Minute of Meeting of 10 December, 2020, (Item 6), there had been circulated a report dated 8 March, 2021 by the Chief Internal Auditor (Interim), advising of Internal Audit's progress against planned work for the current year.

Members heard from the Chief Internal Auditor (Interim) that progress had not been as great as would have been preferred, with unplanned absences in the team and the impact of lockdown on services necessitating the discovery of alternative ways of assurance, with the deferral of four pieces of work, and the removal of two recommended.

The Committee, having discussed the issues raised in the report **agreed** to approve the proposals to defer and remove items from the 2020/21 Internal Audit Plan as detailed in Appendix C to the report.

8. INTERNAL AUDIT CHARTER

With reference to the Minute of Meeting of 13 December, 2018, (Item 7), there had been circulated a report dated 9 March, 2021 by the Chief Internal Auditor (Interim) seeking Members' agreement for the continuing use of the current Internal Audit Charter, approved annually by the Chief Internal Auditor, and reported to Committee to consider the change of reporting line from the Director of Business Services to the Head of Finance, whilst retaining the role purpose, independence, and authority.

There was discussion of the need for independence; the potential added value which having the Internal Audit Team more closely related to the Finance function might add; the capacity of Finance, already highlighted by External Audit as a potential area of risk given recent staffing changes and vacancies, and a reshaped service, to support this change in reporting lines; the potential to defer consideration of the matter until a permanent Head of Finance were in post; the perception of Internal Audit's positioning and status within local authorities; comparisons with the reporting structures in other Councils; and the practicalities of the operation, given the high prevalence of financial processes and governance in Internal Audit work.

The Committee, having heard that the existing Charter would remain in operation until, or if, replaced, **agreed** to defer consideration of the matter pending a report to the next meeting of the Committee with additional detail on the proposed reporting relationship.

9. INTERNAL AUDIT REPORTING

There had been circulated a report dated 9 March, 2021 by the Chief Internal Auditor (Interim) presenting proposals for amendments to Internal Audit reporting in order to facilitate the highlighting the progression of higher risk actions, those over 12 months graded as significant or above, and reflecting the performance of services in delivering the actions relating to Audit reports, closely aligned to related action in the Corporate Improvement Plan.

Having heard from the Chief Internal Auditor that the Internal Audit team would continue to monitor, and follow up with management as appropriate incomplete actions, there was discussion of the proposals and presentational changes, including

(a) the clear definition of the role and expectations of members of the Audit Committee; (b) categories of business which could be discussed in public session to assist in the transparency of the Committee's operations as opposed to the sharing of full Audit reports directly to Councillors; and (c) how the proposals fulfilled the requirement in the How Good is Our Governance (HGIOG) Action Plan 2020/21 to consider the publication of full Audit reports.

The Committee **agreed:-**

- (1) to approve the proposed amendments to Internal Audit reporting as detailed in the report and its appendices;
- (2) that consideration of the proposals and Appendix A in respect of Internal Audit reports satisfies the requirements of the How Good is Our Governance Action Plan 6.3;
- (3) to commend officers for their work in revising the proposed report proforma; and
- (4) that the paper be shared on Ward Pages for all Members better understanding of the role of Audit Committee and Audit Committee Members.

10. CORPORATE GOVERNANCE FRAMEWORK

There had been circulated a report dated 17 February, 2021 by the Director of Business Services requesting Members' consideration of the Corporate Governance Framework and the ongoing development of an effective framework for the Council with a focus on continuous improvement.

Having heard further from the Business Strategy Manager of the linking of actions across existing plans and strategies for streamlining and increased critical transparency, and the timetable for the proposed actions, aligned with corporate priorities and the extended progress for agreeing the Annual Governance Statement, there was discussion of (a) the progress on some of the actions, due for completion by 31 March and noted that the progress reported related to January 2021 when the plan had originally been approved, with more advanced progress reporting available via Pentana, the Council's performance management and reporting system; (b) the opportunity for discussion with policy committees to provide assurance about their scrutiny roles when visited by the Chair and Vice-Chair of the Audit Committee; and (c) the links to actions in the Best Value report, to be considered by Council on 29 April, 2021.

The Committee **agreed:-**

- (1) to note and agree the consolidation and alignment of duplicate actions in the Corporate Improvement Plan ("the Plan") as detailed in Appendix 1 to the report;
- (2) to note and agree the proposed Annual Governance Statement process and timetable;

- (3) to note and agree the proposed schedule of engagement and dialogue between the Chair and Vice-Chair and the Policy Committees; and
- (4) that officers lodge on Ward Pages for Members' information, before the next formal meeting of Committee, an updated version of the Plan, showing more recent progress in completion of actions.

11. AUDIT SCOTLAND: LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW 2019/20

There had been circulated a report dated 15 February, 2021, by the Director of Business Services, requesting Members' consideration of the Accounts Commission's overview of the 2019/20 financial year, which provided an independent, public assessment of how effectively Scottish Local Government managed public money and responded to financial challenges.

The Committee heard from the Senior Audit Manager, Audit Scotland as to the detail of the report, reflecting the position in autumn 2020 when the 2019/20 audits were coming to a conclusion, and key messages on national income, both capital and expenditure, including increasing or reducing use of reserves; grant income; an increasing use of capital receipts but less Scottish Government funding for capital projects; and of the work currently being progressed for the second report, due for publication in May 2021.

The Acting Head of Finance provided a local dynamic on the report, advising of the change in status which allowed the Health & Social Care Partnership to hold its own reserves, and of their financial situation which meant that they were unlikely to ask partners for additional funding this year; of the Council's own increase set aside for reserves in the coming financial year; of the continued monitoring of budgets, including the Internal Audit Plan for 2021/22; the increased in nett debt and a parallel investment in capital works; and the overarching adherence to the Prudential Code in setting borrowing limits, approved by the Business Services Committee; the indication of a potential reduction in capital funding from the Scottish Government which may have an impact on the need to borrow, at an additional cost to finance, or reduce capital investment in 2021/22; and the Strategic Leadership Team's increasing use of scenario enhanced approached for the future mitigation of funding shortfalls.

There was discussion of the Accounts Commission's concern regarding instability and changes in leadership of Health and Social Care Partnerships and the findings of a recent independent review of Adult Social Care; residual equal pay claims that might still require to be concluded; risk of the joint venture energy From waste plant with colleague City and Moray Councils and the impact of advances in technology on the plant's operation; the challenges for the Council's medium-term financial strategy; and the post-report Scottish Government clarification that it was going to fund any additional covid-related costs for both Health & Social Care Partnerships, the NHS and Council.

The Committee, having consider the findings of Audit Scotland's report on the financial overview of local government in Scotland, **agreed:-**

- (1) that an update be provided on Ward Pages on the number of outstanding equal pay claims in Aberdeenshire;
- (2) that the Head of Roads, Landscape Services and Waste provide information on Ward Pages regarding the technical risks of the partnership energy From waste plant; and
- (3) in all other regards, to note the findings of the report.

12. WORKFORCE PLANNING – 6 MONTH UPDATE

With reference to the Minute of Meeting of 17 September, 2020, (Item 7), there had been circulated a report by the Director of Business Services providing an update on actions arising from Audit Report No. 1935 on Workforce Planning.

Members heard from the HR Manager of the advances culturally, and across systems, process tools, and procedures, integrated to directional level to direct team planning to best fulfil the requirements of service work plans and identify issues such as the level and type of skills needed, actions which would mitigate impacts of high absence rates, and the impact of recent voluntary severance approvals on the achievements of goals. Work would continue to build up resources, including on ALDO (Aberdeenshire Learning & Development Online), as a workshop, and to support services to develop their own skills as required.

There was discussion of the evolution and formalisation of a process which had always been in place to a certain extent; the covid-related workforce mobilisation which had had an impact on areas of workforce planning; and the need to project some sense of what services would be required, and how they might be delivered, post-covid.

The Committee **agreed** to note and welcome the progress reported.

13. EXTERNAL AUDIT - ANNUAL AUDIT PLAN FOR THE 2020/21 AUDIT

There had been circulated a report dated 5 March, 2021 by the Director of Business Services, containing, for Members' consideration the External Auditors' Annual Audit Plan for the 2020/21 Audit.

The Committee heard from Ms G Woolman, Audit Director, Audit Services; and Ms A MacDonald, Senior Audit Manager, Audit Scotland of the risks which had been identified, capturing the context of the "unprecedented" year, distinctly different from the previous year and the role which External Audit would play in supporting recovery and renewal; the continued need to monitor the disbursements made by Aberdeenshire's Charitable Trust; an increased focus on fraud, because of the additional risk of Covid-19's promotion of remote working and potentially a less strong control environment with additional risks in the manual authorisation of invoices; the additional audit considerations of the new Inverurie Campus coming board; the focus on narrative commentary on the final accounts which should delineate the challenges of 2020/21; the period of uncertainty regarding the capacity of the Finance Service, for which a resolution would be welcome; the processing systems of the Health & Social Care Partnership; and the national increase in all Audit Scotland fees for 20/21, as dictated by an independent assessment.

There was discussion of actions through which assurances on the various areas of focus might be provided, including the Strategic Leadership Team's regular review of the management commentary to allow feed in from individual directors; and of a recent meeting of the Aberdeenshire Charitable Trust (ACT) and how it might be encouraged to be more active.

The Committee, having considered and discussed the External Auditor's Annual Audit Plan **agreed** to note the Audit Scotland Annual Audit Plan for 2020/21, including the 2020/21 Audit, as appended to the report.